**TAXATION AND AUSTRALIAN SOCIAL DEVELOPMENT**

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Historically, taxation has vied with international trade and public debt in claiming to be the primary problem in political economy. Certainly, ferocious debates over all three preceded the emergence of capitalist economies by at least two centuries.

At issue has been not only the total level of taxes levied by government (or public authority) on private activity, but also the structure of taxation – taxing incomes vs taxing property, direct taxation (of incomes) vs indirect taxation (of consumption), each said to impose different types of 'distortion' on patterns of non-political behaviour. Leftists have traditionally opposed consumption taxes whose effects are borne disproportionately by poorer people (thus preferring income or capital taxes). (Exceptions can be made for smoking taxes etc which are directed towards discouragement of certain types of consumption.) In addition, long entrenched controversy festers over the purposes of public revenues – to fund 'those public institutions ... (which individuals) 'cannot be expected ... to erect or maintain', as Adam Smith understood in 1776. Smith's admission seems to register more room for public activity than typically associated with the most prominent enthusiast for laissez-faire and free-market capitalism! Development of innovative or experimental public institutions has been a characteristic of the modern world since Smith's time and is the prerogative of a democratic polity.

Myths easily persist concerning the level of taxation. Australians, for example, are among the most lowly taxed rich people on earth. The total tax receipts of all three levels of government in Australia is 34.1 percent of GDP, compared with 37 percent for the OECD countries as a whole, while Finland, Norway, Denmark, France, Belgium and Sweden all cede over 50 percent of their GDP to the public purse. Government spending usually follows the pattern of taxation revenues.[1] Though government spending has been increasing everywhere for the past century-and-a-half, Australian public spending has changed from being the world's highest in the last decades of the nineteenth century to almost the lowest in the final decades of the twentieth century. Public spending here is now lower than in either the USA or Japan, previously epitomes of small government nations.

During the Whitlam years, taxation receipts amounted to 28.1 percent of GDP; from there they gradually increased during every government to 36.2 percent in the Howard years, dropping to 32.4 percent in the Rudd-Gillard period – due to Labor's fateful acceptance of Costello's pre-2007-election tax cuts. Public spending increased accordingly from 21.2 percent in 1960 to a little over 36 percent now. (Taxation in rich countries is currently below the trend of the last 40 years, but not in serious retreat. Total taxation levels for the past 50 years are compared in the accompanying chart.)

It is fairly irrefutable that many of Australia's current problems (infrastructure shortfalls amounting to about half of GDP, as well as unreliability in our transportation, health, education, environmental protection and communications systems) derive from this long-term unwillingness – under governments of all persuasions – to increase taxation sufficiently to meet the unfolding needs of a complex, modern, rich society. Were taxation to be increased to the OECD average in Australia, almost an additional $60bn p.a. would be raised, enough to fund a Very Fast Train from Sydney to Melbourne *and* from Sydney to Brisbane, at a cost per employed taxpayer of about $5000 if raised in one year. This could move us away from the present unhealthy imbalance that favours consumption expenditure rather than investment.

A large portion of public spending is on social transfers (the welfare state). Here too Australia performs poorly, perhaps because in the past the arbitration system ensured living standards were kept high for all. These days social transfers (including taxation concessions) amount to 18 percent of GDP compared with 22 percent for the OECD and over 30 percent for the largest welfare states. This means that close to one-quarter of all income in the rich countries accrues to citizens without reference to their individual contributions or productive efforts. This trend towards provision outside the market – decommodified provision – is an indicator of the changes taking effect in all the rich economies. Though the civilizing effects of the welfare state in the twentieth century (and the mixed economy which has accompanied it) are still subjects of controversy, it is difficult for anyone to argue that it has impeded prosperity: the greatest welfare spenders (France, Denmark, Belgium, Finland, Austria and Sweden) all have prosperous economies and strong 'state capacities' in other areas as well. (Military spending is insignificant in the taxing and spending trends almost everywhere – below 2 percent of GDP, with only the USA and Israel in the 4-6 percent range.)

The interplay between taxation revenues and public outlays obviously is the main contributor to the extent of budget deficits and surpluses – another contentious issue in political economy. It is worth noting that, in recent decades, budget deficits (taxation falling short of spending) have become normal – increasing steadily for the past forty years. This year over 80 percent of OECD countries are expected to record a deficit. As the situation for the whole of the last decade is almost the same, there seems to be a case for generalized taxation increases in all OECD countries. (Interestingly, the extent to which continued budget deficits translate into excessive public debt is muted, even though debt figures for the OECD are currently over 100 percent of GDP.)

