

Hard hearts, soft heads

For progressive people, one of the most confronting characteristics of the Howard Government is its contempt for world opinion. Whether it be mandatory sentencing, human rights treaties, climate change or the Tampa crisis, the comfortable assumption that world opinion will act as a tempering influence on the extremes of the right has proven misplaced.

No. 28 September 2001

Hard hearts, soft heads
Clive Hamilton

Who gains from 'free' school buses
Pamela Kinnear

Should the polluter pay?
Hal Turton and Clive Hamilton

Making progress in progressive taxation
Julie Smith

What next for higher education?
Conference Report
Pamela Kinnear

Institute Notes

Editorial Committee
Clive Hamilton
Pamela Kinnear

John Howard himself must take most of the blame for this. Casting our minds back 30 years, it is impossible to imagine Prime Ministers Keating, Hawke, Fraser or Whitlam adopting a position so insensitive to enlightened opinion. The political is personal, and one must trace Howard's dogged provincialism to his cloistered suburban upbringing in the narrow world of the Menzies era.

As others have observed, Howard never looks at ease when he is overseas, meeting with foreigners. The Prime Minister's provincialism has been a constant in his political life. He has nursed an abiding resentment for those who attacked him for his remarks on immigration in the late 1980s. Yet his position is full of contradiction. Howard is proud to be an Australian, and decries those who hold a 'black armband' view of Australian history. He rarely misses opportunities to associate himself with the ANZAC tradition, cricketing triumphs and, latterly, the Olympic Games.

But he basks in the victories while refusing to accept responsibility for Australia's mistakes, past and present. He wants to feel the pride when the world applauds us, but resolutely refuses to feel the shame when the world points the finger at us. How can one explain a man who, while turning away a boat load of desperate people, at the same time declares that Australia is a compassionate and humanitarian nation? How can one explain a man who, while implementing a social security system that victimises some of the most disad-

vantaged and vulnerable people in Australia, claims that he cares deeply about the battlers?

The only time that world opinion seems to matter is when commercial interests are at stake. Thus when the 'university crisis' broke in January (following publication of preliminary results from the Institute's survey of academics), the Federal Government went into overdrive to protect the \$3 billion education industry from allegations of soft marking, including a media release from the Minister for Education distributed from Australian embassies throughout Asia.

The Tampa crisis is the latest round in the political contest over ownership of the Australian national identity. In place of an emerging nationalism that embraces the sentiments of global citizenship, we witness the resurgence of the nativist tendency that the old *Bulletin* championed at the turn of the 19th century. Rooted in the fear of the Other, it's a tendency that goes beyond the celebration of dinkum values, and insists on establishing an impermeable boundary between the inside and the outside.

Deep inside the psyche of the Australian people there is something ugly. There is also much that is noble. The measure of greatness is whether a leader brings out the dark side of a people or its light side. The history books may judge John Howard harshly.

Clive Hamilton

Who gains from 'free' school buses?

In its budget for 2001-02 the ACT Government announced it would spend \$27 million over the next four years to provide bus travel to eligible ACT primary and secondary school students at no cost to the households in question. The Australia Institute was asked by the Australian Education Union to assess the scheme.

Under the scheme, full-time primary and secondary school students living more than 1.6 km or 2 km respectively from their schools are eligible for 'free' bus passes. It will therefore benefit households with children who attend schools out of their local area and who either currently travel across town by bus or who will do so because of the new scheme.

The beneficiaries of the new subsidy scheme will mostly be households whose children attend private schools. It is expected that 60 per cent of private school students will be eligible for the bus passes, while only 20 per cent of government school students will be eligible for the subsidy.

Nationally, families that send their children to private schools tend to be wealthier than those that send their children to local government schools. As families go up the income scale they are much more likely to send their secondary school children to private schools. As the chart shows, nearly two-thirds of families in the top income bracket send their children to private schools, while only a quarter of families in the lowest income groups send their children to private schools.

The relationship between income and private schooling is much more pronounced for independent private schools than for Catholic private schools, but it still holds.

