

Levies Are The Taxes We Like

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Australians don't want more taxes, but we're happy to cough up when we know where the money's going. It's no surprise that the Disability Care levy has been popular, writes Ian McAuley.

Psychologists refer to the "Abilene Paradox" – a situation in which people hold false beliefs about the beliefs of everyone else in a group. We have all been at parties where we long to go home, but we hang on because we don't want to be the party pooper – not realising that everyone else feels the same way.

So it is with taxation. There is a strong belief among politicians and their advisers, and among journalists that it is politically dangerous for a government to propose new taxes. That assumption needs checking against reality, because it is far from a valid generalisation about social behaviour.

It is true that if a social researcher goes doorknocking and asks people "would you like to pay more tax?", the positive response rate would be around the same as the question "would you like a motorcycle gang to move next door?"

But when conditions are put around that question, the results are very different. There is a compilation of Australian surveys on attitudes to taxes and public expenditure in a 2011 research paper by James Whelan of the Centre for Policy Development. These surveys show that in certain conditions people are very willing to pay more in tax to support certain public services and benefits to those who fall on hard times.

The key point is about how people think their taxes will be spent. Those services with very high support, usually well above 80 per cent, invariably include health care and education. Environmental protection, roads and public transport generally get high ratings, with variations often reflecting local conditions. Support for defence tends to fluctuate in line with our shifting place on the comfort-paranoia spectrum. There is little support for "public administration", partly because people consistently over-estimate the size and cost of the public bureaucracy (a perception into which Tony Abbott has successfully hooked).

Responses to questions about distributive welfare depend very much on framing. "Age pensions" get strong support, but there is little enthusiasm for "unemployment benefits", unless the question is framed in terms which imply some form of social insurance (which is how we see the NDIS). If we are employed, unemployment is something that has happened to someone else, but if we think about the risk of unemployment, then that is a risk we all share. Other wording is important. A "levy" has much more acceptability than a "tax", for example.

A general conclusion from such research, particularly the contrast between responses to the general question "would you like to pay more tax?" and specific questions, is that people want public goods and are willing to pay for them. They are not, however, happy to leave that allocation decision to governments who they believe, rightly or wrongly, will waste their money or spend it on things they don't want.

That contrast in responses has to do with trust in government. In most democracies where there are long time-series of surveys, evidence suggests that trust in government has been falling for more than 50 years. In the US, for example, loss of trust has been strongest for the federal government, less for state governments, and even less for local governments. In Australia we don't have a "trust in government" time-series, but in a Morgan survey on people's belief in "honesty and ethical standards" by profession, government shows up poorly. On a scale up to 100 per cent, where health care professionals score well above 80 per cent, public servants come in at 36 per cent and members of Federal Parliament come in at 14 per cent – just behind union leaders and stockbrokers, and just ahead of insurance brokers. (Lest anyone thinks this to be a specific comment on the present Labor Federal Government, state government MPs score only 13 per cent.)

In such a climate, it is understandable that there should be support for a tax quarantined for a specific purpose. Economists call such taxes "hypothecated" taxes, and the NDIS levy falls into such a category.

Perhaps it was Bob Carr who convinced Julia Gillard to change her mind about a levy, because he had first-hand experience with such taxes. In 1989 he was NSW Opposition Leader when Premier Greiner introduced a levy of 3 cents a litre on gasoline to fund roads, which were in even worse condition than they are now. The program was originally intended to last three years: hence it was known as the "3 x 3" levy. In Sydney, and around the state, signs appeared at roadworks announcing "3 x 3, your levy at work". A few stand to this day.

In the 1991 state election campaign the 3 x 3 levy came under questioning, and some in Greiner's Liberal Party canvassed the idea of abolishing it, but it backed off once its internal polling found that the levy was quite popular. The levy lasted quite a lot longer than three years, and funded a significant improvement in the state's roads.

Further afield, in the UK the BBC is funded in large part by an annual television licence fee. The conventional texts on tax policy would say it is a dreadful way to fund public broadcasting – as a virtual “poll tax” it's highly regressive, and it's expensive to collect. But it's popular, for it quarantines the BBC against calls for its privatisation.

Another example comes from the USA, which we generally regard as having an entrenched opposition to taxes, but in November last year Californians voted in a referendum to support a specific proposition to raise state sales and income taxes with the funds specifically directed to school funding.

The general message is that taxes meet with more acceptance when they are linked to specific benefits.

Governments however are unenthusiastic about hypothecated taxes, partly because they rob politicians of the opportunity to direct funding to areas that may be politically important, such as special programs in marginal seats. Politicians on the far right dislike them because they negate the notion that all taxes are an intolerable burden: it is no good if people come to believe they get value for money from their taxes. Economists tend to oppose them because they mean that at the margin it becomes difficult to shift expenditure from programs with low benefits to programs with high benefits.

But that opposition contrasts with the tendency of economists to favour user charges over taxes to fund government services, on the basis that user charges tend to align with people's choices. Are not hypothecated taxes and special levies similarly manifestations of specific choices to spend their taxes for some public goods and not for others?

Those on the “left” who often oppose user charges as a matter of principle may do well to re-examine their attitudes. Some user-charge proposals such as comprehensive road user charging as recommended by the Henry Review, if implemented well, could see significant improvements in urban transport and environmental outcomes, while improving equity in the way we fund roads and public transport. (Comprehensive road user charging is not to be confused with the present patchwork of toll roads in an otherwise uncharged system, which results in waste, inequities, monopoly profits and unnecessary levels of pollution.)

The more general lesson from last week is that we must face up to the fact that our public revenue base, be it through “taxes”, “levies”, “user charges” or whatever else we want to call them, is inadequate to fund the public services and social welfare transfers which we have come to expect and which are to be found in comparable prosperous countries.