Taxation (with the government spending thereby mandated) does of course allow the polity to exercise influence over social and economic development – though not all public power is costly, as was demonstrated by Australia's very effective, centralized, compulsory and equality-generating arbitration system for wage determination for 100 years. All countries need such means of transforming sectional prosperity into general prosperity – as arbitration achieved and as the mining resources tax was intended to do. However, such uses – and sources – of prosperity are mightily opposed by economic liberals. Some commentators have argued that liberal hostility to taxation is designed to keep the polity 'poor on principle', to maintain a weak state, to forestall the development of strong state capacities – often advocated by elite agencies (treasuries and central banks, in contrast to finance ministries) that attempt to construct a 'state within a state' to maintain the anti-statist hegemony. Other have insisted that wealth begets taxation and vice versa (that is, rich countries encounter problems that poor ones do not, implying that the capacity to tax is dictated by the need to tax, while simultaneously providing the means to solve problems and thus consolidate 'maturity'). Still others have seen that taxation is the 'price of civility'[2]. All three views are established parts of the *conservative* pantheon but can readily be embraced by social democrats.

There seems little doubt that demands on government and therefore the need for taxation funding will continue to increase into the future, particularly in polities which already have high levels of public involvement and public responsibility. In some respects additional regulatory demands and constraints on private consumption can be met without significant cost increases, but in others welfare, extra-market provision, industry support, public infrastructure spending and encouragement to research and development, will require taxation in excess of levels currently expected. We have to envision that public revenues and public spending will expand as economies and nations become richer and are increasingly forced to deal with more and more complex problems, including those linked to responsibilities in other countries. Our ability to adjust cannot be out-run by the challenges we face simply because our willingness to tax is unexploited.

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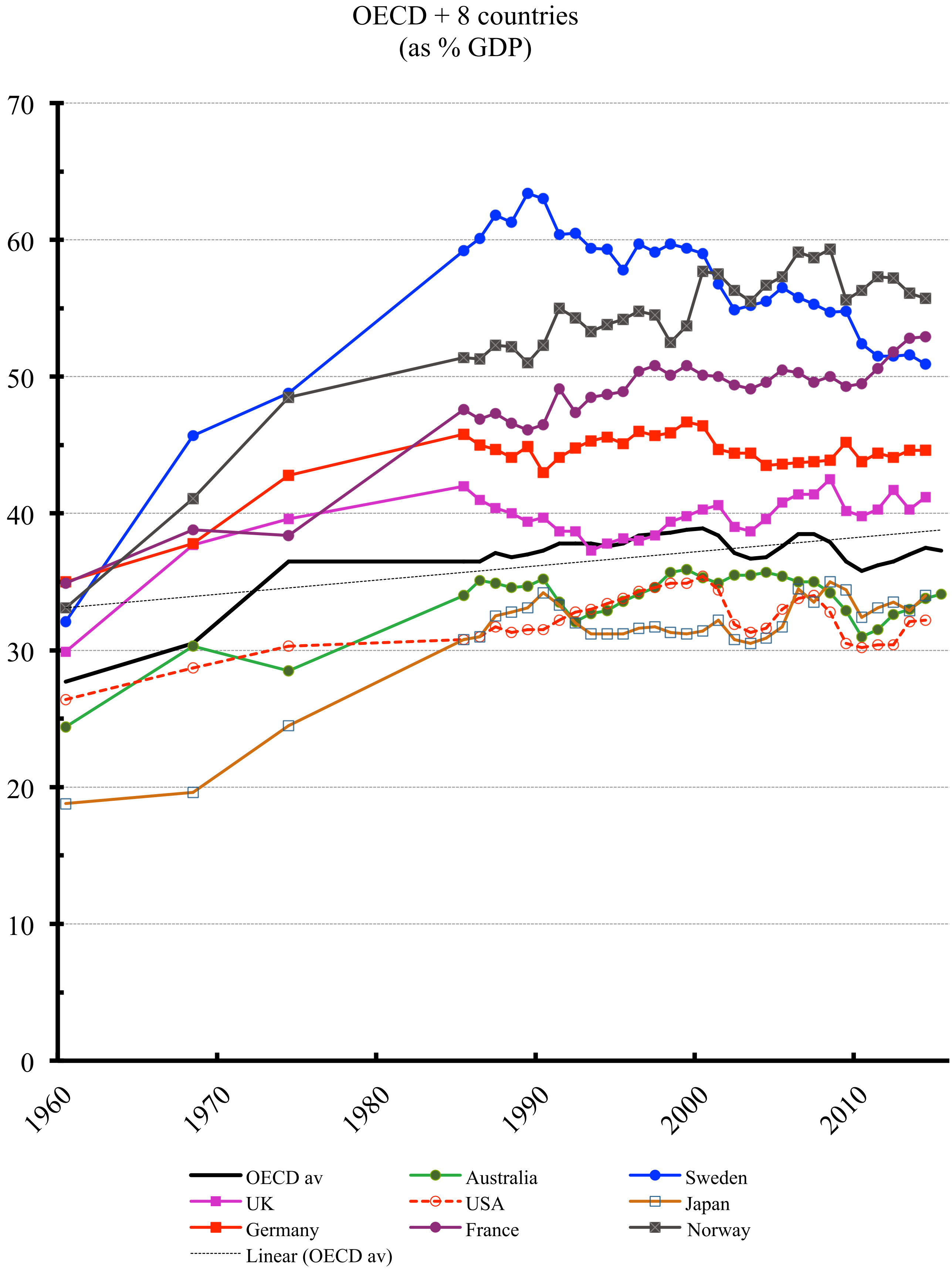
[1] Norway is an exception: its public spending is lower than its public resources might warrant due to North Sea oil revenues accruing to the government and resulting in huge budget surpluses. Figures are from *OECD Economic Outlook* no.95, May 2014.

