

Australian Quality of Life

In search of the Jeff factor

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The Australia Institute's recent discussion paper, **Quality of Life in Australia: An analysis of public perceptions, has attracted intense media interest. Much of the attention has focused on the differences between States over whether**

The Institute's Newspoll survey revealed that only 24% of Australians think that life in Australia is getting better. The same proportion believe that the 1990s have been the decade of highest quality of life. Over a third (36%) say life is getting worse, with slightly more (38%) saying it is staying about the same.

State differences in perceptions of quality of life in the survey were as marked as any of those between income, age or other demographic groupings. However, the reasons for the differences are not self-evident. Given the media interest, the State breakdown warrants a second look.

Victorians stood out as the most positive Australians, with 37% saying they thought life is getting better, compared with 14-23% for the other States. Victorians were also the most positive when the same question was asked in 1997.

All States reflected the general lift in mood which occurred between 1997 and 1999, but the extent of the rise varied. The proportion of Victorians believing life is getting better

doubled, increasing the State's lead. NSW also almost doubled its percentage, moving from fourth to second place, while Queensland and Western Australia recorded much smaller changes.

A second poll question asked which decade had had the highest quality of life. Nationally, opinion was spread evenly over the 1970s, 1980s and 1990s, with about a quarter of Australians choosing each of these decades and a declining proportion opting for earlier times. Again, Victorians were the most positive, with 32% choosing the 1990s as the best decade, compared with 9-25% for the other States.

State differences across decades are also intriguing (see table). For example, Victorians showed a clear liking for the 1990s and were less likely to choose the 1960s. Queenslanders, South Australians and Tasmanians preferred the 1980s, with about 30% choosing that decade as having had the highest quality of life. People in NSW spread their preferences evenly over the 1990s, 1980s and 1970s, while West Australians shared their preferences across the four decades from the 1960s to the

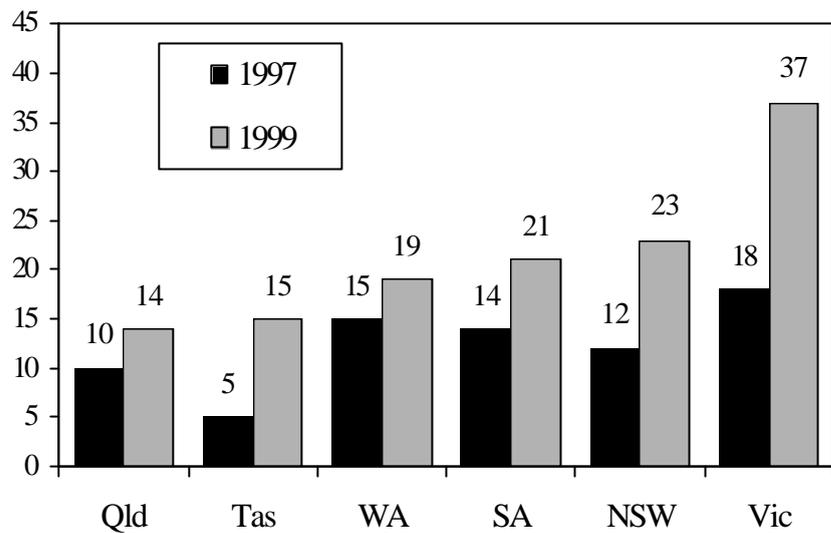
1990s.

While many of the state differences are statistically significant, this does not necessarily mean there is a causal link between the people's attitudes and the State they live in. However, it is plausible that differences between the States do explain the results. If so, what might they be?

Responses to a third poll question about the importance of several factors in improving people's own personal quality of life also revealed some significant State differences. Overall, 75% of Australians rated as very important 'being able to spend more time with family and friends' and 66% 'having less stress and pressure' in their lives, compared to only 38% who rated as very important 'having more money to buy things' and 36% feeling they 'are doing more for your community'.

Victorians were the most likely to rate as very important spending more time with family and friends (82%). South Australians were the most likely to rate as very important having more money (51%). Tasmanians were the least

Perceptions of quality of life by State, 1997 and 1999 Per cent saying life is getting better



likely to rate as very important doing more for the community (18%). However, the significance of these findings in explaining the differences in perceptions of overall quality of life is not obvious.