Facilitating choice

The ACT Government has said that it expects that subsidised bus transport will increase the number of students using the buses

by 15% so that an additional 2,250 students are expected to use the buses. This means that, at an annual average cost of nearly \$7 million over its first four years, the Government's scheme will cost \$3,000 a year for each new student bus passenger, a very expensive way of increasing parental choice.

Another way to view the cost of the scheme is to recognise that the great majority of students using the buses would have done so anyway. These families will each receive a gift of around \$480 each year funded by ACT taxpayers. It is hard to see why they should all receive a substantial windfall.

Escalating costs and political lock-in

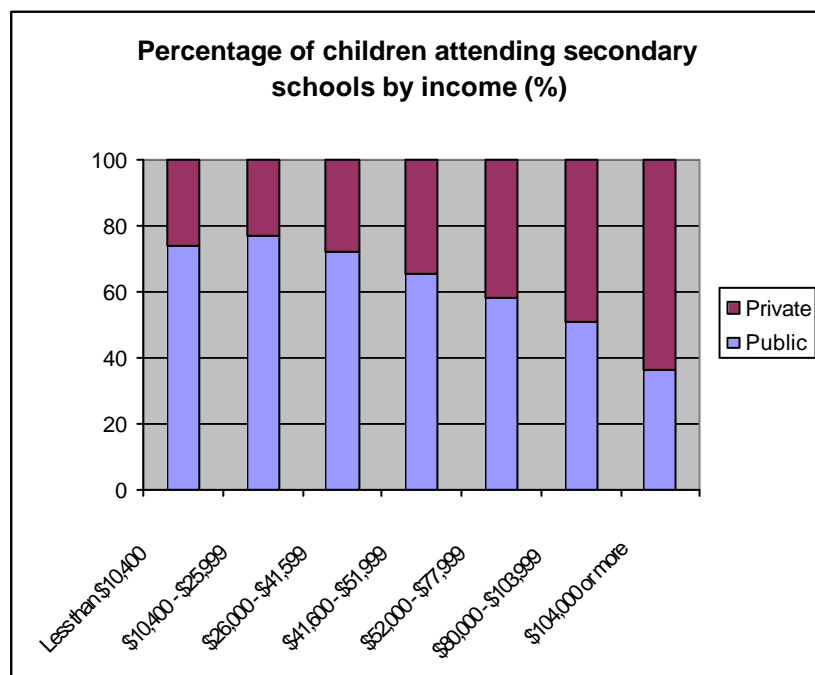
New South Wales has provided a 'free' school bus service similar to the one proposed for Canberra since the mid-1980s. It has been plagued by cost blow-outs and is

expected to cost around \$450 million by 2005-06. This is a burden on the State budget which all sides of politics recognise is unsustainable.

The same pressures that have led to the blow out in NSW are very likely to cause a blow-out in the costs of the ACT scheme. They include the continuing drift to private schools, demands for dedicated school buses because of fears of 'stranger danger', and demands to install seat belts and air conditioning.

Once the bus subsidy scheme is established, it will be politically difficult for any future government to abolish or significantly curtail it. The funds would be better spent on educational priorities such as reduced class sizes.

The full report is available on the Institute's website – www.tai.org.au.



Should the polluter pay?

At the Bonn climate change negotiations in July, the idea of convergence of per capita greenhouse gas emissions crept into an official document for the first time. It reflects a growing level of support for some broader principle of equity that would, in time, permit developing countries to take on fair and reasonable targets.

Two years ago, the Institute calculated the emissions per capita of industrialised countries based on a comprehensive measure of emissions. This was the first time that a comprehensive approach had been taken, with previous studies focussing on emissions from energy use alone. The results, which spread around the world in days, were the basis for the now-common observation that Australia has the highest per capita emissions in the industrialised world. The Institute has now updated the figures.

Differences in per capita emissions have had a substantial subterranean effect on climate change negotiations to date. The exclusion of developing countries from targets is due not only to their low incomes but their low emissions per capita. In the case of industrialised countries, expectations about the responsibility to take action have been influenced by recognition of each country's overall contribution to the climate problem as well as by perceptions of the profligacy of individual citizens in each country. This is consistent with the polluter pays principle.

