Public Talk About Public Finance in Australia and the United States

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I have the privilege of serving as an ATAX fellow at the School of Taxation and Business Law at the University of New South Wales in Sydney for the month of September. This provides a great vantage point to observe Australian life and politics. It feels similar to the U.S. in many ways, despite delightful linguistic differences. Once you learn that all winter squashes are called pumpkins, while an Orange Squash is a sugary drink best not given to children, you really start to get comfortable.

But the politics are different. I now have anecdotal evidence consistent with professor Richard Vann’s comment in the leading book on comparative income taxation1 that tax is a topic of great public interest in Australia. At a recent conversation at a sidewalk café in Sydney, the local we were chatting with heard that I was a tax professor and declared that we had come to the right place. Australia had all kinds of taxes, he said. Schooled in casual tax policy discussions with freethinking New Hampshire Republicans, I automatically braced myself. I was ready for a Tea Party diatribe. I reminded myself not to point out that taxation makes roads possible, lest our comfortable afternoon conversation turn awkward.

But instead of complaining about taxation’s interference with free will and the independent spirit, the follow-on remark advocated not lower taxes, but greater simplicity. Did I know that 90 percent of Australia’s revenue came from 10 taxes, and the balance from 90 taxes? Wouldn’t it be sensible to increase the rates on the 10 taxes and abolish the 90? Yes, I said with surprise, I suppose it might.

Australia had a parliamentary election on Saturday, September 7. The long-standing coalition of two center-right parties, the Liberal Party and the National Party, defeated the center-left Labor Party. Newspaper coverage of the election further illustrates that the Reaganite habit of thinking about taxation as a burden on free enterprise is not inevitable for thriving democracies with open economies and legal cultures rooted in the British tradition. The reports contrast with the public debate about taxes during presidential election cycles in the United States in two respects. First, the commonly agreed frame of discussion is that taxes must be increased to pay for public benefits. Second, the reports take the specific proposals of the candidates seriously.

First example: Tony Abbott, leader of the Liberal Party, proposed six months’ paid parental leave for all new mothers in Australia.2 The leave pay would increase according to pre-leave salary, in contrast to existing policy. A 1.5 percent increase in the corporate tax rate for Australian companies making over AUD 5 million annually would fund most of the increased cost. Media attention focused on whether this corporate tax rate increase would fully fund the leave program, whether shareholders would bear the resulting increase in the tax as a result of its interaction with Australia’s integrated corporate tax, and so forth.


Second example: Kevin Rudd, leader of the Labor Party, proposed a ‘‘small business boost’’ that would cost AUD 200 million. His announcement listed the sources of funding: an offsetting reduction in funds available for vocational training by AUD 111 million, among other specific spending cuts.

The Australian media reported the candidates’ proposals at face value, acknowledging, for example, that the Abbott proposal would be effective for women giving birth after July 1, 2015. One reason the Australian public may find it worthwhile to take the details seriously, and not just as telltales waving in the general direction of possibly desired policy, is that Australia has a parliamentary system. Even though the Senate in Australia’s Parliament might not align with the prime minister, the House of Representatives must. And there is no filibuster or similar right in the Senate. An Australian prime minister can actually get legislation passed.

U.S. presidential candidates cannot provide any assurance that what they propose will become law, and they have as certain cover the defense that Congress refused to pass their proposals. So it doesn’t pay to take what they say very seriously. They have an unchecked incentive to overpromise goodies and say as little as possible, preferably nothing, about tax increases to pay for them. In 2012, for example, Republican candidate Mitt Romney promised to make the Bush tax cuts permanent and to provide additional cuts. He vaguely said that he would offset the cost through the “base broadening” elimination of deductions and credits, which he generally failed to specify, thus succeeding in saying almost nothing about tax increases.

President Obama’s 2008 Blueprint for Change campaign document promised a dozen or more specific tax deductions, credits, and other benefits, as well as offering generalities about more. Some were passed in some form, like the temporary Making Work Pay tax credit. Many others, like ideas to provide a mortgage credit to non-itemizers, make the child and dependent care tax credit partially refundable, or require the IRS to provide pre-filled returns, have apparently dropped off the administration’s radar.

The individual tax centerpiece of Obama’s 2008 campaign, a proposal to increase the income tax rate applicable to taxpayers earning over $250,000 annually while keeping the Bush tax cuts intact for other taxpayers, had to wait until January 2013 and was then passed with higher income thresholds and only after Obama and a Republican-controlled House faced the so-called fiscal cliff featuring default spending cuts, impending tax cut expiration, and a limit on the national debt. Meanwhile, a February 2012 proposal to broaden the business tax base and reduce the corporate tax rate to 28 percent has made little progress. Not much immediate payoff for those who pay attention to the details of the president’s proposals.

An Australian prime minister might not automatically translate his campaign-trail policy into enacted law. Concern remains about the cost and the distributive aspects of the parental leave policy. For example:

At a town-hall meeting3 at the end of August, the audience applauded when small businessman Ian told Mr. Abbott: “I just think that a fork-lift driver from Mt. Druitt should not be paying his taxes so a pretty little lady lawyer on the north shore on 180 grand a year can have a kid.”

But after Ian had his say, Abbott stuck to his policy plank, and now it is actually possible, subject to Abbott’s willingness to bargain with uber-liberal Greens in the Senate,4 that Australian women who give birth after July 1, 2015, will receive six months’ paid parental leave. Remarkable. Maybe public discourse about taxes in the United States would be more straightforward if it were a little easier to pass a federal tax statute.

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