As noted in the discussion paper, Victorians do not stand out as the richest, best-educated, healthiest or most personally satisfied of Australians. Indeed, in the 1999 edition of *The State of the States* report, published by the Evatt Foundation and the Public Sector Research Centre at the University of NSW, Victoria ranked last!

It had dropped from fourth in 1998. The report is based on the performance of the States on 15 social, environmental and economic indicators.

Overall, Victoria scored 16 percentage points less than the all-State average, and 26 points below first-place getter, NSW. Victoria did particularly badly on environmental indicators, where it scored 33 points below the average. On social measures it scored 8 points below the average. It did best on the economic indicators, but even here it only managed fourth place, 5 points below the average.

Journalists speculated that Victoria's good showing on the quality-of-life poll was due to the 'Jeff factor'. Jeff Kennett seems to have succeeded in making some Victorians feel better about themselves, but his style of government, his critics argue, is secretive and undemocratic. He encourages people to enjoy themselves – at the casino, the footy or the grand prix – and leave the

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Perceptions of the best decade by State (Per cent)

Decade	AUST	NSW	VIC	QLD	SA	WA	TAS
1990s	24	25	32	16	21	20	9
1980s	25	24	24	31	30	20	31
1970s	23	24	22	24	26	24	19
1960s	13	15	7	15	13	21	19
1950s	6	7	5	7	5	6	9
before 1950s	2	2	1	3	4	1	-

Business Tax and the Environment

The Institute's proposal to integrate greenhouse gas emissions trading into the Federal Government's business tax reform has attracted strong interest, including 140 requests for copies from abroad. The proposal is based on the belief that Australia should take its commitment under the Kyoto Protocol seriously. Here, Hal Turton explains the Institute's proposal.

Business tax reform is hardly an inspiring topic – or is it? Unless you're an accountant, the regular media attention and discussion of things such as accelerated depreciation, indexing of the capital gains taxes and a new cashflow-based tax system probably make little sense, and are of even less interest. But what if business tax reform were to reduce Australia's greenhouse gas emissions enough to mean almost nothing else had to be done to meet the Kyoto Protocol? What if 50,000 jobs could be created at the same time?

While the Government's final proposals for business tax had not been released at the time of writing, a number have been widely reported. For one, company tax rates will be reduced and this will be paid for by paring-back a complicated and confusing measure known as accelerated depreciation. The reforms are also likely to include a makeover of the capital gains tax regime to make it appear more appealing to the share-owning middle class.

Apart from a few rumours about a major change encompassing a shift from taxing profits to taxing cashflows and capital growth, the reforms are hardly revolutionary. None of the measures are really expected to alleviate Australia's social and environmental problems. The

changes to capital gains tax will probably amount to a tax loophole accessible only to the rich.

In our latest discussion paper (*Business Tax and the Environment: Emissions trading as a tax reform option*), the Institute has set about devising a business tax reform that goes further towards confronting the contemporary challenges facing Australia. As the starting point, the Institute took Australia's commitment under the Kyoto Protocol to reduce greenhouse gases. If Australia is going to meet its commitment under the Kyoto Protocol then it must act quickly because the kind of

'Australia's international environmental credibility has been

changes necessary in technology, production and consumption will take a while to work their way through the economy.

Even if the Protocol is never implemented, there are still strong reasons for Australia to act. This is because it is now becoming widely accepted in the international community that Australia has lost much of its environmental credibility. This has serious implications for our negotiating position in other international fora. G-8 leaders have suggested using the WTO to address the 'trade and

environment relationship', indicating that Australia's environmental record may in the future undermine our negotiating position at the WTO.

So how does this relate to business tax? Apart from raising revenue, taxes do number of other things. Most importantly they create a complex layer of financial incentives and disincentives that encourage certain types of behaviour. For instance, differential taxes are a powerful tool for encouraging people to invest in superannuation. Taxes do the same thing to businesses. A tax on payrolls reduces the incentive for a business to employ people instead of capital equipment.

By providing a set of incentives and disincentives, business taxes bias production decisions. These production decisions determine the technology and organisation of production – factors that also determine the wastes produced from the production process; including greenhouse gases. So, the design of the business tax system has important implications for Australia's ability to restrict greenhouse gas emissions according to our international obligations.

