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SKATT:

TREASURE AND TAX IN AUSTRALIA AND THE NORDIC COUNTRIES

EXPLORING POLICY SETTINGS IN NORDIC COUNTRIES AND THEIR POTENTIAL APPLICATION IN AUSTRALIA

THE FIRST REPORT IN A PARTNERSHIP BETWEEN THE AUSTRALIA INSTITUTE AND DEAKIN UNIVERSITY

PROFESSOR ANDREW SCOTT

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The Australia Institute established the Nordic Policy Centre to explore the policy lessons that Australia can learn from the Nordic nations. Through research, stakeholder engagement, policy development, events, and public education, the Centre hopes to widen the Australian policy debate to include Nordic solutions to the big economic, social and environmental questions facing Australia.

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As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

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Preface

Tax is the price we pay to live in a civilised society. This is perhaps reflected in the Swedish term for tax, 'skatt', being synonymous with 'treasure'. In Australia, by contrast, tax is not seen in such a positive light and the term 'tax reform' is too often used to simply mean tax cuts.

The Australia Institute has attempted to push Australia's tax debate beyond questions of higher or lower and to instead ask what kind of country do we want to live in and what policies are needed to get there?

There are numerous countries Australia could look to for policy inspiration, but the Nordic countries' consistent high performance across a range of social and economic indicators makes them an obvious choice. The Australia Institute's Nordic Policy Centre will explore what lessons Australia can learn from the Nordic nations.

Professor Andrew Scott of Deakin University has written extensively on Nordic policy, especially in his 2014 book *Northern Lights: The Positive Policy Example of Sweden, Finland, Denmark and Norway*. We are delighted to work with Professor Scott on this first report of the Nordic Policy Centre. While this report focuses on tax, we hope to link his and other researchers' expertise on Nordic policy to a range of policy debates in Australia.

Ben Oquist

Executive Director
The Australia Institute

Introduction

The four main Nordic nations – Sweden, Finland, Denmark and Norway – are among the world's most highly ranked countries in terms of the factors that determine prosperity and particularly in terms of innovation: consistently ranking well above Australia.[1] They are also among the most equal in terms of income distribution – much more equal than Australia.[2] These countries therefore provide an opportunity to study how policy settings might be adjusted in Australia to bring about a more prosperous, innovative and equal society here.

The Nordic countries are tangible examples of how economies flourish best in less economically divided societies. Nobel Prize-winning economist Joseph Stiglitz has shown that, "over the period 2000 to 2010, high-taxing Sweden…grew far faster than the United States. The country's average growth rates…exceeded those of the United States...2.31% a year versus 1.85%".[3] When those calculations are updated to look at the trend from 2010 to 2016, Sweden's superior average annual economic growth rate continued – 2.86% compared to America's 2.14%.[4]

Tax is a part of the Nordic countries' economic success and a point of difference with Australia. The Swedish word for tax – *skatt* – has another meaning: 'treasure'. This makes the Swedish language unusual in having such positive connotations associated with the word for community members' payment of contributions for the general good.[5] Values such as security, fairness, trust and a sense of belonging underpin – and are in turn reinforced by – the taxation arrangements in all four main Nordic nations. While changing the Australian word for tax is unlikely, improving the fairness and transparency of the tax system could begin to strengthen similar values here.

Australia is a low tax country, with tax and other revenue representing 35.3% of GDP in 2018. This is below the OECD average and sits in the bottom 6 of 33 OECD nations,

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[1] World Economic Forum, *The Global Competitiveness Report 2016–2017*, World Economic Forum, Geneva, 2016, pp. xiii, 4, 102.

[2] See Organisation for Economic Co-operation and Development (OECD), *In It Together: Why Less Inequality Benefits All*, OECD, Paris, 2015, Figure 1.1 (p. 20).