[2] Respectively, these are the views of Rudolf Goldscheid (1925) 'A sociological approach to problems of public finance', Adolph Wagner (1883) 'Three extracts on public finance' both in Richard A Musgrave & Alan T Peacock (eds) *Classics in the theory of public finance*, London: Macmillan, 1958; and Oliver Wendell Holmes (jnr) (1904) in Julius J Marke (ed.) *The Holmes reader*, New York: Oceana Publications, 1964.

## Taxation receipts 1960-2014




Sources: *OECD Economic Outlook* no.95, May 2014, Table 26 (and earlier issues).

Size of government and taxation(31 OECD countries)

## 2014

### % GDP

| Government outlays | | Taxation revenues | |
|---|---|---|---|
| SF | 59.3 | DK | 57.4 |
| DK | 58.9 | SF | 57.1 |
| F | 56.7 | N | 55.7 |
| B | 54.3 | F | 52.9 |
| Ö | 52.6 | B | 52.2 |
| S | 52.4 | S | 50.9 |
| I | 50.6 | Ö | 49.8 |
| NL | 50.1 | I | 47.8 |
| Slov | 49.8 | Pol | 47.4 |
| H(U) | 49.1 | NL | 47.4 |
| Port | 48.3 | Slov | 46.2 |
| Is | 46.7 | H(U) | 45.7 |
| H(E) | 46.6 | Is | 44.7 |
| UK | 46.5 | D | 44.6 |
| N | 45.0 | Port | 44.4 |
| D | 44.9 | H(E) | 44.1 |
| Lux | 43.8 | Lux | 44.1 |
| Sp | 42.9 | NZ | 41.3 |
| Cz | 42.9 | UK | 41.2 |
| J | 42.3 | Cz | 40.8 |
| Pol | 41.7 | C | 38.3 |
| **OECD av.** | **41.4** | **OECD av.** | **37.5** |
| NZ | 41.3 | Sp | 37.4 |
| Ir | 40.8 | Est | 37.3 |
| Isr | 40.6 | Isr | 36.7 |
| C | 40.4 | Slov Rep | 36.2 |
| Slov Rep | 38.9 | Ir | 36.1 |
| USA | 38.0 | J | 34.0 |
| Est | 37.5 | Aust | 33.8 |
| Aust | 36.3 | CH | 33.8 |
| CH | 33.6 | Kor | 33.0 |
| Kor | 32.9 | USA | 32.2 |

Source: *OECD Economic Outlook* no.95, May 2014, Tables 25 & 26.