So what is the most business-benign way of restricting greenhouse gas emissions? The cheapest way is through a system known as emissions

Option 4 for business tax reform

Tax Change	Revenue Effect (\$m)
Emissions trading	+7,200
Reduce company tax to 33%	-1,550
Reform accelerated depreciation	+900
Reduce payroll tax by 60%	-5,700
Net revenue effect	+850

trading. Under such a scheme, the government would first determine the total volume of greenhouse gases that can be emitted in a year and create ‘permits’ for this amount. The government then allocates these permits to the market and, for each tonne of greenhouse gas emitted, requires the emitter to remit a permit. Within the market any individual, group, business etc. can buy and sell the permits.

If one firm can reduce its emissions cheaply it makes sense for it to sell permits (or avoid buying permits), whereas a firm that has expensive abatement costs will buy more permits. The beauty of this system is that a simple market enables lowest cost emission reductions while total emissions are capped at the required level. The price of a permit is determined by supply and demand.

How the government chooses to allocate the emission permits is crucial. There are two main ways it can be done – permits can be auctioned or they can be given away. Auctioning will result in a market-determined price whereas giving away raises a number of equity and efficiency issues. If the permits are given to existing polluters, new entrants to the market

which may be low-emitters will have to buy permits from the big polluters. In addition, the government would forgo a substantial amount of revenue – estimated by the Institute to be around \$7 billion per annum – which could be used to reduce other taxes.

Now the question is how to incorporate a system of auctioned emission permits into business tax reform to produce the greatest benefit. The \$7 billion each year from emissions trading greatly exceeds the revenue loss from cutting the company tax rate to 30% (around \$3 billion). However, payroll taxes (levied by

the States) will soon generate over \$9 billion a year. Revenue from emissions trading could be used to remove this impost on employment, a tax swap that would protect the environment and create jobs with no increase in the tax burden on business. A number of countries have reduced taxes on employment and increased taxes on greenhouse-producing energy use to benefit from this ‘double dividend’.

A modern tax system should not be biased in favour of unproductive assets nor should it encourage activities that government is trying to discourage with other policy instruments. The Institute’s proposals for business tax reform are designed to promote both employment and environmental sustainability, an objective even fossil fuel interests will find it hard to oppose.

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The Australia Institute

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Do Indigenous Australians Get What They Deserve?

Claims that Indigenous people receive excessive government handouts have been part of conservative political folklore for some years. Due to the complexity of the welfare system no definite answer has been possible to the question of whether Indigenous Australians receive more or less than other Australians. The Institute has just completed the first comprehensive assessment of the issue, *Public Expenditure on Services for Indigenous People (Discussion Paper No. 23)*. Max Neutze, one of the report's authors, explains the results.

Anyone listening to the more racist views about the privileges of Australian Aborigines might be forgiven for believing that governments spend a great deal more on services for them than for other Australians. But the fact is that nobody knows!

'Identifying as an Aboriginal has definite financial advantages, as Aboriginality allows them to claim a share of ... publicly funded perks not available to other Australians.'

*Pauline Hanson
2nd June 1998*

The Institute's new report includes expenditures on education, health, housing and employment services. We know that Indigenous people are disadvantaged in each of the program areas: they are less healthy, die younger, are less well educated, are more frequently out of work and have poorer housing. The estimates provided in the paper help us to judge whether current expenditure programs are likely to be sufficient to allow Indigenous people to overcome their disadvantages in the near future.

One of the key conclusions to emerge from the study is that a focus on special programs for Indigenous people alone will provide a very misleading picture of the distribution of public expenditure between Indigenous and non-Indigenous people. A full picture must include both special programs and general programs. While Indigenous people benefit substantially more than other Australians from specific programs which tend to be more visible, they benefit substantially less from many much bigger general programs.

With respect to health services, public expenditure per head on Indigenous health services was found to be 50 per cent higher than on non-Indigenous. But this occurred mainly because Indigenous people, like others with low incomes, spend less on their own health. Indeed public expenditure per head on Indigenous health was about the same as that on non-Indigenous people in the same income groups. Specific health services accounted for only a small proportion of public spending on Indigenous health.