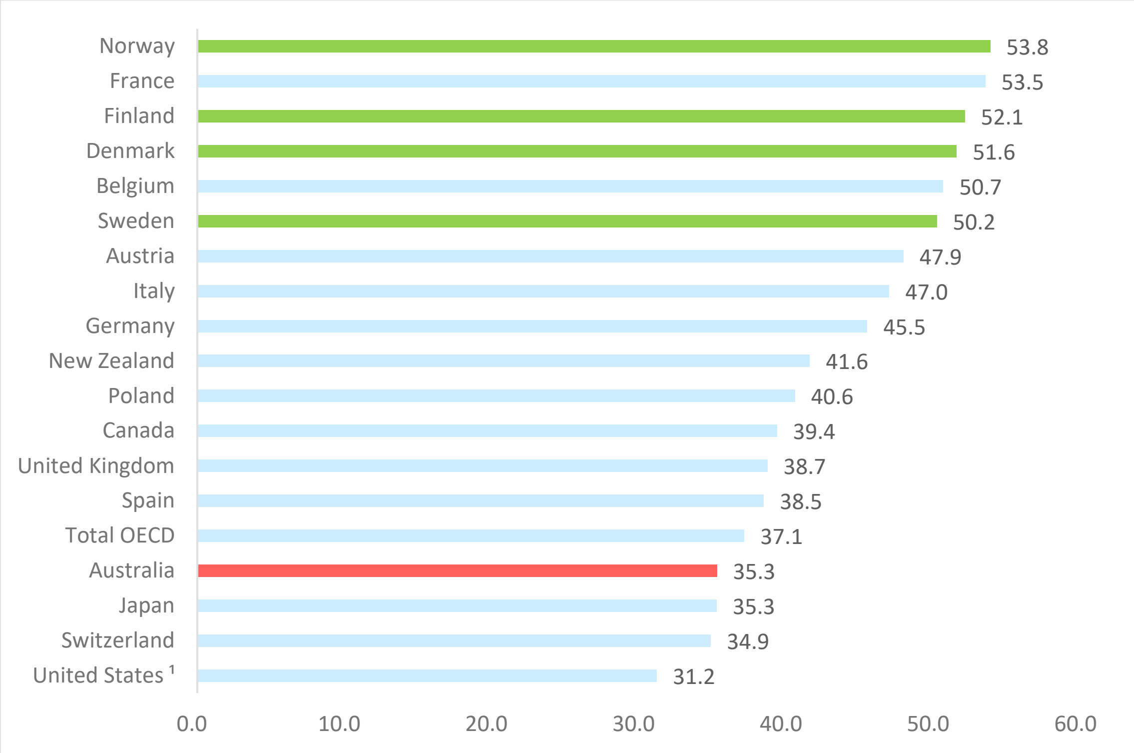
[3] Joseph E. Stiglitz, *The Price of Inequality*, Penguin, London, 2013, p. 28. These calculations were based on World Bank Indicators.

[4] These calculations, like those of Stiglitz, are made from World Bank Indicators, available at http://data.worldbank.org/indicator

[5] David Wiles, 'Why Swedes are Okay with Paying Taxes', 2 May 2017, at: https://sweden.se/society/why-swedes-are-okay-with-paying-taxes/

whereas the main Nordic nations fill 4 of the top 6 positions: Sweden at 50.2%, Denmark 51.6%, Finland at 52.1% and Norway at 53.8% as the following chart shows.

Figure 1: Tax to GDP ratios, selected OECD



Source: OECD Statistics 2018 data in OECD *Economic Outlook* Annex Table 30, https://stats.oecd.org/

The experience of the four main Nordic nations shows that tax revenue is integral to provision of services such as high standard education, health, public transport, quality infrastructure and other services that deliver considerable benefits to the people who live in those countries – and which help to reduce inequalities.

For example, the Nordic nations provide free university education as one of the outcomes of their high tax revenues. Australia had free university education between 1974 and 1988. However, since then it has become one of the most expensive nations in the OECD in terms of the costs of post-school study paid by individual students.[6]

One of the ways in which Nordic countries generate large taxation revenue is by investing in policies that ensure high workforce participation rates. On average, the four main Nordic nations' workforce participation rates are 1.5 percentage points higher than Australia.[7] Policies such as a focus on quality skills training opportunities

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[6] OECD, *Education at a Glance 2017*, OECD, Paris, 2017, pp. 212-223.