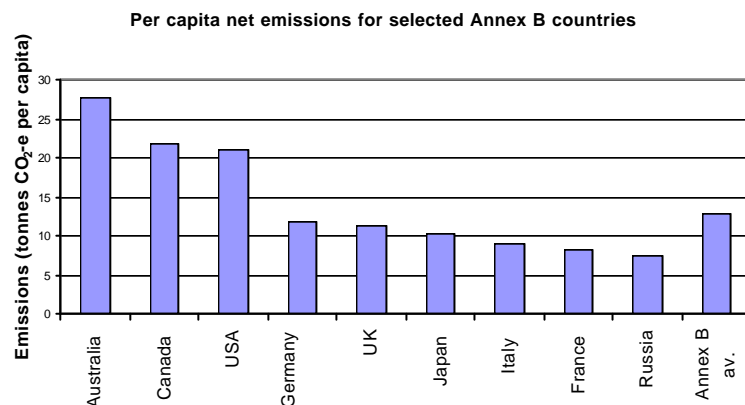
All parties to the UN climate change convention are required to submit detailed inventories of all sources of greenhouse gas emissions and removals by sinks. On this basis, the chart shows comprehensive emissions for selected industrialised (or Annex B) countries for the latest year available, in most cases 1998.

Industrialised countries were responsible for emissions of more than 14.5 billion tonnes of CO₂-equivalent in 1998. The USA contributes the largest amount (39.5%), followed by Japan (8.7%), the Russian Federation (7.4%), Germany (6.6%) and the United Kingdom (4.6%). The fact that the USA accounts for nearly 40% of industrial country emissions explains why its participation in international efforts to cut emissions is so important.

And the winner is ...

The highest per capita emitters are Australia (27.6 tonnes), Luxembourg (24.2), Canada (21.9), the USA (21.1) and Ireland (15.4). The average for the European Union is 10.3 tonnes, a figure heavily influenced by its largest members, Germany (11.9), UK (11.4), France (8.2) and Italy (9.0).

Why are Australia's emissions so high? Our energy emissions per person are a little below those of the USA, but we have high levels of emissions from land clearing and agriculture. Our energy emissions are high largely because 90% of our electricity comes from coal-fired power stations.



In absolute terms, in 1998 Australia's emissions of 518 million tonnes were almost identical to Italy's, yet we have one third of Italy's population. Since 1995, Australia's per capita emissions have risen (from 26.7 to 27.6 tonnes) while the average for industrialised countries has fallen (from 13.6 to 12.9 tonnes). Instead of being a little less than twice as high as the average, we are now well in excess of twice as high.

Our emissions per capita are 30% higher than those of the USA.

If the polluter pays principle were to apply to efforts to reduce greenhouse gas emissions then Australia's high per capita level would mean that we would be required to cut our emissions by *more* than other industrialised countries, not less as the Kyoto Protocol mandates. Our profligacy also helps to explain the deep resentment caused by the Australian Government's demand that developing countries commit to reducing their emissions before Australia ratifies the Protocol.

