

PER CAPITA TAX SURVEY 2012:

Public attitudes towards taxation and government expenditure

David Hetherington



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About the author

David Hetherington is the Executive Director of Per Capita. He has previously worked at the Institute for Public Policy Research, as a consultant to the OECD and for L.E.K. Consulting in Sydney, Munich and Auckland. He has authored or co-authored numerous reports on economic and social policy including *Towards a Fair Go: Design Challenges for an NDIS* (2011), *The Per Capita Tax Survey* (2010 & 2011), *Employee Share Ownership and the Progressive Economic Agenda* (2009), *The Full-Cost Economics of Climate Change* (2008), *Unlocking the Value of a Job* (2008), *The Investing Society* (2007), *Disability 2020* (2007) and *Would You Live Here?* (2006). His articles have appeared in the *Sydney Morning Herald*, the *Australian Financial Review*, the *Age* and *The Australian* and he is a regular commentator on *Radio National* and *ABC24*. David holds a BA with First Class Honours from UNSW and an MPA with Distinction from the London School of Economics where he won the George W. Jones Prize for Academic Achievement.

About Per Capita

Per Capita is an independent progressive think tank which generates and promotes transformational ideas for Australia. Our research is rigorous, evidence-based and long-term in its outlook, considering the national challenges of the next decade rather than the next election cycle. We seek to ask fresh questions and offer fresh answers, drawing on new thinking in science, economics and public policy. Our audience is the interested public, not just experts and practitioners.

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Executive Summary

Australians' attitudes towards tax and public spending are getting tougher. Increasingly, we see ourselves as paying too much tax in a system that is less fair. Our support for public spending is falling.

Objectively, this does not make sense. The tax take in Australia, measured by the tax-to-GDP ratio, has hit long-term lows in the last few years. Australia now has the fifth lowest tax burden of the 34 OECD countries, higher only than South Korea, Chile, the United States and Mexico. Recent public spending cuts, particularly in health and education, would normally be expected to lift support for greater spending.

However, it is perception rather than fact that drives attitudes, and the prevailing perception is that Australians are overtaxed and poorly served by public spending. The single most important driver of this perception appears to be the Federal Opposition's highly successful campaign against "big new taxes" and for "cutting the waste".

This is the third annual Per Capita Tax Survey. In October 2012, the Survey asked a representative sample of 1,422 Australians for their views on a range of tax and public spending issues.

The results can be grouped into four main themes. First, large numbers of Australians continue to believe that we need more government spending on health (84% of respondents want this), education (76%) and social security (42%).

Secondly, Australians think the tax system is becoming less fair, both at the individual and community level, and are less supportive of public spending. Fully one half of those interviewed stated they paid too much tax, up six percentage points since 2010. Fewer people believe that low-income earners are overtaxed. Over the same period, support for greater public spending has fallen by 11 percentage points.

A third theme is the lack of understanding of aspects of the tax system. More than half of the respondents stated that petrol prices had risen as a result of the carbon tax, when the tax is not levied on fuel. Almost half said they had received no compensation as a result of the tax, when 90% of households have received assistance. Nearly 60% say that Australia is a high-taxing, big government country when our tax levels are amongst the lowest in the OECD.

The final theme is the cognitive dissonance that sees respondents hold contradictory views about tax and spending. People want more public services and investments, but they also want to pay less tax. High-income earners who say they pay too much tax simultaneously believe the rich should pay more tax.

The Survey concludes by asking how policymakers can respond to these trends. Australians still express support for higher public spending and a progressive tax system, but this support is ebbing. If political leaders cannot respond, an important social consensus will be lost.



The response does not lie in technical policy design. It requires leaders to make the politically difficult argument that it is in the national interest to improve the health, education and social security systems, as well as increasing infrastructure investment - which in turn means we need to maintain a healthy level of progressive taxation to support this public investment in goods and services that cannot be delivered by the market alone.

Put simply, political leaders must explain that, by comparison with similar countries overseas, Australian tax levels are at a bare minimum. If we are to sustainably fund the services and infrastructure that we expect, taxes will have to rise. A difficult argument to carry, but not an impossible one.



Introduction

Few things influence voter choice more than opinions on tax and public services. Alongside economic management and policy competence, a government's contract of 'give and take' with voters is one of the main barometers of electoral success. This makes an overview of attitudes towards the state's 'give and take' critical to an understanding of broader political currents.

The Per Capita Tax Survey is the only annual comprehensive poll on attitudes to tax and public spending in Australia. Now in its third year, the Survey asks Australians for their views on their own tax obligations, fairness of the tax system, public spending levels, current tax issues and international tax comparisons.

In the last two Surveys, we have found that voters want a more progressive tax system and desire far more spending on public services, particularly health and education. However, there are several inconsistencies (or 'cognitive dissonances') in their responses: wealthy people want higher taxes on wealthy people, while saying they personally pay too much, and many of those who want more spending on public services also believe they pay too much tax.

Between the first two Surveys, we saw attitudes become less generous. More people felt they paid too much tax, and more felt that the wealthy and big business paid too little tax. Support for greater public spending also fell, albeit from very high levels.

The 2012 Survey was administered in October 2012, four months after the introduction of the biggest tax change in recent years, the carbon tax. It was an online survey of 1,422 Australian residents aged 16 and over, with a representative demographic sample of the Australian population. The sampling margin of error is 2.6% at a 95% confidence level.

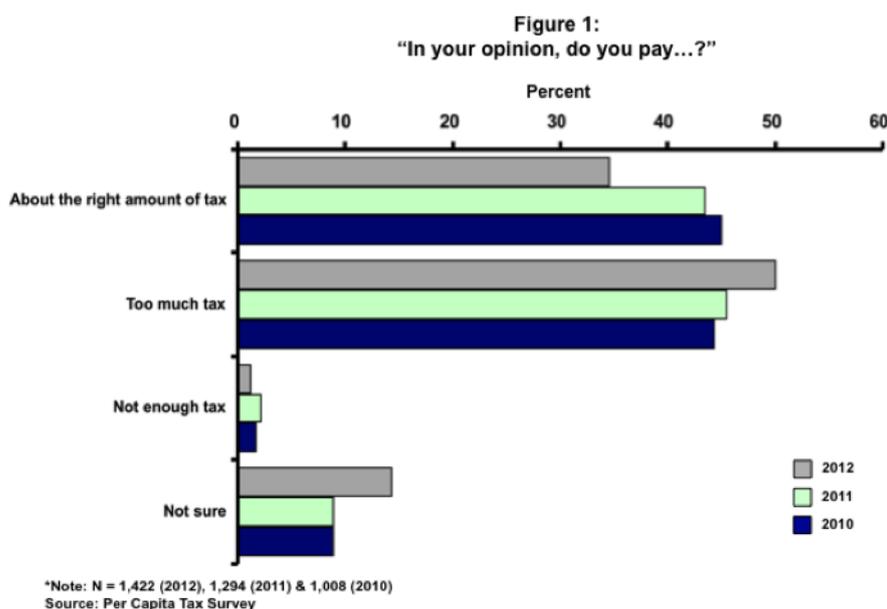
Most of the questions from previous years were carried over into this Survey, allowing us to compose a trend picture. The main exceptions to this related to topical tax and spending events throughout the year under review – we replaced questions on the mining tax and stimulus spending with new ones on the carbon tax and education spending. The full list of questions is included here as an appendix, and the full dataset of responses is available from Per Capita on request.

The presentation of the Survey results is organised as follows. Section I examines attitudes towards personal tax obligations, while Section II considers views on the overall tax burden across the community. Section III focuses on the level and composition of public spending. Section IV asks respondents about a series of current issues in the tax policy debate, including the carbon tax, schools funding and superannuation. Section V asks for their views on Australia's tax burden relative to other developed economies. Finally, Section VI offers some concluding thoughts and considerations for policymakers.

Section I: Personal Tax Obligations

The overarching theme of the 2012 Tax Survey results is that community attitudes towards tax and public spending have hardened. As in previous years, the 2012 Survey began by asking individuals about their own tax contributions. For the first time, fully half of all respondents (50.0%) feel they pay too much tax. By contrast, only a third of respondents (34.5%) feel they pay the right amount of tax and just a tiny fraction (1.2%) feel they pay too little tax.

These sentiments have changed considerably over the last three years. The share of interviewees who say they pay too much has risen by six percentage points since 2010, while the share who says their payments are about right has fallen by 11 percentage points in the same period.