[7] 2017 data at: http://www.oecd.org/els/emp/employment-outlook-statistical-annex.htm (Table C).

contribute to high rates of workforce participation, feeding back into higher income tax revenue.

Nordic nations' revenue is also spent on other policies with strong public support – such as to achieve reasonable work/life balance, for example the generous paid parental leave arrangements on which Australians who have moved to Sweden have favourably commented.[8] The positive effects of the benefits, services and programs which are received by people who live in the Nordic nations, from the large revenue which their governments raise, leads to those people's continued overall support for payment of the taxes required.

Recent data indicates that a large majority of Australians (64%) want more public spending on services and infrastructure, funded by greater tax revenue, in particular from wealthy people and from profitable companies, in order to achieve less inequality in Australian society.[9] If Australians are to receive more services and benefits than they currently do, then the necessary revenue will need to be raised.

The strength and consistency of this and similar findings – such as the late April 2018 Newspoll which found that only 15% of Australian voters thought cutting income tax rates was a top priority for the budget – have led one seasoned political commentator to write that:

> A significant question is how much potency "tax" has in an election these days… it does seem likely that tax cuts are not…the vote-magnet they once might have been…[given that] many voters today are often more concerned about services.[10]

Universalism in welfare provision in the Nordic nations means that all sections of society have a stake in the provision of services and that most are therefore prepared to pay the taxes necessary to support those services. By contrast, when benefits are limited only to the most vulnerable people, then the rest of the population feel that they are paying for something from which they do not receive anything in return, so they become less likely to support paying taxes.

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[8] Richard Orange, 'Paid Parental Leave: How Swedish Mums and Dads Do It', *The Sydney Morning Herald*, 20 March 2014, at: https://www.smh.com.au/national/paid-parental-leave-how-swedish-mums-and-dads-do-it-20140319-352gj.html

[9] The Australia Institute, 'Polling – More or Less Spending, Tax, Inequality'?, April 2018, at: http://www.tai.org.au/sites/defualt/files/Polling%20Brief%20-%20April%202018%20-%20more%20or%20less%20spending%20tax%20inequality.pdf

[10] Michelle Grattan, 'Can the Turnbull Government Make the Election All About Tax?', *The Conversation*, 26 April 2018.

In contrast, the selective and minimal welfare arrangements that apply in low-tax countries, like Australia and America, contribute to spiralling hostility towards many welfare recipients. This is not simply race-based. Nordic nations are no longer ethnically homogeneous societies, contrary to past perceptions. There has been a rise in immigration to the Nordic nations over several decades. People who were born outside Sweden now make up more than 18 per cent of Sweden's population for instance.[11] As in other economically developed nations since the late 1990s, there has been some electoral backlash in Nordic countries to rising immigration; however, increased multiculturalism has not undermined substantial welfare provision there.[12] The similarities between the societies of Australia and the Nordic countries and the differences in tax systems provide opportunities for research and will be a focus of further research in this series.

[11] Computed from: http://www.statistikdatabasen.scb.se/pxweb/en/ssd/START__BE__BE0101__BE0101E/InrUtrFoddaRegAlKon/table/tableViewLayout1/?rxid=65a4a433-5f3e-49ae-9a25-378efa94842a

[12] See Stephen Castles and Carl-Ulrik Schierup, 'Migration and Ethnic Minorities' in Francis G. Castles, Stephan Leibfried, Jane Lewis, Herbert Obinger and Christopher Pierson (eds.), *The Oxford Handbook of the Welfare State*, Oxford University Press, Oxford, paperback edition 2012, pp. 278–291.

Tax and treasure in the Nordic countries

Nordic nations raise large amounts of revenue by having broad tax bases. Some of the main differences between the structure of taxes in Australia and in the Nordic nations are that income taxes are much higher in Denmark than Australia; and that Goods and Services Taxes are significantly higher in all four main Nordic nations than Australia.[13]

The four main Nordic nations were also among the first in the world to introduce carbon taxes (they did so from the early 1990s). Australia by contrast repealed its carbon tax after just two years in 2014.