Hal Turton and Clive Hamilton

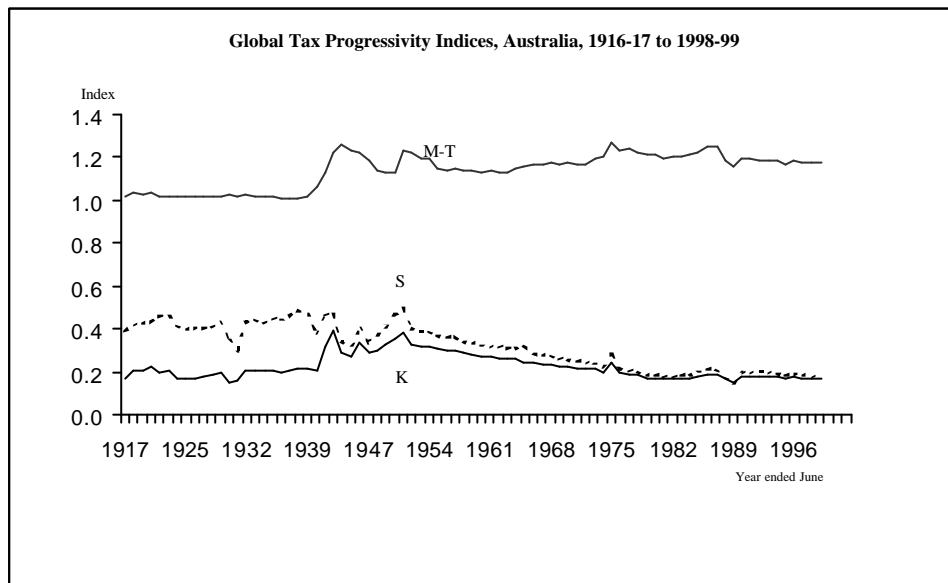
Making progress in progressive taxation

Australia enters the 21st century with 'A New Tax System', the centrepiece of which is a goods and services tax (GST). This has profound implications because of the diminished role it presages for progressive income taxation, the foundation of overall tax progressivity. In a forthcoming publication in the *Australian Economic Review*, Senior Research Fellow Julie Smith examines long-term trends in the progressivity of the Commonwealth personal income tax.

A century ago, Australia was renowned for its progressive income and land taxes. At any time over the last century, explicit proposals to massively reduce tax progressivity would have received short shrift from the Australian public. Yet the Commonwealth personal income tax is now less progressive than in 1955 or even before the Keating tax reforms. Behind a façade of political support for progressive taxes, income tax progressivity has declined after peaking in the 1950s.

Thin ('M-T') index, measures both the level and income distribution of tax payments, while the widely used Kakwani ('K') and Suits ('S') indices both measure the tax distribution.

marginal rates). As a result the progressivity of taxation fell, while (as the table shows) the overall burden on income taxpayers continues to rise.



A striking finding of the new analysis of income tax over 1917-1997 is that most of the post-war decline in tax progressivity was a result of government inaction or 'tax inertia' rather than through overt policy change. The minimal pre-1942 changes in income tax progressivity came about mainly through legislative changes to income tax scales. However, since World War II, trends in tax progressivity have been mainly due to inflation, bracket creep and tax avoidance.

The 'progressivity' of an income tax depends both on its severity (that is, the average rate), and how it is distributed across income groups. Different measures of tax progressivity emphasise these different aspects. One, the Musgrave-

As can be seen in the figure, the progressivity of the tax structure has declined sharply since the 1950s ('K' and 'S' indices). Its overall distributional effect – measured by the 'M-T' index that encompasses both tax severity and structural progression – also began declining from the early 1990s due to income tax cuts.

While there was frenetic 'tax policy reform' during the late 1980s, the figure shows that the new capital gains tax and other measures made little impact on the long-term decline in income tax progressivity. This is because successive governments again failed to act against continued 'bracket creep' and expanding tax avoidance (for example, through high-income earner use of trusts, private companies and income splitting to exploit loopholes and reduce

The sorry history of how inflation and 'tax policy inertia' has undermined progressive taxes of all kinds in Australia since the 1960s is set out in my book *Taxing Popularity*, a history of Australian taxation. In 1975, the Mathews' Inquiry into Inflation and Taxation proposed comprehensive income tax indexation, arguing that inflation generated arbitrary income redistributions.

Whatever measure of distribution is considered most appropriate, inflation results in a violation of legislated horizontal and vertical equity prescriptions...it is unlikely that the personal tax redistributions caused by inflation are those intended or preferred by society.

Average tax paid on taxable income

Year ending June	Average tax paid on taxable income (%)
1955	12
1960	12
1965	13
1970	18
1975	20
1980	22
1985	23
1990	23
1995	22
1999	24

The Fraser Government implemented a number of measures from 1976. As Treasurer in 1982, the present Prime Minister John Howard had the opportunity to protect the political viability of progressive income taxation. However, he abolished personal tax indexation because of its high budget cost, and to gain political benefit from handing out 'Clayton's' tax cuts.