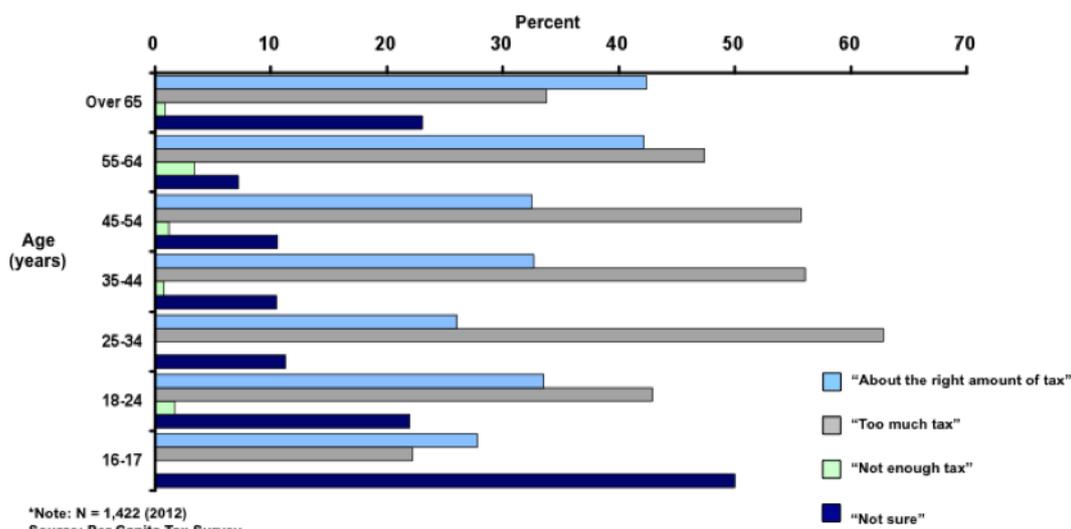


This trend is not surprising. The public debate around taxation has become highly contested in the period in question, with the introduction of taxes on mining and carbon emissions galvanizing heated debate, and lending weight to a view in the community that individuals are too heavily taxed.

Ironically, this change has occurred when personal tax obligations have been reduced – the Federal Government increased the tax-free threshold in July 2012, effectively reducing the average tax rate for all PAYG contributors. In addition, the controversial new taxes on mining and carbon only affect individuals indirectly, as they are levied on industrial producers. Despite this, it is clear Australians feel more highly taxed than they did three years ago.

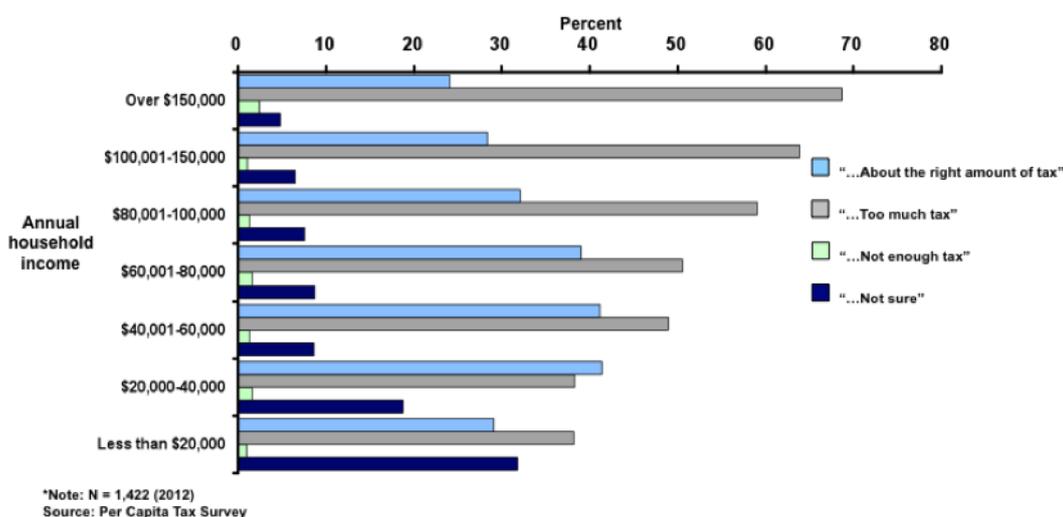
Unsurprisingly it is working-age Australians who feel most heavily taxed. Within the age brackets between 25 and 54, over 55% of respondents say they are excessively taxed while all other age brackets show less than 47% of people feeling overtaxed. Curiously, it is the 25-34 year old bracket that shows the most negative view with 63% of interviewees stating they pay too much.

Figure 2:
 "In your opinion, do you pay...?"
 (responses categorised by age bracket)



Again it is unsurprising to find that dissatisfaction with one's own tax contribution rises with income. The belief that one pays too much tax increases with each individual income band in the survey. In households earning below \$20,000, only 38% say they pay too much tax. In households earning above \$150,000, this figure rises to 69%.

Figure 3:
 "In your opinion, do you pay...?"
 (responses categorised by annual household income bracket)



There is relatively little variation in responses by state. NSW and QLD respondents feel the most heavily taxed with 52% in each state saying they pay too much. The only outlier is Tasmania where only 22% say they pay too much tax, while 56% say they pay the right amount and 19% say they pay too little. The differences by gender are also minimal, with 50% of both men and women believing they pay too much.

There is more variation in the regional split with rural interviewees feeling less heavily taxed than their metropolitan counterparts. Only 42% of rural respondents say they pay too much tax compared with 53% of their city peers.

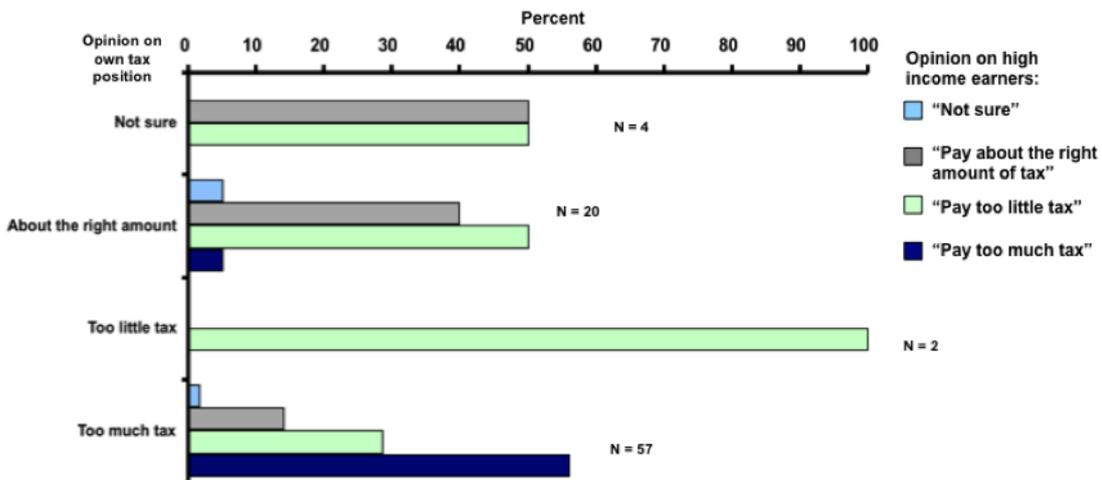
One group that feels particularly highly taxed is those households where someone works in the mining sector. Almost 60% of respondents in these households say they pay too much tax with only 35% of non-mining households reporting the same view.

The remaining two demographic segmentations of attitudes to personal tax obligations are by education and by political affiliation. Broadly, the perception that one is excessively taxed rises with educational achievement. Finally, we see that Liberal and National Party voters feel most strongly that they pay too much tax, with 59% and 53% respectively stating they pay too much. For Greens, Labor and Independent voters, the equivalent figures are between 44% and 46%.

One of the recurring themes of the Per Capita Tax Survey is a cognitive dissonance in some responses. When it comes to tax, interviewees appear to simultaneously hold contradictory beliefs. The first example of this is found in the contrast between the attitudes of many wealthy respondents to their own tax rates and their views on what other high-income earners should be paying.

In 2012, over one third of high income respondents who believe they personally pay too much tax or about the right amount also say that high income earners pay too little tax. This has increased by four percentage points since 2011. Clearly, despite enjoying incomes in the top 5% of all Australian households, these people believe that they are not in fact wealthy – if they did not, they could not reasonably argue that the wealthy should pay more tax while they themselves already pay more than enough.