In the case of education, without specific Indigenous programs, public expenditure per capita on the education of

3 to 24 year olds would actually be lower than for the non-Indigenous. Much of the difference is because of the poor Indigenous retention rates achieved in secondary and tertiary education. Even including the specific programs, public expenditure per head is less than 10 per cent higher, and much of that is due, again, to the lower incomes of Indigenous people.

'The criticism that is frequently made of Indigenous Australians ... is that they get an undue proportion of welfare handouts'

John Howard

The Community Employment Development Projects, are primarily a work-for-the-dole scheme in Indigenous communities, begun in the 1970s well before they were introduced in the general community. CDEP, together with general financial assistance plus general and specific training and other assistance for the unemployed, spent nearly 50 per cent more per unemployed Indigenous person compared with the non-Indigenous. Some part of the margin, but probably a minor

part, was due to expenditures under CDEP that aimed to advance broader community development objectives.

Indigenous housing

The level of public expenditure on housing and the benefits from it are especially difficult to estimate. We calculated the effect of government expenditure programs on the cost of housing to its occupants. Because a much higher proportion of Indigenous households live in public and community rental housing where rent rebates are payable, on average all such households received nearly 7 times the financial benefits from rent rebates of the non-Indigenous. Although a higher proportion of Indigenous households are private renters, their average Rent Assistance per household is about 20 per cent lower, mainly because they pay lower rents.

‘I challenge anyone to tell me how Aboriginals are disadvantaged when they can obtain 3 and 5% housing loans denied to non-Aboriginals’

Pauline Hanson

Although governments do not directly spend on owner occupied housing, it is recognised that they forgo a large amount of tax revenue from it for two reasons. First, rental income is taxable when received by a landlord but not when an owner occupant gets income in kind from her own investment. Second, capital gains on owner occupied housing are not taxable.

Inclusion of very conservative estimates of the value to owners and buyers of these “tax expenditures” results in the total benefits of all public expenditures on housing services *per household* being about 25 per cent higher for Indigenous than for non-Indigenous households. But taking account of the larger size of Indigenous households reverses the difference: the benefit *per capita* is about 10 per cent lower for the Indigenous.

These estimates assume the same average benefit to an Indigenous as to a non-Indigenous owner or buyer. But tax expenditures are determined mainly by the value of the owner’s equity, determined by the value of the house less outstanding mortgage loans. Equity would be expected to be lower among poorer Indigenous households. If, for example, the average tax expenditure was only half as large on average for Indigenous owner occupants, the per-household advantage of all public expenditure on housing would fall from 25 to 8 per cent and the per capita disadvantage would rise from 9 to 21 per cent.

The bottom line

The Report does not provides support for either gross under- or over-expenditure by governments on services for Indigenous people. They are well catered for by hospital outpatients and community health services but make little use of Medicare or the Pharmaceutical Benefits Scheme. They do very well from rent rebates in public and community housing but very poorly from tax expenditures that benefit owner occupants. They gain a lot from primary education and student financial support but still make little use of tertiary education services. The CDEP scheme has been valuable for them.

Overall, considering the multiple disadvantages from which they suffer, the level of public expenditure on services for Indigenous people could scarcely be regarded as excessive. This is particularly true in housing. The specific programs for public expenditure on Indigenous housing look modest beside the generous tax expenditures on owner occupants.

Professor Max Neutze is at the ANU’s Urban Research Unit.

‘No government which governs by the use of force can survive except by force. There is no going back because force begets force and the perpetrators of crimes live in fear that they might become victims in their turn.’



*Editorial***Is John Howard Killing the ANZAC Spirit?**

Prime Minister Howard prides himself on his ordinariness. That ordinariness lies at the core of his conception of the essential Australian character, a character expressed most purely in the spirit of ANZAC, a hard-to-define yet unmistakable amalgam of courage, mateship, determination, resourcefulness and sacrifice.

Yet there is a widespread belief that these values are in decline and that economic restructuring over the last two decades is largely to blame. The Institute's Quality of Life survey, reported elsewhere in this newsletter, confirms that there is a widespread belief that Australia is in moral decline – that there is too much selfishness, too much individualism and not enough commitment to building a better society.

'The work-for-the-dole scheme has transformed mutual obligation into a demand for pay back'.

If this is so then the Prime Minister's attempt to enshrine the notion of mateship in the preamble to the Constitution may be seen as an attempt to use words to compensate for the real effects of his economic and social policies. While Mr Howard harks back to the spirit of the ANZACs, the evidence suggests that his Government is creating an Australia in which the ANZAC spirit sits increasingly uncomfortably.