Where is the political indignation about the nation's 'tax bludgers'?

This was also the infamous era of the 'bottom of the harbour' tax avoidance schemes.

Today, the problems in effectively taxing trusts, stopping income splitting and tax deferral, and preventing abuse of tax concessions remain as pressing as they were in the early 1980s. As is evident from the figure, the mid to late 1980s saw a brief recovery of tax progressivity as the Keating tax reforms taxed capital gains, and removed concessions that benefited high income earners. However, these reforms have since been unwound, and new loopholes introduced.

In particular, the capital gains tax has been eroded with the complicity of both major political parties. The Government has

backed away from blocking avoidance through trusts. Meanwhile, grossly inequitable private health insurance and superannuation concessions have been introduced and expanded, and now cost well over \$10 billion a year in lost revenue. Much of this has reduced the tax contribution by high-income earners.

Public venom is regularly whipped up against the 'dole bludger', but where is the political indignation about the nation's 'tax bludgers' and their 'mutual obligation' to pay their dues of citizenship?

Public acceptance of progressive taxation is a form of 'social capital'. If the tax system is seen as 'unfair', with Australia's privileged private citizens shirking their public responsibilities and fair-minded taxpayers left with the bill, then community confidence and tax compliance will continue to erode.

The tax facts of the last century suggest the political parties must abandon their present 'tax auction' approach to fiscal politics, and act decisively against tax 'shirking'. Otherwise, ordinary Australians can expect much heavier taxation, more regressive taxation and continued under-funding of important public services. ■

The Electronic Institute

www.tai.org.au

www.gpionline.net

or email us at
mail@tai.org.au

GST law must be amended

The Queensland Liberals' attempt to claim input tax credits without charging GST on dinner ticket sales is more evidence of political parties not doing the right thing about their tax ("Howard call in ATO over scam claim", *AFR*, August 27).

Last May, an Australia Institute study warned that a technical drafting error in GST law permitted political parties to claim GST-free concessions in the same way as charities that provide welfare services such as cheap accommodation or meals. This opened up opportunities for rorting (see www.tai.org.au).

The right thing to do was to amend the law so it did what was intended. Instead, John Howard defended the provision and Assistant Treasurer Rod Kemp refused to act, stating (misleadingly) that "nothing in the GST Act makes political fundraising dinners GST-free".

Meanwhile, a senior Australian Taxation Office official, Rick Matthews, had stated publicly that all political party fundraising would be subject to GST.

Despite these contradictions the Howard Government was clearly happy with the GST law as it was, as it chose not to amend the provision.

If ever there was evidence that the GST law must be changed to prevent tax avoidance by political parties, the apparently fraudulent behaviour by the Queensland Liberals is it. Political party organisations are not running a charity.

Julie Smith
The Australia Institute
Canberra, ACT

Letter to the Editor, Australian Financial Review, 29 August 2001.

What next for higher education?

On July 26 The Australia Institute together with Manning Clark House hosted a one-day conference entitled *The idea of a university: enterprise or academy?* The conference followed on from the Institute's work earlier in the year on academic freedom and commercialisation in Australian universities and was designed to move the debate beyond the claim and counter-claim that has dominated media coverage of the issue and bring protagonists together for an in-depth and wide-ranging debate about what universities should be and do in contemporary Australian life. Pamela Kinnear provides an overview of the day's proceedings.

The conference was deliberately organised to air different points of view and to stimulate discussions around the merits or otherwise of competing positions. We were fortunate to secure high-profile speakers who represented very diverse views. The conference sessions covered a wide range of topics including the effects of the market-based model of higher education on the 'idea' of a university, quality and diversity of disciplines, governance and values and finishing with a look into to the future.

Those of us committed to the idea of a university will jeopardise the very values we hold precious should we succumb to that greatest of contemporary dangers: 'the temptation to deny reality'. Alan Gilbert

Professor Alan Gilbert opened the discussion with the caution that there is no single or static 'idea of a university' and that universities have always had to adapt to wider social and economic changes. Gilbert suggested that the 'enterprise university' is the logical and inevitable product of current social and economic conditions. Those who do not embrace these changes, he argued, will jeopardise the very ideals they cherish as universities lose ground to emerging competition.