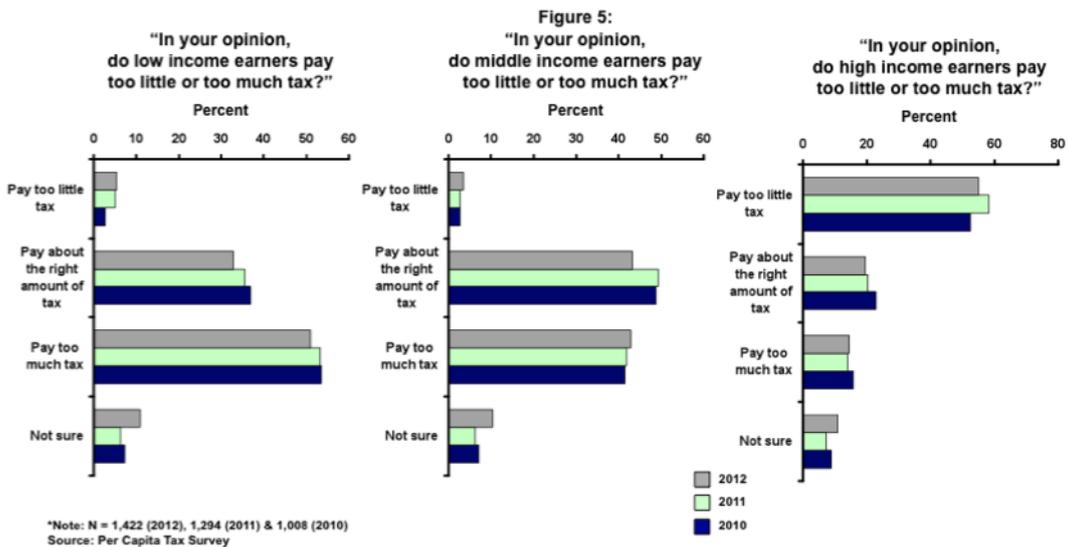
Figure 4:
High income earners' opinion on high income earners' tax:
"In your opinion, do high income earners pay too little or too much tax?"
(responses categorised by perceptions of own tax payments)



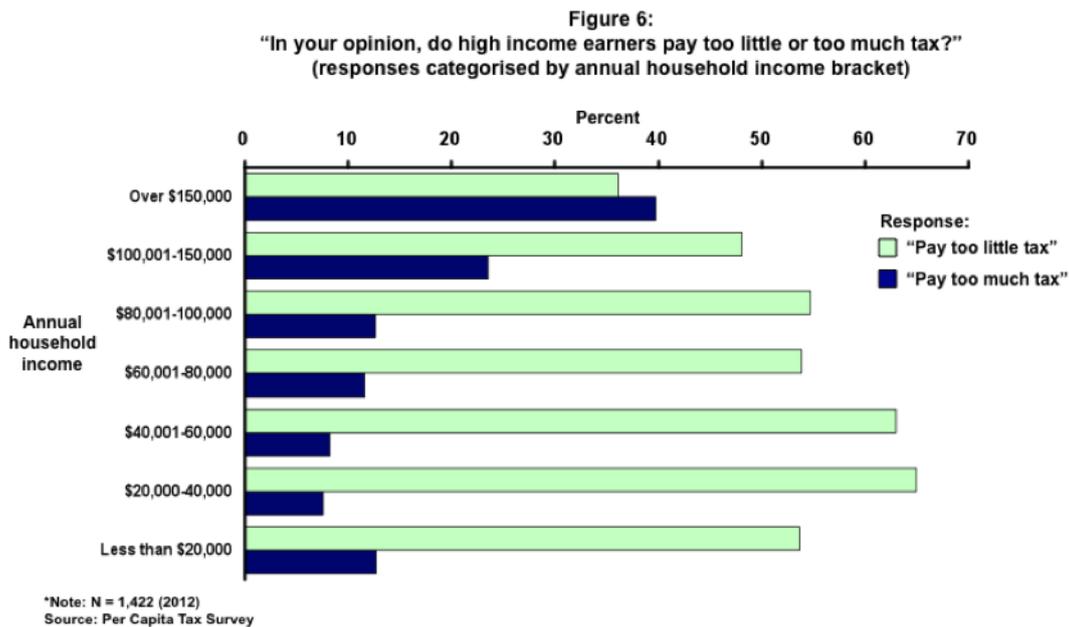
*Note: N = 83 (respondents living in households with an income of more than \$150,000 p.a.)
 Source: Per Capita Tax Survey

Section II: Fairness of the Tax System

In this Section, we move from perceptions of one's own tax burden to views on the overall fairness of the tax system. The first observation to be drawn is that Australians continue to believe that their tax system is too regressive. 55% of interviewees state that high-income earners (those in households with incomes over \$150,000) pay too little tax, while 20% say they pay the right amount and only 14% say they pay too much.

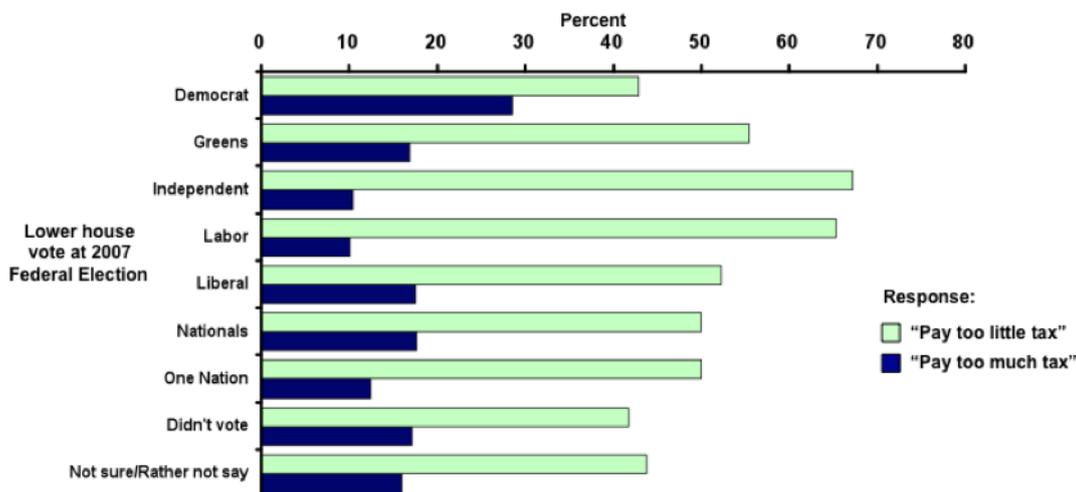


Across all household income bands below \$100,000, more than half of interviewees say high-income earners pay too little tax. Respondents in households earning over \$150,000 are the only group where more people say that high-income earners pay too much tax than those who say they pay too little.



These beliefs also hold across political affiliation. A majority of supporters of each of the major parties – Greens, Labor, Liberal and National – believe that high-income earners pay too little tax.

Figure 7:
"In your opinion, do high income earners pay too little or too much tax?"
 (responses categorised by lower house vote at last Federal election)



*Note: N = 1,422 (2012)
 Source: Per Capita Tax Survey

Views on the fairness of the tax burden are reversed when considering the other end of the income scale. 51% of respondents say low-income earners pay too much tax, and only 5% believe they pay too little. A further 33% say low-income earners contribute about the right amount.

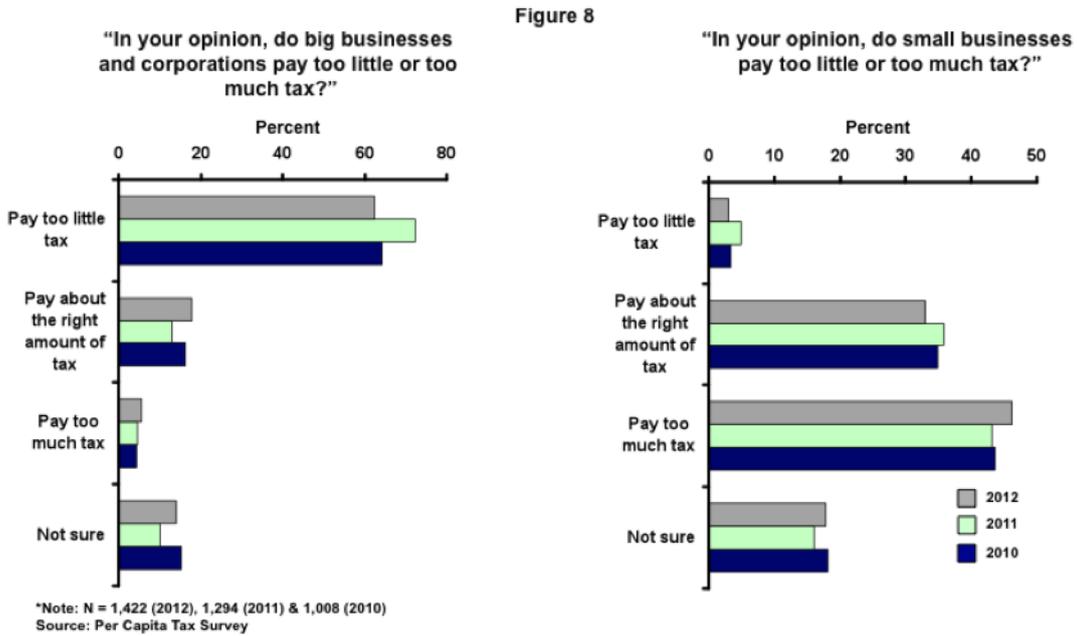
Attitudes on the fairness in the middle-income bands are more divided. 43% of those interviewed believe that middle-income earners pay about the right amount of tax; the same share feel they pay too much. Only 4% say that those on middle incomes pay too little.

So Australians clearly believe the personal tax system could be fairer – they believe that high-income earners pay too little and those on low incomes pay too much. There is an even split on whether people on middle-incomes are squeezed by the tax system or fairly treated, though almost no-one thinks they are getting off lightly.