HEADLINE COMPANY TAX RATES

In terms of headline company tax, i.e. the tax on company *profits*, the four main Nordic nations actually had lower rates than Australia in 2018: with Finland at 20%, Sweden and Denmark at 22% and Norway at 23% compared to Australia at 30%.[14]

The rate for businesses whose turnover is less than $50 million a year has begun to reduce towards 25% by the years 2026-2027, as a result of decisions taken by the Australian Parliament in April 2017. However, the Turnbull Government's policy to similarly cut company tax rates for larger businesses failed to gain parliamentary support and has been abandoned.

While the immediacy of Australia's company tax debate has passed, important points remain in terms of the differences between the Nordic nations and us.

NO DIVIDEND IMPUTATION IN NORDIC COUNTRIES

Firstly, as was pointed out in debate about the Turnbull Government's attempts to cut company tax rates, Australia's 'dividend imputation' credits since 1987 mean that any comparison of the 30% statutory company tax rate here with the rates overseas is not comparing like with like.

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[13] See OECD, *Revenue Statistics 1965-2016*, OECD, Paris, 2017, pp. 74, 134, 90, 86, 122.

[14] 'Statutory Corporate income tax rates', OECD.Stat, Tax Database, Table II.1 at: http://stats.oecd.org/index.aspx?DataSetCode=TABLE_II1

Much Australian company tax paid then goes back to company *shareholders* in the form of rebates, through the distribution of franked dividends. Franking credits are then used by Australian shareholders to offset their income tax. The more tax paid by the company, the less is paid by shareholders. Since the year 2000, shareholders with spare tax credits have been allowed to swap those for cash.

Such dividend imputation tax systems are unusual internationally. Australia and New Zealand are the only two OECD countries to have such systems, with Norway, Finland, Germany and the UK having abandoned dividend imputation arrangements in the last two decades.[15]

No other country includes cash refunds for franked dividends, a policy the Labor opposition proposes to change, with exemptions for pensioners, charities and not-for-profit organisations. Such arrangements are not found in Nordic or other countries, perhaps because they overwhelmingly benefit the well-off.

NORDIC SOCIAL SECURITY CONTRIBUTIONS

The second, and even more important point, which now needs to be brought fully into this debate, is that in the Nordic nations social security programs are heavily financed by contributions from employers. In Norway, for instance, social security payments are supported by payroll taxes of up to 14.1% of gross salary.[16]

Australia is one of the very few OECD countries in which corporations are not required to pay any Social Security Contributions. Overall, companies in the Nordic nations pay considerably more tax, and make other contributions for societal benefit, than do companies in Australia.

In Norway, the Social Security Contribution component of taxation paid by employers itself amounts to more than 6% of GDP, in Sweden it is 7% of GDP and in Finland it is nearly 9% of GDP – compared to the zero figure in Australia.[17] This enables the Nordic

[15] Australian Government, *Australia's Future Tax System: Report to the Treasurer December 2009, Part Two, Detailed Analysis, Volume 1 of 2*, Commonwealth of Australia, Canberra, 2010, p. 191.

[16] This and other detailed data below were collated and provided to the author by the Oslo Economics consulting firm. All references to $ (dollars) in this report are to Australian dollars. Currency conversions have been calculated according to the nearest actual exchange rates as published by the Australian Tax Office at: https://www.ato.gov.au/Tax-professionals/TP/Financial-year-ending-30-June-2018/

[17] 2015 data in: OECD, *Revenue Statistics 1965-2016*, pp. 122, 134, 90, 74. Denmark requires less Social Security Contributions by employers to government than the other Nordic countries according to OECD measurements but has extensive other arrangements such as for unemployment insurance.

nations to manage their economies in a better, fairer and more egalitarian fashion than does Australia.

