Equity by another means
Alan Mitchell, Economics editor
***Australian Financial Review*, 25 May 2005**

White Australia, tariff protection and conciliation and arbitration were the three pillars of Australian social policy for most of the first century of federation, Michael Kirby recently reminded us.

The three policies were closely linked. The White Australia policy protected Australian workers from being undercut by cheap immigrant labour. The tariff wall protected manufacturers so they could afford to pay Australia's high wages. Conciliation and arbitration ensured a "fair" distribution of the fruits of protection.

Well, as the High Court judge went on to observe, the White Australia policy is dead and tariff protection is on its last legs. And if the Howard government and business have their way, arbitration will be permanently relegated to the margin of the industrial relations system.

But does that mean we have to give up the objective of fairness that, at least for white Australians, has been a central feature of national policy for more than 100 years?

The answer is no.

The key to reforming industrial relations in Australia is to continue pursuing the objectives of equity and productivity but separately.

The only thing seriously wrong with Australia's goal of equity is the way that we have tried to achieve it. We have used the industrial relations system to pursue objectives that would have been more efficiently dealt with using taxation and government transfer payments.

Relatively high minimum wages have been set in order to ensure decent living conditions for low-income households. But the unintended consequence has been high unemployment (both visible and hidden), with hundreds of thousands of low-skilled workers effectively priced out of the labour market.

The wage-setting system has improved the lot of the employed, but at the cost of increasing the number of unemployed.

The answer is not to abandon our notions of fairness. Rather, it is to abandon the inefficient use of the industrial relations system in the pursuit of equity.

Wages (especially minimum wage rates) and conditions should be deregulated as far as possible, while the tax and government transfer system should be used to offset the negative effects on equity.

The two reforms should go together. Nothing will discredit industrial-relations reform faster, and make rollback more likely, than the emergence of an underclass of working poor.

We need lower minimum wages so that low-productivity workers can contract into the workforce. At the same time, we must not shrink away from paying high wages to attract talented people into key knowledge-based activities from management, to research and development and to teaching in universities.

There appears to have been a moderate improvement in the progressivity of the tax-transfer system over the past decade and a half, with a significantly greater improvement when the distribution of government benefits such as health care and education is taken into account. (Although the second 20 per cent of households on the income scale has done better than the first.)

The challenge for politicians will be to build on that as the distribution of earned income widens.

Peter Costello's most recent tax cut has been seen by some commentators as a missed opportunity. And so, perhaps, should the most recent state budgets.

Andrew Leigh at the Australian National University calculates that 27 per cent of the 2005-06 tax cuts and 33 per cent of the 2006-07 tax cuts will go to the richest 10 per cent of households. The poorest 50 per cent of households will get about 14 per cent.

While there are good efficiency arguments for cutting the marginal tax rates applying to the higher-income earners, economists have pointed out that deeper cuts in marginal tax rates for those on low incomes could have been justified on grounds of efficiency as well as equity. After all, it is the low-income earners and particularly women who have the greatest discretion over the number of hours they work.

The states' retreat from the taxation of land continued yesterday when the Carr government announced it would drop the land-tax reforms of the former treasurer, Michael Egan.

The national interest would have been better served had the government built on the Egan reforms by restoring land tax on very expensive owner-occupied housing.

When the federal government is reducing the progressivity of the income tax system there is a good argument for imposing a moderate rate of tax on the immobile assets of high-income earners.

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Back off on tax, employers tell Labor

Date: May 24 2005

By Josh Gordon
Economics correspondent
Canberra

With the budget's new tax regulations stuck in legislative limbo, Australian business is braced for a multimillion dollar hit on July 1.

The business community has upped the ante in the political war over tax cuts, demanding Labor pass the Coalition's package and end confusion threatening to cost employers tens of millions of dollars.

Payroll companies, accountants and employers are warning of huge red tape costs triggered by the uncertainly, with the end of the financial year now just 51/2 weeks away.