It is interesting to consider how these views have changed in recent years. While people still think the tax system is too regressive, this perception has weakened over the last three years, at least with respect to low-income earners. The share of respondents who feel low-income earners pay too much tax has fallen by three percentage points since 2010, and the share who say they pay too little has risen by the same amount.

Meanwhile, the share who say those on low-incomes pay about the right amount has fallen by four points. It seems our attitudes towards low-income earners have become less generous. (We cannot make the converse claim at the top end of the income spectrum as changes there are within the Survey's margin of error.)

The belief that the system is regressive extends to business tax. 63% of respondents that big business pays too little tax, while just 6% say they pay too much. Only 18% say big businesses pay the right amount. Conversely, almost half of those interviewed (46%) say that small businesses pay too much tax, whereas 3% say they pay not enough. A third (33%) say small business is paying the right amount.



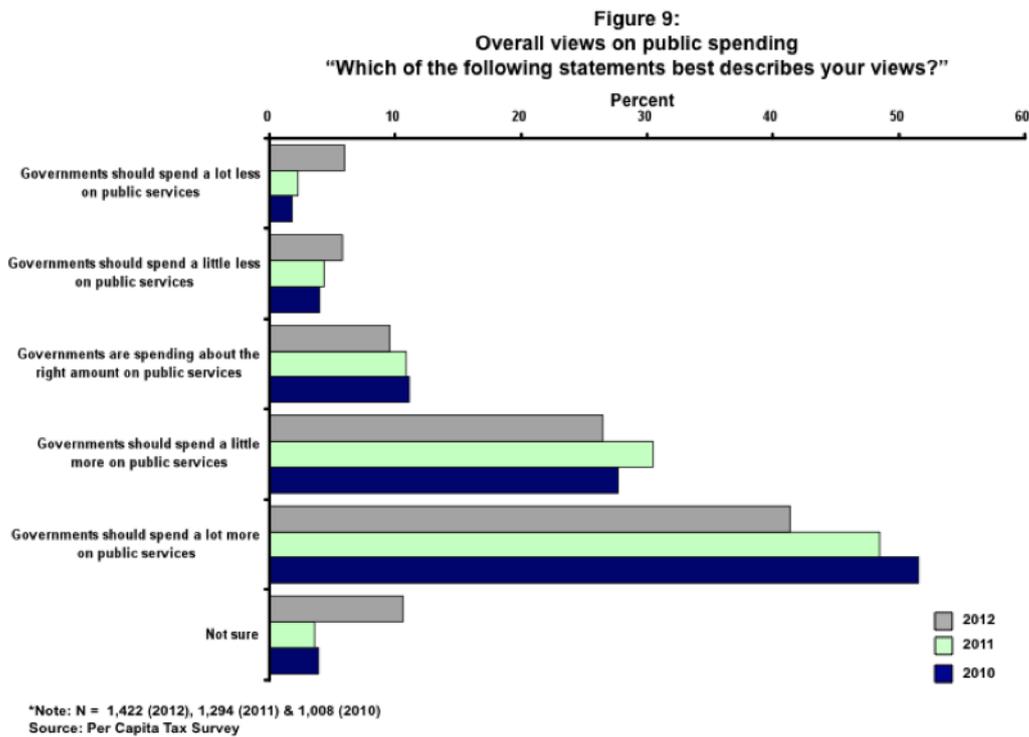
As with personal tax, there has been a moderation in the view that the business tax system is regressive. While a majority still thinks the system favours big businesses over smaller ones, this majority has shrunk somewhat. In the last year, the share of respondents who say big businesses pay too little tax has fallen by eight percentage points, while the share of those who say they pay the right amount has risen by three points.

It is possible that this shift in sentiment has been driven by the highly visible campaigns by big business against the carbon tax and mining super-profits tax. The central message of these campaigns was that big business was being punitively taxed, and that its financial viability was threatened by the new initiatives. Given the impact these campaigns had on the public debate, it would not be surprising if they also affected personal attitudes to the fairness of the business tax system.

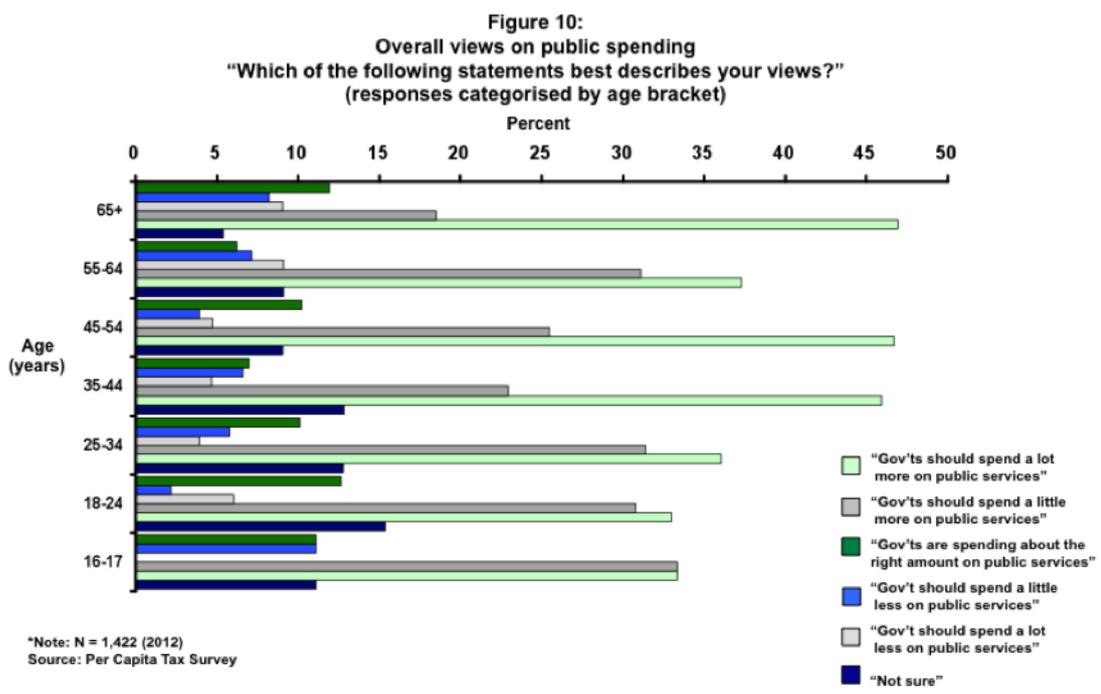
Section III: Attitudes on Public Spending and Debt

The next section of the Survey canvasses views on government spending and public debt. At the aggregate level, we see continued support for higher levels of government spending. Over two-thirds (68%) of respondents say that government should spend more on public services, including 41% who believe that government should spend much more. By contrast, only 12% of those interviewed say that government should spend less or much less on services.

Here again, though, we see a distinct change in public attitudes over time. Although a majority would still support it, the appetite for greater public spending has clearly shrunk since 2010. The proportion of those who support higher spending has fallen by 11 percentage points, while the share of those who want less has risen by six points.



Across all income brackets, support for more public spending sits above 60% although the strength of support generally falls as income rises. With regards to age, support for greater public spending is highest in the over 65 years bracket (those most likely to receive state pensions) and the 35-54 years brackets (and those most likely to receive some form of public family support).

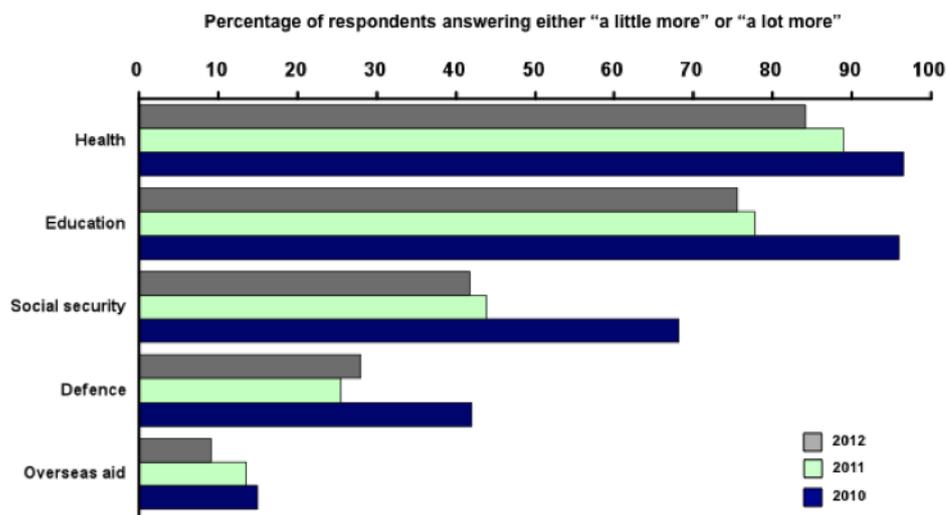


We now turn to support for public spending by individual policy area. As in previous Surveys, health is the area with the greatest of demand for higher public spending: 84% of interviewees say they would like to see either a little more or a lot more spending in health. Of the topics explored in the Survey, health is followed by education (where 76% want to see more spending), social security (42%), defence (28%) and foreign aid (9%).