If Australian companies paid Social Security Contributions on this scale then they would be paying at least $100 billion a year more than now.[18] This would mean well more than double the $89.1 billion company tax they are estimated to pay this financial year.[19] Claims that Australian companies are paying among the world's highest levels of taxes overall are therefore false and misleading.

WHERE THE MONEY PAID BY COMPANIES IN NORDIC NATIONS GOES

Employers in Nordic nations contribute directly towards much more **extensive paid parental leave** (which can be for as long as sixteen months in Sweden), **skills training** opportunities, **income support for the unemployed** and also for people experiencing **health** problems, than employers are required to do in Australia.

This is part of a policy framework of 'Social Protection' pursued in all the Nordic nations. 'Social Protection' means the coverage of precisely defined risks and needs associated with: ill health, disability, old age, parental responsibilities, loss of a spouse or parent, unemployment, insufficient housing or community amenities, and social exclusion.

The usual English language sources, including OECD publications, do not give detailed information about the benefits, programs and services that people receive in Nordic nations as a direct result of the payment by corporations of Social Security Contributions. The following examples of these benefits, programs and services are now provided here from especially commissioned, multi-lingual Nordic-based economists, so as to help better inform the Australian debate.

The first example is how employers in Sweden contribute: *Ålderspensionsavgiften*, an old age **pension** fee of 10.21% of gross salary; *Efterlevandepensionsavgift*, a loss of spouse or parent insurance fee of 0.7% of gross salary; *Sjukförsäkringsavgift*, a sick leave insurance fee of 4.35% of gross salary; and *Arbetsmarkadsavgift*, an

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[18] Computed from Australian Bureau of Statistics (ABS), *Australian System of National Accounts, 2016-17*, Catalogue no. 5204.0, ABS, Canberra, 27 October, 2017.

[19] Australian Government, *Budget Strategy and Outlook Budget Paper No. 1 2018-19,* Commonwealth of Australia, Canberra, 8 May 2018, Table 7, p. 5-17.

unemployment insurance fee of 2.64% of gross salary. Finland has very similar arrangements.

In Denmark, all employers contribute towards a labour market supplementary pension fund. The average annual fee is around $690 for each full-time employee, of which two thirds is paid by the employer. Also in Denmark, employers pay a combined annual $110 for each of their employees towards: unemployment benefits and programs; sick leave; parental leave; and into an insurance fund which protects employees against bankruptcy.

Qualitatively, and very importantly, this means that business is partly responsible for whole of life incomes in the Nordic nations. Employers in turn receive many benefits from making the contributions they do there. Companies gain demonstrated returns from their contribution to spending on active labour market programs, for instance, in the form of better matched job seekers when, and where, they need those job seekers to fill vacancies.[20]

Work by econometrician and Emeritus Professor P. N. (Raja) Junankar is pertinent to point out in this respect. Junankar finds from his research that "the costs of unemployment, even if we take a low estimate, are very significant…society is losing about 5% of GDP". That is before we even "place a monetary value on social costs of unemployment (e.g. crime, disruption of social fabric etc.)" i.e. even if we just "concentrate… on the first-round or impact costs and neglect…the dynamic adjustments…[and] the multiplier effects". As he emphasises, "unemployment…imposes significant costs on everybody in the society".[21]

Employers therefore have an interest in reducing the unemployment that prevents nations from reaching their full economic potential. The looming prospect of an unsustainably high 'dependency ratio' in Australia, which would disadvantage employers, could also be prevented, or at least alleviated, by employers contributing to active labour market skills programs which maintain mature-age workers consistently in paid employment until their retirement, as employers do in the Nordic nations.

[20] Erik Bjørsted, Elva Bova and Signe Dahl, 'Lessons Learnt from the Nordics: How to Fight Long-Term Unemployment', *Intereconomics*, Vol. 51, No. 3, May 2016, pp. 172-178.

[21] P. N. (Raja) Junankar, *Economics of the Labour Market: Unemployment, Long-Term Unemployment and the Costs of Unemployment*, Palgrave Macmillan, Basingstoke, 2016, pp. 455, 454.