However, while it is true that universities must respond to change, the way they respond is not pre-determined but can be

shaped by a range of factors including public discussion about what we *want* universities to be. This point was highlighted by Clive Hamilton's paper which argued that the type of university created by the market model is not delivering, and cannot deliver, the type of university we need. Therefore, although universities should change with the times, they should retain a commitment to basic values and ideals and use these values to shape the institutional framework.

Facing more stress, greater pressure, and more demands from students, peers, funding bodies and review processes, it is understandable that academics are sceptical about change and cynical about the future direction of higher education. *Mary O'Kane*

The disenchantment with the effects of the 'enterprise university' was clearly articulated in the second session which addressed the theme of 'Quality, disciplines and commercialisation'. This session covered issues of quality in teaching and research in the context of the shift towards private sources of funding for higher education. The speakers were Professor Mary O'Kane, then Vice-Chancellor of Adelaide University, Professor Stuart Macintyre, Dean of Arts University of Melbourne, and John Byron, President of the Council of Australian Post-Graduate Associations.

They argued that quality and the survival of non-vocational disciplines are under serious strain in Australian universities. Although not all speakers agreed on the causes of these strains, nor on how extensive such pressures had become, the clear message of the session was that quality had, indeed, declined and that immediate attention is required to redress the problem. When speakers as eminent and diverse as these agree that universities are suffering a serious deterioration in quality, the effect is sobering.

Special Feature Broadcast



ABC Radio National will be broadcasting a special feature program on the day's events during their Sunday afternoon program The Big Idea.

The program will go to air at 5.00pm on Sunday, 23rd September and will be repeated the following Tuesday (26th) at 1.00pm.

The third session of the day focused on the forms of governance that may enhance or undermine core university ideals, as well as on the appropriate role of governments in university operations and policy directions. Mike Gallagher, First Assistant Secretary of DETYA, outlined the Government position on university governance and the appropriate relationship between universities and the Government. He maintained that the market-based reform of the university sector still has a long way to go but is being held back by an obstructive union, inflexible regulations and inefficiencies in management techniques. Unless universities overcome these restrictions, he argued, they will continue to lose market share in competition with non-university based education and research agencies.

The imperative is not for more external regulation and restriction, which would fetter universities, reduce their flexibility and diminish their capacity to deliver the contributions the community needs and for which it affords them special status, but for greater internal coherence and competence. Michael Gallagher

However, Gallagher was somewhat on his own in this session. Emeritus Professor Bruce Williams pointed out that whilst past evidence has shown that it is possible to change modes of governance and remain committed to the provision of a liberal education, recent changes have undermined this key objective. This was strengthened by Simon Marginson's argument that Australia's drive for greater deregulation and marketisation is now obsolete by international standards. The international higher education community – including the World Bank – has now come to understand that a highly market-based approach to higher education has serious consequences for the quality and diversity of uni-

versities and for the public good that they provide.

Doing American Business education cheaper than America is not much of a vision.

Simon Marginson

The final session entitled 'The way forward: Resurrecting the university in Australia' was a lively panel-based discussion in which representatives from each major political party (Kim Carr, ALP, Senator John Tierney, Liberal Party and Senator Lyn Allison, Australian Democrats) as well as two other commentators (Simon Kent, National Tertiary Education Union and Andrew Norton, Centre for Independent Studies) put forward ideas for the future of higher education in Australia. This was followed by a lengthy moderated discussion from the floor.

In the final session, funding, or the lack of it was the primary focus. The Liberal Party maintained that the 'crisis' call was exaggerated and supported only

by anecdotal evidence. Given that total university revenue had risen, rather than fallen over the life of the current Government, Senator Tierney argued that the reduced level of public funding is an indication of greater efficiency in the use of taxpayer dollars. The way forward, according to the Liberal Party, is to continue the reform process to enhance the competitiveness of Australian universities in the global economy.