Again, we see a weakening of support for greater public spending, albeit off a high base. Since 2010, support for more public spending has fallen by 12 percentage points for health, 21 points for education, 26 points for social security, 14 points for defence and six points for foreign aid.



Figure 11:
"Would you like to see more or less government spending in...?"



*Note: N = 1,422 (2012), 1,294 (2011) & 1,008 (2010)
 Source: Per Capita Tax Survey

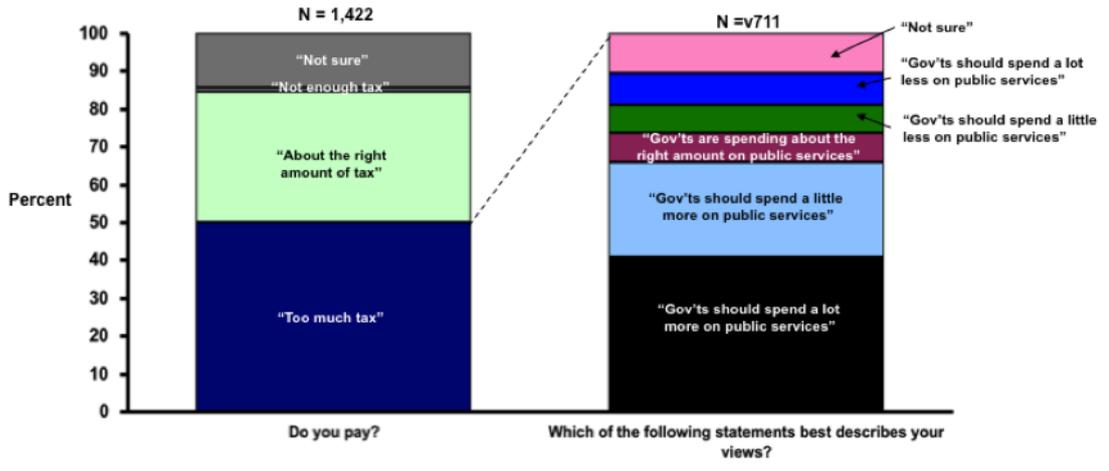
These are remarkable falls over a two-year period. They are unlikely to be a response to a perceived increase in the level of spending, given that the tax take and spending level have both fallen over the period in question (although the Survey was taken before the recent state government spending cuts in NSW, QLD and VIC began in earnest).

It is arguably more likely that this trend is a reaction to a growing sentiment in the community that Australians are increasingly overtaxed and not receiving value for their public spending dollar. In recent years, households have been determinedly saving at a time when government has been borrowing. What's more, they are often saving to pay for things such as schools and pensions income that were once universally provided by government.

In the 2010 election campaign, and thereafter, the Opposition has campaigned on a slogan of "end the waste, pay back the debt, stop the big new taxes [and] stop the boats". Over that time, the Opposition's standing in opinion polls has risen steadily - it seems many voters identify with this refrain. The 'end the waste' pillar of the Opposition's argument appears to correlate with the decline in support for more public spending seen in this Survey.

Finally, we see here a further instance of cognitive dissonance. Of those respondents who say they pay too much tax, fully two-thirds say that governments should spend more on public services. It is possible that these people believe that others should pay more tax to fund spending increases but, when pared back to basics, the message these people are sending is that we want to pay less tax and we want more public services. This is having your proverbial cake and wanting to eat it too.

Figure 12:
Comparison of views on personal tax obligations
and appetite for public spending



*Note: N = 1,422
Source: Per Capita Tax Survey

Section IV: Current Issues in the Policy Debates

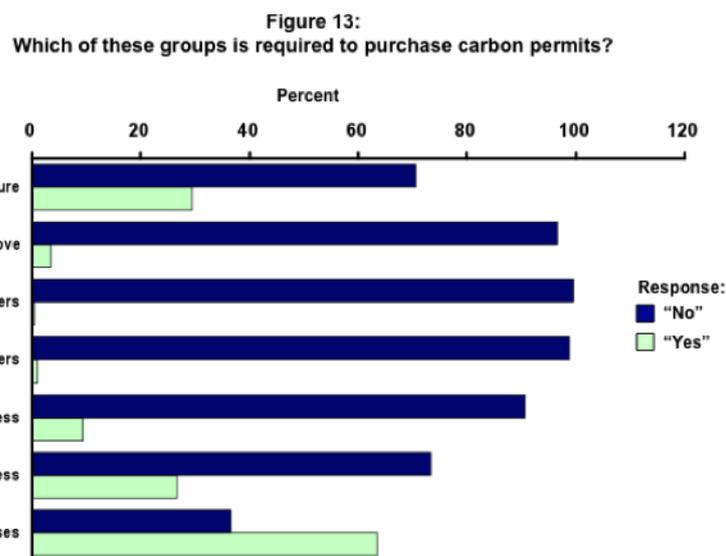
In the penultimate section of this year's Survey, we examine three high-profile areas of the public debate on tax and spending: the carbon tax, public spending on schools, and superannuation.

The carbon tax

The Federal Government's Clean Energy Bill was passed in 2011, and comprised an emissions trading scheme to commence in 2015, preceded by a fixed price on carbon emissions for high-emitting businesses. This fixed price has come to be known as the 'carbon tax', and was introduced on 1 July 2012. It is levied on businesses with annual emissions of more than 25,000 tons of CO₂-equivalent, approximately 300 companies in total. The starting level of the tax is \$23 per tonne, which will rise 2.5% each year until 2015.

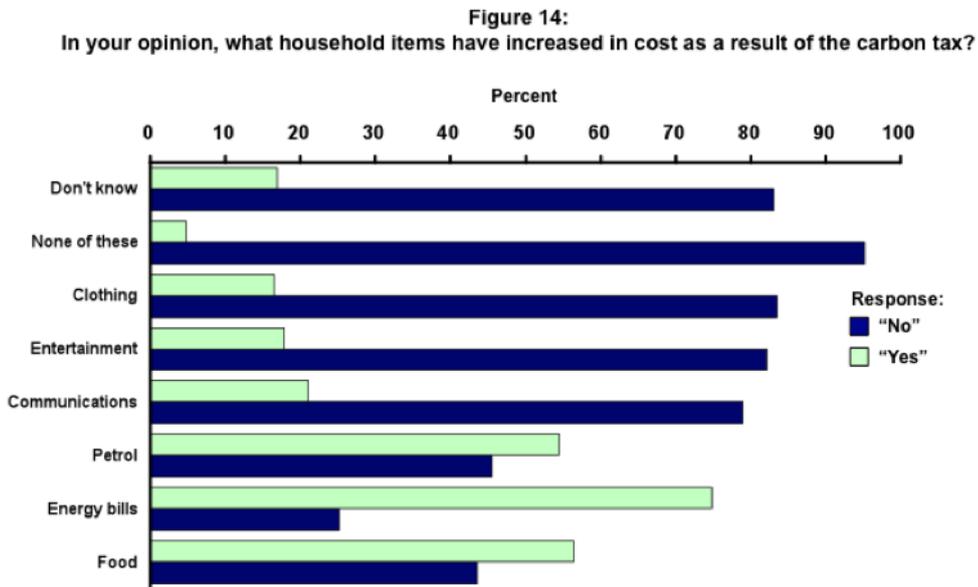
There have been a host of polls undertaken to assess broad support for the carbon tax, including previous editions of this Survey. For this reason, we have chosen not to explore broad-based support, but to focus instead on public understanding of the operation of the carbon tax and its effects.

The Survey first asked about people's understanding of how the tax is levied. We find that the public has a broadly accurate understanding of this mechanism. 63% of respondents answered (correctly) that the tax is levied on big polluting businesses, while 27% said it was applied to all big businesses and 9% said it was collected from small businesses as well. Almost nobody believed that the tax was levied on individual wage earners or pensioners. However, 29% of respondents said they were unsure of the tax's mechanism.



*Note: N = 1,422 (2012)
Source: Per Capita Tax Survey

We then asked about how household costs were affected by the introduction of the carbon tax. Again, respondents show a largely accurate understanding of the workings of the tax and its effects on costs of living. Three-quarters of those interviewed said the tax has lifted energy bills, which are expected to deliver the biggest increase of any household expense. 56% of respondents said food costs, forecast to be the second biggest cost driver, have risen under the tax. By contrast, few people thought clothes, communications or entertainment – items not expected to rise due to the tax – had increased. The one area of widespread misconception concerns fuel: 54% of interviewees stated that fuel costs had increased under the carbon tax, when in fact the tax is not levied on fuel.