The Prime Minister's initial preamble celebrated individualism and his policies are aimed at fostering competition. While most would agree that competition in the market sector is appropriate, the introduction of competition into the government and non-profit sectors is an assault on the spirit of cooperation and care that motivates the provision of these services. The non-profit sector is fuelled by the spirit of self-sacrifice and compassion for the underdog, yet this commitment appears to be waning in the new environment imposed by competition policy.

As the Institute's recent paper on competition in the welfare sector made clear, competitive tendering is damaging the quality of welfare services because community-based organisations, which previously worked cooperatively for the greater good, are now unwilling to share information with 'the competition'.

Mutual obligation

The social security system that evolved after the two world wars was a product of the ANZAC spirit; it reflected an appreciation of sacrifice and a desire to return the favour, not just to those who fought, but to all Australians who found themselves in need.

The Howard Government is progressively rebuilding the social security system on the new foundations of 'mutual obligation'. In the most obvious manifestation of this,

the work-for-the-dole scheme has transformed mutual obligation into a demand for pay back, a moral condition that sits uneasily with the ANZAC ethos.

These issues lie at the core of the divisions between the new brand of libertarians, who

'By putting his faith in the free market, the Prime Minister undermines many of the social values he holds dear'.

adopt a hard-line defence of the free market, and the more traditional social conservatives who believe that the market should not be allowed to undermine the family and social cohesiveness. The two sets of beliefs are irreconcilable, yet they sometimes coexist in the one breast. This explains why, by putting his faith in the free market, the Prime Minister undermines many of the social values he holds dear.

The spread of market relationships into sport, community services, the education of children, the public service and the very structure of families themselves is eroding the interpersonal bonds and shared values that sustain cohesive, nurturing and supportive communities. This is the core contradiction of modern conservative politics.

Clive Hamilton is the

(Continued from page 2)

running of the State to him.

Social Researcher, Hugh Mackay, has linked the recent lifting of the public mood in Australia, in part, to a disengagement from the political agenda, a focus on 'tending our own patch' and a determination to have more fun. Perhaps with Kennett's encouragement, Victorians are excelling at this shift in lifestyle.

Chris Sheil, the author of *The State of the States* report, argues that the contrast between Kennett's popularity and Victoria's performance might be because the Premier 'has jumped social categories'. Opinions about Victoria no longer turn on services and outcomes, he says, but on Kennett's status as a celebrity. If the 'Jeff factor' does explain the Victorian result, it demonstrates that the personal popularity of a leader does influence broader perceptions of quality of life.

A comparison between the Australia Institute poll results and *The State of the States* audit shows that, Victoria aside, there is a striking concordance between the State rankings on both measures. Victoria is the State of anomaly. It is clearly on the move, but to where? Public mood and State performance tell contradictory stories. Is this a good thing, or bad? Victorians will have to decide.

However, the State differences in the shifts in attitudes between 1997 and 1999 and in the decade-by-decade patterns suggest that, even excluding Victoria, there is more to public

INSTITUTE NOTES

New publications from the Institute

- *Business Tax Reform and the Environment: Emissions trading as a tax reform option*, Discussion Paper No. 22, Clive Hamilton and Hal Turton.
- *Quality of Life in Australia: An analysis of public perceptions*, Discussion Paper No. 23, Richard Eckersley.
- *Public Expenditure on Indigenous Australians*, Discussion Paper No. 24, Max Neutze, Will Sanders and Giff Jones.

Forthcoming Publications

- A Comparison of Native Title and Anglo-Australian Land Law by Ed Wensing

New Research Areas

The Institute is will soon begin working on new research in the areas of :

- The concept of mutual obligation and its impact on welfare policy
- The impact of the GST on charities
- The implications of the shift to Self-Governing Schools
- Public accountability for incentives to attract investment

Submissions are also being prepared for the Senate Inquiry into Greenhouse Policy.

perceptions than objective differences in State performance. If the differences mean anything at all, it is that perceptions of quality of life may reflect social, environmental and economic realities, but they also have their own rhyme and

reason. Either way, when it comes to measuring quality of life perceptions clearly matter.

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