Australian Industry Group chief executive Heather Ridout said business was already massively overburdened by red tape.

"This is ultimately just a political move by Labor," Ms Ridout said. "Business is already facing an inordinate compliance burden and this is just going to add to it and I don't think the Labor Party has factored this in."

But Shadow treasurer Wayne Swan and Opposition Leader Kim Beazley pledged to oppose the cuts even if this means delaying their introduction.

Assistant Treasurer Mal Brough told Parliament computer companies specialising in payroll programs had informed his office they are facing a $10 million bill because they had been forced to develop software covering two separate tax schedules.

"There will be some cost of perhaps $10 million to them, $10 million in wasted time and energy for one reason, because the Leader of the Opposition and the Labor Party continue to stand in the way of a progressive tax system delivering tax cuts to Australian workers," Mr Brough said.

The Tax Office will be mailing out alternative sets of tax schedules to employers. The first will cover the income tax cuts announced by Mr Costello in the budget, delivering cuts of up to $6 a week for people earning less than $50,000 a year and benefits of around $65 for high earners.

The second - in case the package is not introduced in time for the July 1 deadline - will cover tax cuts announced in the 2004 budget, offering no benefits for lower and middle earners, but generous benefits for people on higher incomes.

A survey by the group found firms pay an average of $35,000 a year in compliance costs, with 31 per cent of this spent on tax administration.

With the Government set to gain control of the Senate from July 1, Labor concedes its alternative tax plan - providing double the cuts for low and middle earners, but smaller benefits for people on higher incomes - will never be implemented.

The Business Council of Australia has released a study finding that the volume of government regulations and laws is swelling by 10 per cent a year - around three times faster than Australia's annual rate of economic growth. The report found that Commonwealth and state parliaments added 33,000 pages of new laws and regulations in 2003.

BCA president Hugh Morgan, who urged Labor to pass the package, said governments had been heaping regulation on business as knee-jerk reactions to political problems.

"It's a case of regulate first, ask questions later," he said.

Fending off claims that the budget pandered to the wealthy, Prime Minister John Howard said the bottom 60 per cent of taxpayers had experienced net gains from the tax system under the Coalition, at the expense of the top 40 per cent.

However, an analysis of the latest tax package by Australian National University academic Andrew Leigh found 19 per cent of next year's tax cuts will flow to the richest 5 per cent of households, while the bottom 50 per cent will get an 11 per cent share.

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Rich homes 'to be $6000 better off'

By Shane Wright

19-05-2005

From: AAP

THE nation's richest households will be more than $6000 a year better off under the Government's planned tax cuts, an analysis of the proposals has found.

Compiled by Australian National University economist Andrew Leigh, the analysis shows middle-income families will get even less of the tax cuts than initially believed.

The tax cuts, still in legislative limbo because of opposition from the Labor Party, would deliver people on an average wage of $47,000 a year about $6 a week in tax cuts.

But someone earning more than $125,000 will be more than $86 a week better off.

Dr Leigh said just looking at individual income earners failed to take into account how most households operated, where incomes were amalgamated.

He said by looking at household income, the nation's richest families did even better out of the Government's plans than initially thought.

"The tax cuts were one of the most significant features of the federal Budget this year and most Australians will benefit," he said.

"But the share of tax cuts is disproportionate to household income, with the richest benefiting most."

Dr Leigh found the 20 per cent of households in the middle income area – about $42,000 a year – would gain $508 in 2005-06 and $587 the following year from the planned tax cuts.

Middle-income households gain about 13 per cent of the total tax cut pie next financial year, but this falls to 9 per cent in 2006-07.

But the story is much better for the richest 10 per cent of households who earn an average $179,000 annually.

They will be $2443, better off next financial year and $4355 in 2006-07.

Their share of the tax cuts will rise to 33 per cent in 2006-07 from 27 per cent next year.

The richest 1 per cent of families will eventually be $6100 better off once all the tax cuts are passed on.

The bottom half of all Australian households will share in 11 per cent of the tax cuts.