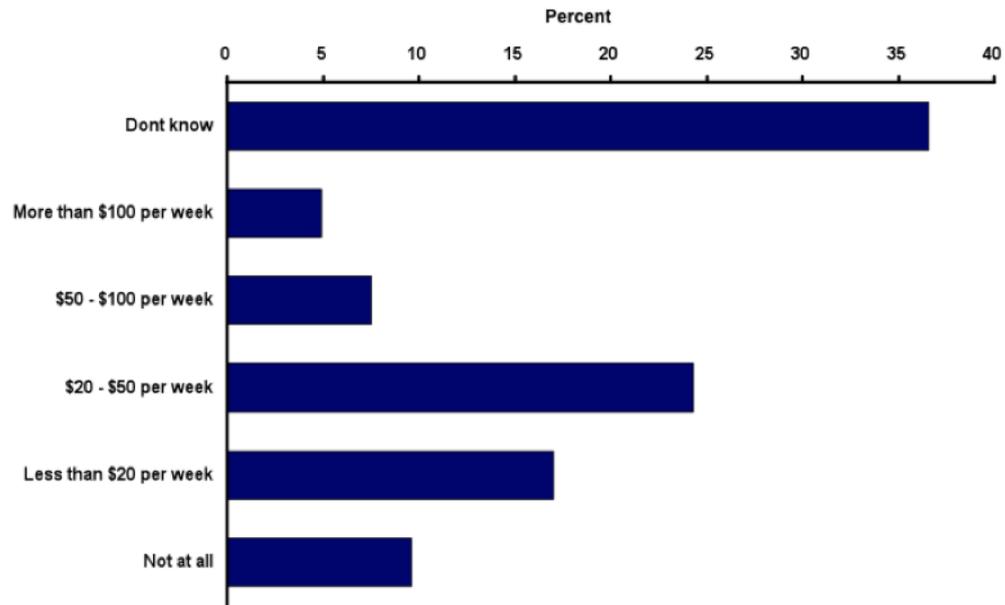


*Note: N = 1,422 (2012)
 Source: Per Capita Tax Survey

Next, the Survey asked how much overall weekly living costs had risen as a result of the carbon tax. 37% of respondents stated they did not know how much their costs had risen. Of those who did, the largest group (24%) said they had risen by \$20-50 per week. 17% said that they had risen by less than \$20 per week, and 10% said they had not risen at all. Only 12% said they had risen by more than \$50 per week.



Figure 15:
How much has your cost of living been affected by the carbon tax?



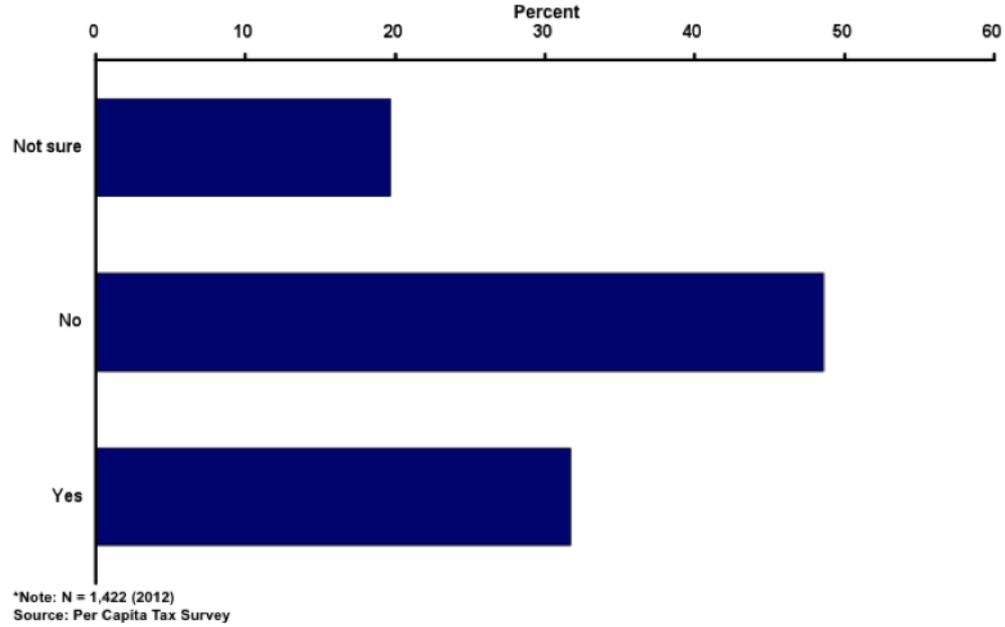
*Note: N = 1,422 (2012)
Source: Per Capita Tax Survey

These results are somewhat higher than the cost of living increase calculated by the Federal Government in advance of the tax. The Government estimated that costs for the average household would rise by \$9.90/week due to the carbon tax, including \$3.30 for electricity and \$1.50 for gas. Despite this, less than 30% of households attest that the increase has been this small.

The final question on the carbon tax concerned the level of compensation received by households as part of the Clean Energy Bill package. 49% of respondents say they have not been compensated over the carbon tax, while 32% say they have received some compensation. The remaining 19% are unsure.



Figure 16:
Have you received compensation from Government over the carbon tax?



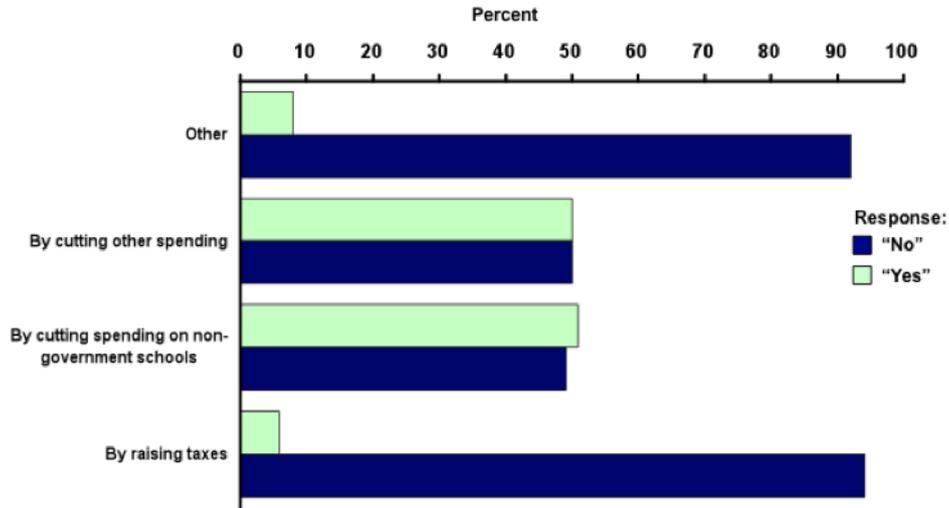
These findings are at odds with details of the Clean Energy Bill program which envisaged that 90% of households would receive compensation for the introduction of the tax. However, this compensation consisted not simply of a one-off payment, but also of ongoing tax cuts as a result of changes to the tax-free threshold. Given this, it is possible that many Australians have not recognized their reduced tax payments as compensation for impact of the carbon tax.

Education spending

Another major policy debate over the last year has concerned the findings of the Gonski Review into schools funding. The Federal Government commissioned the Gonski panel in 2010 to examine funding of schools across Australia. Its final report was released in December 2011 and much of the ensuing discussion has focused on two issues: how to pay for the recommended increase in funding for schools, and whether the current level of public funding for non-government schools is fair and sustainable.

In this context, we asked respondents for their opinions on how to pay for any increases in funding to public schools. For some funding mechanisms, views are evenly split. 51% of interviewees believed that funding increases to public schools should be paid for by cutting spending on private schools, while 50% said that any increases should be funded by cutting other spending.

Figure 17:
If government is to increase funding to public schools, how should it be paid for?



*Note: N = 1,422 (2012)
 Source: Per Capita Tax Survey

However, other proposals generate near unanimous views. 94% of people believe that taxes should not be raised to pay for any public school increases, and 92% of people believe that no other funding mechanism outside those listed above should be considered. Both these responses are consistent with the weakening of support for increased public spending seen in Section III above.