The Labor Party, the Democrats and the National Tertiary Education Union rejected this analysis, arguing that Australian universities are suffering in a variety of ways due to the overemphasis on the earning of private income and the under-investment of public resources. Although each had a slightly different perspective, the clear message was that the way forward consisted of a reinvestment of public funds and the protection of the unique attributes that distinguish universities from other forms of post-secondary education and research.

The proceedings of the conference are now available as Discussion Paper No. 39. ■

"Very few of the memorable, influential history books that have influenced people's understanding of their own or other societies have been written by people who published anything at all, let alone anything memorable, under forty. John La Nauze, historian of our federation and head of distinguished departments at Melbourne and ANU, recommended that his colleagues do no serious research, except as needed for their teaching, until their kids had grown up."

Hugh Stretton in his submission to the Senate Inquiry into Higher Education

Australians love queue jumpers

Why all the fuss about queue jumpers? In Australia we love queue jumpers. If you're at the bottom of the brain queue for university – buy your way in with full fees. Don't wait in a queue for a hip replacement – pay for private health insurance. Don't sit next to the riffraff in public schools – buy yourself an education. In the parlance of our Government, The Tampa asylum seekers are only 'exercising their free choice'. Shouldn't we offer them a rebate on arrival to make that choice more affordable? Let's have more self-funded refugees!

*Todd Packer
Elizabeth Bay, NSW*

Letter to the Editor, *Sydney Morning Herald* 3 September 2001. Reproduced with kind permission.

INSTITUTE NOTES

New Publications

- 'Australia's role in the entry into force of the Kyoto Protocol', Clive Hamilton, Institute website, July 2001
- *The Medicare levy surcharge arrangements: Tax penalty or hidden tax subsidy?* Julie Smith, Discussion Paper No. 38, August 2001
- *The Idea of a University: Enterprise or academy?* Conference Proceedings edited by Pamela Kinnear, Discussion Paper No. 39, August 2001
- 'An analysis of the ACT Government proposal for 'free' school bus travel', Institute website, August 2001

Forthcoming Publications

- 'Comprehensive emissions per capita for industrialised countries', Hal Turton and Clive Hamilton, Institute website, September 2001
- *Population ageing: Crisis or transition?* Pamela Kinnear, Discussion Paper No. 40, September 2001
- 'The Commonwealth and Climate Change', Paul Pollard, Hal Turton and Clive Hamilton, Institute website, September 2001
- *The economic impact of greenhouse policies: How models lie*, Clive Hamilton, Alan Pears and Paul Pollard, Discussion Paper No. 41, October 2001
- *Finance, Federation and Fairness*, Julie Smith, Discussion Paper No. 42, October 2001
- *The aluminium industry: Structure, market power, emissions and subsidies*, Hal Turton and Clive Hamilton, Discussion Paper No. 43, October 2001

RUNNING FROM THE STORM

The Development of Climate Change Policy in Australia

Clive Hamilton

Published by University of New South Wales Press, September 2001

Chapters

- | | |
|--|-------------------------------------|
| 1. Framing the debate | 6. Corruption of the policy process |
| 2. Australia's greenhouse gas emissions | 7. Kyoto and the Australian deal |
| 3. From bold declarations to window dressing | 8. The land-clearing loophole |
| 4. The failure of voluntary action | 9. Post-Kyoto policy developments |
| 5. Lies, damned lies and economic models | 10. The shifting tide |
| | 11. The Hague and after |

'A blockbuster of a book'

Bill Hare, Climate Policy Director, Greenpeace International

'This book presents facts with magisterial authority and compelling humanity'

Robyn Williams, The Science Show, ABC Radio National

'A wonderful read - what every Australian should know about our government's disgraceful approach to global climate change'

Professor Ian Lowe, Griffith University

'Clive Hamilton is our best environmental economist and thinker'

Professor Hugh Stretton

The Institute is pleased to be able to offer this book to members for \$30, including postage within Australia, (RRP \$35). Contact Aine Dowling on (02) 6249 6221 or email mail@tai.org.au