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BETWEEN THE LINES

Welcome to the second edition of *Between the Lines*, The Australia Institute's e-bulletin – selective analysis of the policy and politics affecting the wellbeing of Australians.

Our second edition looks at:

- why we care more about the financial crisis than climate change
- the 50 per cent discount on capital gains
- whether there has been an exodus from public schools to private ones
- the Institute's busy fortnight.

Some crises are more equal than others

Have you ever wondered why, more than 15 years after the world's leaders gathered in Rio and agreed to tackle climate change urgently, there always seems to be some other 'crisis' that is more pressing?

In recent weeks, we have watched the spectacle of the US Congress drafting a $700 billion bail-out package in a matter of days. When the bill was defeated in its original form it spread consternation from Wall Street to the Australian Parliament. Didn't the Congress understand this was a crisis? Didn't they understand this was a time for action rather than perfection?

The most interesting thing about the worldwide approach to bailing out the financial system is how pragmatic policy-makers have been. No one, from the US Treasury Secretary to Kevin Rudd, will put their hand on their heart and say they understand the full nature and extent of the problem.

Nor will they look the voters in the eye and declare that, after spending trillions of dollars to bail out banks, they are certain that the problem will be solved. On the contrary—when it comes to the world of finance, we all have to accept just how complex the systems are. We can't really expect certainty, and we can't really guarantee success. Rather, we all just have to comfort ourselves with the thought that it would be irresponsible to sit back and do nothing. It is, it seems, self-evident that we should at least try.

But not, apparently, when it comes to climate change. Even though most of our bankers can't explain the risks associated with the derivatives they have purchased over the years, our climate scientists are expected to be able to predict the weather to a high degree of accuracy in 70 years' time.

Even though economists can't predict the rate of GDP growth, inflation or the exchange rate next month, those determined to do nothing about climate change demand certainty about what the price of emissions permits will be in 20 years' time.

The current financial crisis was unforseen by the major governments of the world. The cost of the bailouts combined with the flow-on economic effects are likely to dwarf the estimated costs of tackling climate change, yet there is little talk of abolishing private banking because of its potential to cause harm to the economy.

In the last month, trillions of dollars have been found. New regulations have been introduced. And countries have all committed to work collectively in the pursuit of a common goal. Unfortunately, none of this effort has been aimed at reducing greenhouse gas emissions; it has been aimed at something far more important—sustaining the banking system as we know it.

Advance Australia Fair?

The wealthiest one per cent of Australians receives more than 35 per cent of all dividend income and more than 38 per cent of all capital gains according to the ATO. Luckily for them, both company profits and capital gains are taxed concessionally, ensuring that the tax system helps to exacerbate the gap between high- and low-income earners.

At the other end of the spectrum, the bottom 20 per cent of income earners receive just 3.2 per cent of all dividends paid and only 4.2 per cent of all capital gains.

'Capital gain' refers to any profits associated with an increase in the price of an asset; for example, shares rising from $1 to $3 or the value of an investment property rising from $200,000 to $400,000.

The fact that capital gains on the family home are tax-free is widely known, but there has been virtually no public debate about the 50 per cent tax discount that applies to all capital gains. That is, if the value of shares held by a stockbroker rise by $1 million, tax is payable on only $500,000 of the gain.

This 50 per cent capital gains concession costs the Commonwealth more than $7.8 billion per year in lost revenue and, because of the very uneven distribution of income described above, more than $3 billion of that benefit goes straight to the wealthiest one per cent of the population.

The Australia Institute has recently suggested that a new tax rate of 50 per cent be applied to incomes over $1 million per year. At present, the top tax rate of 45 per cent kicks in at $180,000 and, while there is no doubt that people living on more than three times the average income are doing well, there is also no doubt that people earning $1.8 million, or even $18 million as is the case with some CEOs, have a much greater capacity to pay than those on $180,000.

Tax rates for high income earners were 75 per cent in the 1950s, 65 per cent in the 1970s and 50 per cent in the late 1980s. Bill Clinton raised taxes on the wealthy as soon as he became President of the US, and Barrack Obama has already announced he will do the same, even if Joe the Plumber doesn't like it. Kevin Rudd has declared that it is 'game over' for corporate excess; the question is will he put their money where his mouth is?

What exodus?

While most Australians have probably heard about the 'exodus' from public to private schools over the past decade, what they probably don't know is that this is the first exodus in recorded history to be distinguished by growing enrolments.

In 2007, there were 2,268,377 full-time students enrolled in government schools compared to 2,230,052 students in 1997; that is, an increase of 38,325 students. To house this 'reverse exodus' would have required the construction of 38 new schools of 1,000 pupils each.

But what about the growth in private school enrolments? The rise in private school enrolments, from 941,572 to 1,148,246 students over the same period, has occurred alongside the rise in the public school system—thanks to a growing population. In percentage terms, the increase in private school enrolments of 21.9 per cent looks large, but only because the base was so small—a school with one pupil enjoys 100 per cent growth when the second student arrives.

In 2007, public schools accounted for 66.3 per cent of full-time student enrolments, Catholic schools accounted for 20 per cent and other private schools for 13.4 per cent. For every student attending a non-Catholic private school, there are five students attending a public school. Over the past decade, there has been a substantial increase in the generosity of private school funding.

The contention over public versus private schools is unlikely to be resolved soon but the mistaken notion that there has been some sort of exodus from the public sector has clouded the issue in much the same way as the phoney debate about whether private or public schools have the monopoly on 'values'.

Institute Update

The Institute has had a busy fortnight; in case you've missed anything here's a summary of some of the things we've been up to:

- Richard Denniss and Josh Fear published a web paper on the role of a higher age pension in stimulating the economy – you can read it here.
- David Richardson published a web paper calling for the introduction of accelerated depreciation for the renewable energy sector – you can read it here.
- Gemma Edgar spoke about the NGO sector and compacts on Radio National's 'Perspective' – you can listen to the podcast here.
- Richard Denniss made the case for introducing a new top tax rate for those earning over $1 million a year – you can read it here.

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If you have any comments or contributions for *Between the Lines*, please send them to mail@tai.org.au. If you know someone else who needs to read *Between the Lines*, please forward this email. They can sign up to receive it at www.tai.org.au.