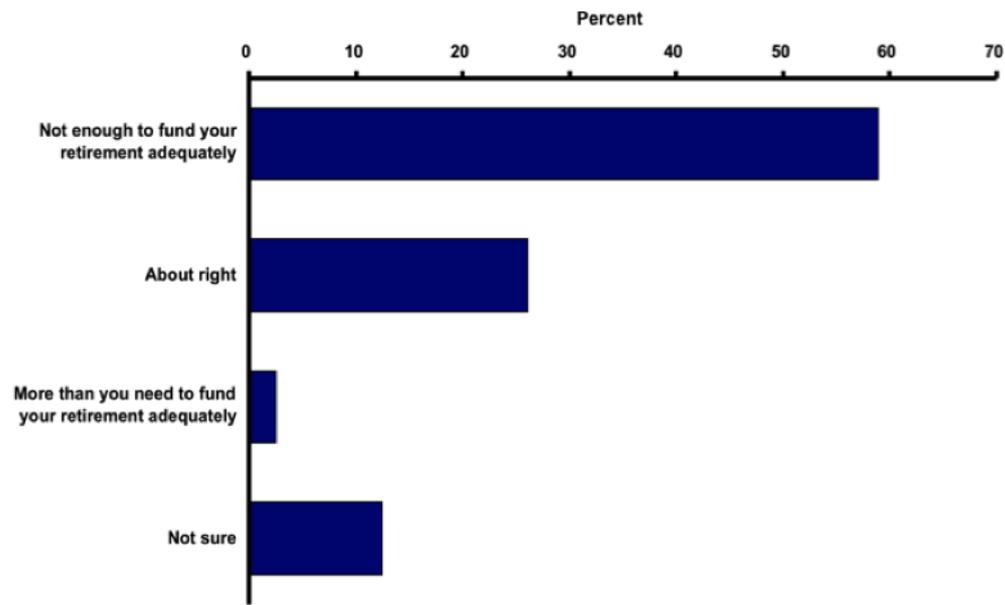
Superannuation

Finally, we asked respondents about the adequacy of their superannuation investments. Superannuation and its tax treatment have become increasingly visible in the public debate, thanks to the falls in account balances in the wake of the Global Financial Crisis (GFC) and an increased focus on the fairness of existing tax concessions.

In the 2011 Survey, we asked about the adequacy of the 9% compulsory superannuation contribution for funding retirement. 59% of those interviewed said that the 9% level was not sufficient to fully fund retirement, while 26% felt it was about right, and only 3% said it was too high (12% were unsure).



Figure 18:
"Currently all employers must contribute 9% of their workers' pay to superannuation.
Thinking about your own personal circumstances, is 9%...?"
(from 2011 Survey)



*Note: N = 1,294 (2011)
Source: Per Capita Tax Survey

This year, the Survey asked respondents about how their views on superannuation adequacy had changed. 63% of those interviewed stated they were less confident that their superannuation would cover their retirement needs, compared with five years ago. 26% said they felt just as confident while just 3% expressed more confidence than they felt five years ago. This time, 8% were unsure.

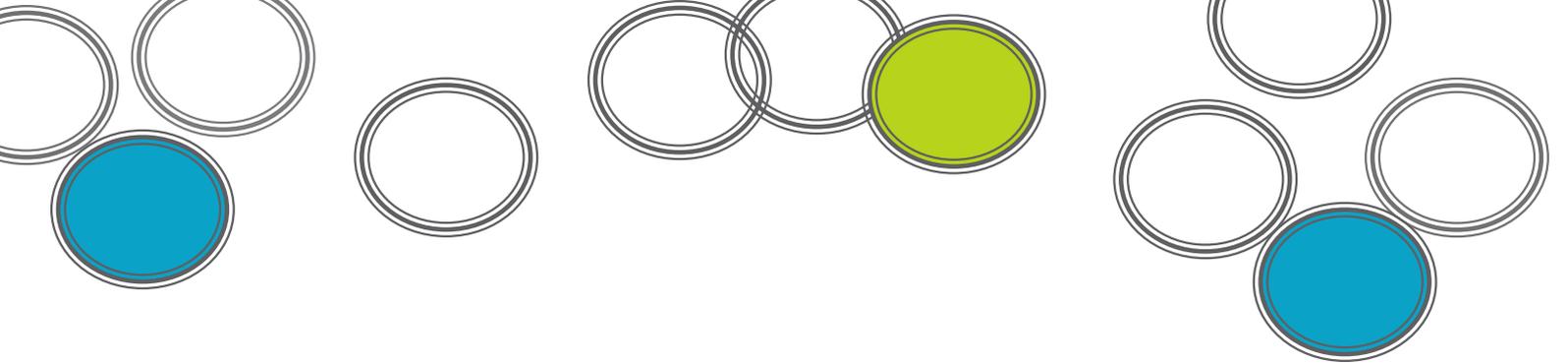
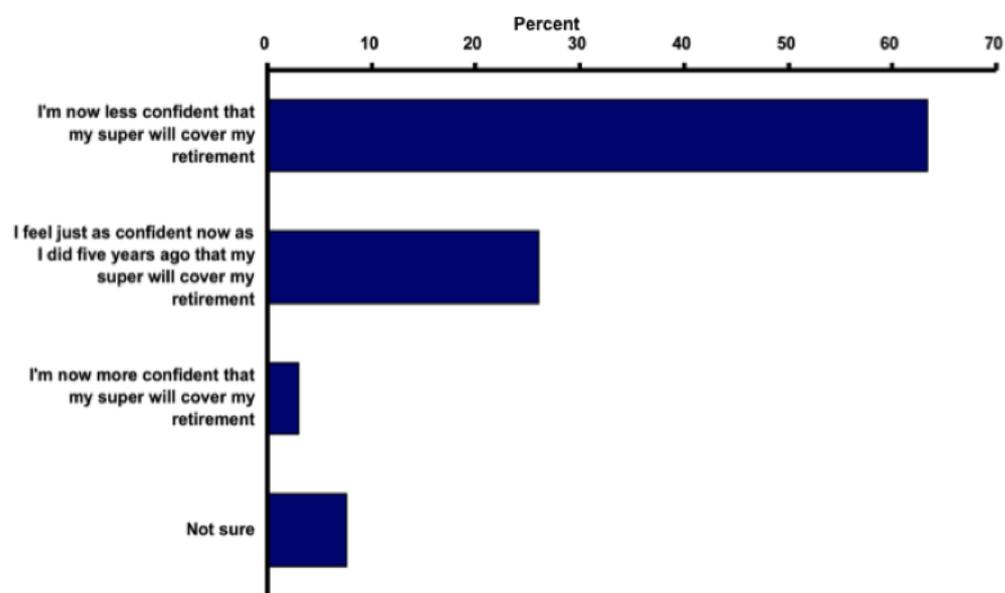


Figure 19:
“Compared with five years ago, how confident are you that your superannuation will cover your retirement needs?”

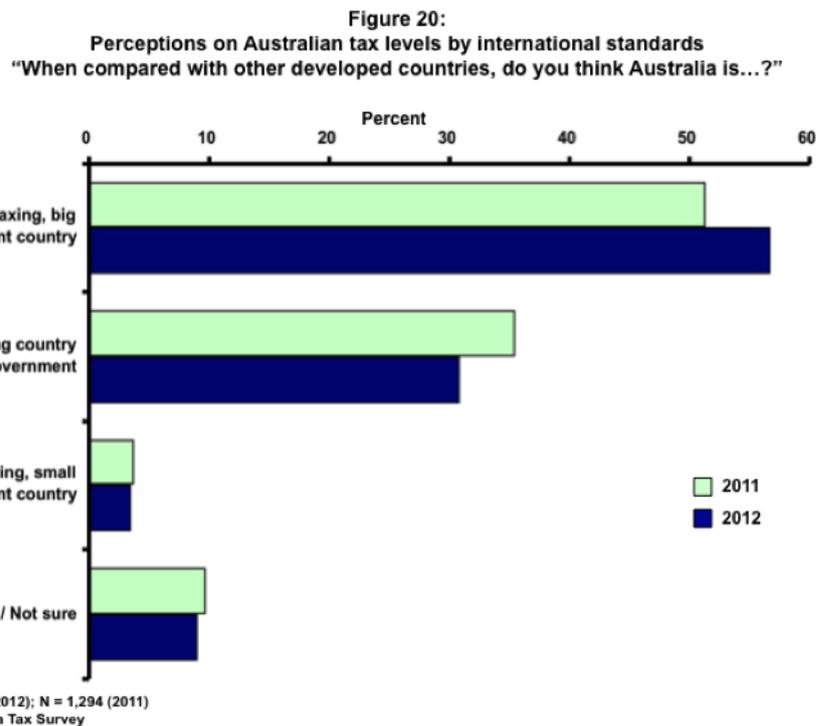


*Note: N = 1,422
Source: Per Capita Tax Survey

These results confirm last year’s findings that Australians are not comfortable with the adequacy of the 9% compulsory contribution level. They are now feeling less confident that their superannuation savings will cover their retirement needs. Given these findings, it’s clear the debate around the structure and adequacy of superannuation will be with us for some time.