The social purpose of business

The high trust which underpins payment of high taxes in the Nordic countries derives in part from a greater confidence there than in Australia in the "ethical behaviour of firms". Sweden is ranked number 1 in the world on this indicator, Finland number 4, Denmark number 5, Norway number 8 – whereas Australia is number 13.[22]

Improving the ethical behaviour of banks and other businesses in Australia to those higher standards, and greater action by Australian companies for social purposes rather than in their own vested interests, is now essential for a more responsible debate on taxation to unfold.

In 2018, long-time public servant, and reviewer of the Australian tax system, Dr Ken Henry, warned that "our present tax system is not sufficiently robust to finance government spending…through the economic cycle" and that "Australia will get no progress on tax reform unless the community sees vested interest make way for the national interest". He added that "It is time we got really serious about the social purpose of business…If we in business are going to be taken seriously in these debates, we will have to demonstrate that we are engaging not out of self-interest, but because we share a mission to improve the wellbeing of the Australian people".[23] Dr Henry had by then entered the private sector and made those comments in his capacity as the chair of the National Australia Bank. While he has since stepped down from that role following the Banking and Financial Services Royal Commission, the need he identified – for Australia to get serious in Australia about the social purpose of business – is greater than ever.

The Henry Review's recommendation for "reducing the company income tax rate to 25% over the short to medium term" was made on the basis that "improved arrangements for charging for the use of…[Australia's non-renewable] resources should be introduced *at the same time*. A broad-based resource rent tax would be a more effective way to ensure an appropriate return to Australians for the exploitation

[22] World Economic Forum, *The Global Competitiveness Report 2016–2017*, pp. 331, 177, 163, 285, 103.

[23] Dr Ken Henry AC, Speech to the Australian Institute of Company Directors Governance Summit, 2 March 2018 at: https://news.nab.com.au/nab-chairman-dr-ken-henry-ac-speech-to-the-aicd-governance-summit/

of their natural resources" than current arrangements, the Review recommended.[24] In fact, the Henry Review made specific reference to Norway's system:

> For Norway, a stable resource charging system appears to have played an important role in supporting petroleum exploration and development activity… Activity remained strong despite a decline in the prospect of new discoveries in Norway's continental shelf…
>
> Norway's petroleum tax system approximates a rent-based tax. Though based on the company income tax system, it applies an uplift to expenditure to exempt the normal return from tax and reimburses the tax value of exploration expenditure for companies in a loss position. Norway imposes a total tax rate on petroleum rents of 78 per cent, consisting of a 50 per cent rent-based tax rate and company income tax of 28 per cent, with no deduction at the company income tax level for tax paid under the rent-based tax.[25]

The Henry Review's proposal to cut the company tax came alongside other measures that were considered essential to *complement*, or offset, any loss of company tax revenue. Australian trust in business is not likely to be improved by the business community advocating again for the tax cut, in isolation from these offsetting recommendations.

[24] Australian Government, *Australia's Future Tax System: Report to the Treasurer December 2009, Overview*, Commonwealth of Australia, Canberra, 2010, pp. 40, 86. Emphasis added.

[25] Australian Government, *Australia's Future Tax System: Report to the Treasurer December 2009, Part Two, Detailed Analysis, Volume 1 of 2,* p. 224

The need to revisit resource taxation in Australia

I have written previously about how Norway's economy, like Australia's, relies heavily on the extraction of natural resources but how, unlike Australia, Norway has acted consistently to manage its natural resource endowments for the nation's long-term benefit. Norway does this through adequate taxation and a highly successful sovereign wealth fund that shows Australia what is now possible.[26]

Through these means Norwegians have avoided the 'curse' that often afflicts nations managing plentiful natural resources, namely damage to other tradeable sectors through appreciation of the home currency. By contrast, as Australian mining grew the Australian dollar increased significantly in value, which put major pressure on Australian exporters of non-mining products.[27]

Journalist and author Paul Cleary argued in 2016 that one of the

> key lessons for Australia from the story of Norwegian oil…[is that] the [Australian] government should revisit the super-profits tax [which was attempted in 2010], so that the nation benefits the next time mineral prices surge. In order to head off the political opportunists, the government must properly explain the need for this tax, and…package it with reform of imposts such as stamp duty and royalties that are legacies of our colonial past.[28]

Norway's sovereign wealth fund is fully owned by the Norwegian state through the Ministry of Finance. It is managed by Norway's central bank (Norges Bank). It has grown to be worth nearly 8.5 billion Norwegian kroner at the end of 2017.[29] This took it above the level of one trillion Australian dollars.

Cleary's book *Trillion Dollar Baby* gives full documentation and analysis for Australians of Norway's achievements in building up its sovereign wealth fund for national benefit,

[26] See: Andrew Scott, *Northern Lights: The Positive Policy Example of Sweden, Finland, Denmark and Norway*, Monash University Publishing, Melbourne, 2014, pp. 162-163, 165, 168-175, 181.

[27] David Richardson and Richard Denniss, 'Mining the Truth: The Rhetoric and Reality of the Commodities Boom', The Australia Institute Paper No. 7, September 2011, p. 27.

[28] Paul Cleary, *Trillion Dollar Baby: How Norway Beat the Oil Giants and Won a Lasting Fortune*, Black Inc., Melbourne, 2016, p. 189.

[29] See https://www.regjeringen.no/en/topics/the-economy/the-government-pension-fund/market-value-of-the-government-pension-f/id699635/

and presents a cogent case for what Australian can learn by revisiting resources taxation to tackle its own revenue deficiency. Cleary points out that, unlike Australia and "many other countries, where oil companies have been able to win support by dividing and conquering the political class", and where "companies are seen as benefactors who are doing the country a favour by developing resources, often with substantial tax concessions", in Norway the national interest has been pursued. That nation's resultant "revenue haul shows the benefit of putting in place sound policies in the event of a commodity boom".[30]

[30] Cleary, *Trillion Dollar Baby*, pp. XIII, 179-180, 134.

Conclusion

There is a simple, but nonetheless true, maxim that you get what you pay for. Australian policy-makers now need to honestly face up to the arithmetic fact whereby, as Richard Denniss writes: “if Australia wants to remain one of the lowest-taxing countries in the developed world, then obviously it can’t invest in the highest quality services in the world…If we want to have a tax system like Singapore’s or Hong Kong’s, there is no way we can have a health or education system like Sweden’s”.[31]

People who live in the Nordic nations receive valuable returns from the higher taxes they pay, which is why they continue to pay them. Those returns come in the form of practical benefits, programs and services that improve those people’s everyday lives.

Employers in those countries gain too in terms of a healthier, well-educated and motivated workforce in which workers enjoy reasonable work/life balance. Part of that balance is achieved through extensive paid parental leave. Parents can return to the workforce without losing career positions after having the necessary time off at that crucial times in their family lives. Businesses thereby regain, rather than lose, skilled, experienced and valuable employees who return to work well motivated because they have been given that consideration. Australia has much more minimal and insecure paid parental leave arrangements that need to be improved.

Companies in Australia – including those which profit so extensively from the extraction of the nation’s natural resources – need to be less short-term and self-interested, in order to build a revenue base which can underpin a healthier, more skilled, and motivated workforce which has good work/life balance here.

Sweden, Denmark, Norway and Finland demonstrate the benefits that are possible when companies contribute properly to improve the wellbeing of the nation of which they are part. The different approaches that those countries take now need to be considered in more detail as part of a more mature tax debate in Australia.

Such a debate is now essential in order to: reduce inequality, invest properly in early childhood education and care, create more resources for science, research and development, build higher standard hospitals, improve public transport, schools, universities, and apprenticeship opportunities, boost modern physical and social infrastructure for our growing population, and, in general, to build a stronger society.

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[31] Richard Denniss, *Dead Right: How Neoliberalism Ate Itself and What Comes Next*, Quarterly Essay No. 70, Black Inc., Melbourne, 2018, pp. 71-72.

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