Section V: International Tax Comparisons

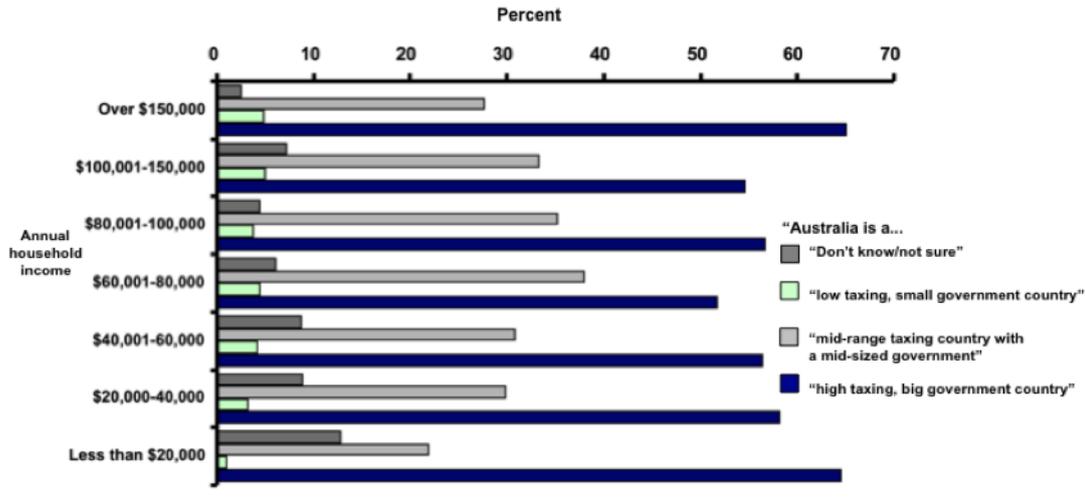
The Survey concludes by asking respondents for their views on Australia's tax system compared with those in other rich countries. Overwhelmingly, respondents believe that Australia's tax take is higher than that of peer economies. 57% of those surveyed stated that Australia was a high-taxing, big government country while a further 31% felt that Australia was a country with mid-range taxation and a mid-size government. Only 4% of people felt that Australia was a low-taxing small government nation.



Interestingly, the view of Australia as a place of high taxation is most prevalent at the top and bottom of the income scale. 65% of respondents in both the highest (over \$150,000 p.a.) and the lowest (under \$20,000 p.a.) income bracket believe that Australia is a high-taxing, big-government jurisdiction. At the top level, this is likely to reflect a perception of excessive taxation on high-income earners, while at the bottom level it may arise as a result of greater interaction with government through the transfer system.

By contrast, belief that Australia is a country of mid-range taxation is most concentrated amongst the middle-income bands. These respondents do not believe themselves overly taxed to the extent high-income earners do, and are less likely to depend heavily on government than those on lower incomes.

Figure 21:
Perceptions on Australian tax levels by international standards by income
"When compared with other developed countries, do you think Australia is...?"



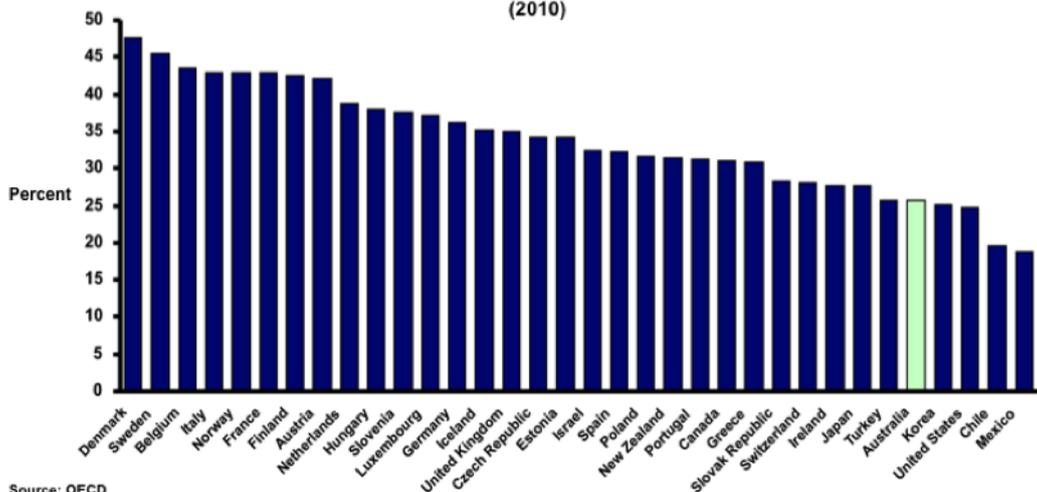
*Note: N = 1,422 (2012)
 Source: Per Capita Tax Survey

The hardening of attitudes seen in other parts of the Survey is also apparent in perceptions of Australia's tax take relative to other developed economies. The share of respondents who feel Australia is a big taxpayer has grown by five percentage points since last year's Survey, equal to the fall in those who say Australia is a mid-taxing country. The share of those who say Australia is a low taxpayer or who don't know has remained similarly small from 2011 to 2012.

As we reported in the 2011 Survey, public perceptions of the extent of Australia's tax take are considerably removed from the objective reality. With a tax/GDP ratio of 25.6% in 2010, Australia maintains the fifth lowest tax burden of the 34 OECD countries, higher only than South Korea, the US, Chile and Mexico. This figure is a full eight percentage points lower than the OECD average of 33.8%, making Australia definitely a low-taxing, small government country. The factually correct belief that Australia is a low-taxing country rises modestly with income, with perhaps reflecting the link between income and educational attainment.



Figure 22:
OECD Countries Total Tax Revenue as a Share of GDP
(2010)



Source: OECD

Notably, since the last Survey (when 2008 data was the latest available), Australia's tax take has shrunk by 1.5 percentage points and our tax/GDP ranking fell one place (below Turkey). It is curious that this contraction has occurred at the same time as Australians feel their tax system is becoming more burdensome. However, this is consistent with the hardening of attitudes across the rest of the Survey, from personal tax obligations and the fairness of the tax system to the appetite for public spending.



Section VI: Concluding Thoughts and Considerations for Policy Makers

The 2012 Tax Survey offers a picture of changing community attitudes towards tax and public spending. While Australians still express a desire for greater public spending and a fairer spread of the tax burden, the level of support for these views is falling. Attitudes are hardening; Australians are becoming less generous in their views on tax and spending.

There are several themes in the Survey responses that contribute to this hardening of attitudes. The first is that, at an individual and community level, Australians feel the balance of tax and spending is not treating them fairly. More people believe they pay too much tax than say they pay the right amount. There is a drop in support for more public spending, albeit from high levels. Fewer respondents think those on low-incomes pay too much tax; fewer think that big business pays too little.

There are several reasons why this perception of unfair treatment has strengthened. The first is the broader economic uncertainty in the community, seen in recent falling consumer and business confidence surveys. In October 2012 when the Survey was administered, the Westpac Melbourne Institute Index of Consumer Sentiment reported that consumer sentiment remained low, despite brightening economic news, and was still four percentage points lower than when the RBA started cutting interest rates the previous November. In the same month, business conditions fell to their lowest level in three years, with business confidence falling, according to the NAB Monthly Business Survey.

Many Australians say, despite an objectively strong economy, that they are uneasy about the economic future. This sentiment is similarly reflected in the Survey's responses on superannuation, where almost two-thirds of respondents said they were less confident in the adequacy of their super than they were five years ago. This uncertainty leaves voters less comfortable with the level of their own tax contributions, and unwilling to countenance tax rises even where these are to pay for increased public services.

This sentiment is compounded by a second factor. Consumers and households are managing their finances more prudently than they were a decade ago, and are now paying for many things that government once provided. As documented in George Megalogenis's book *The Australian Moment* (2012), Australians had started to save and pay down debt even before the onset of the GFC. This followed the debt-fuelled consumption boom of the early 2000s.

This turnaround in savings behaviour has been motivated at least in part by the fact that households will increasingly be paying for services previously delivered by the state. Older people are saving for retirement homes; parents (and grandparents) are saving for kids' school fees; university students (and their parents) are paying HELP debts which are growing relative to the value of degrees. So householders feel the pressure imposed by increased savings to pay for services that were once state-funded, at the same time as governments have been borrowing to pay for big new programs. These households are likely to be asking, "If we are behaving more prudently, why aren't governments?"



A third, related explanation concerns confidence in governments' ability to implement big public spending programs. In recent years numerous programs, such as the BER schools investment and the "pink batts" initiative, have attracted widespread criticism for poor implementation and lent to a perception of incompetence in public service delivery. This too reduces voter willingness to pay more for new public spending.

The final influence on the toughening of attitudes in the electorate has been the Federal Opposition's highly successful campaign slogan described in Section III above. The Opposition has been criticized for both the relentless nature of the campaign and for its negativity, but the political fortunes of the Opposition and this Survey's results suggest it has resonated with the voting public. In particular, the refrains "end the waste" and "no more big new taxes" are consistent with the shifting views found in this year's Survey.

The second theme across the results which has contributed to a hardening of attitudes is the poor public understanding of certain tax policy. People are unhappy with the tax system because they believe it to be harsher than it actually is.

This lack of understanding is most apparent in responses on the carbon tax. Almost one third of respondents are not sure from whom the carbon tax is collected, and a further one quarter believe incorrectly that all big businesses pay the tax. Over half of those interviewed say petrol has increased as a result of the carbon tax, when it is not in fact levied on fuel, and more than a third are unsure if the tax has affected their cost of living at all. Finally, almost half of the respondents believe they have received no compensation from government for the carbon tax, when 90% of households have been compensated in some form.

The lack of awareness extends to perceptions of the size of government in Australia. Most respondents say Australia is a high-taxing, big-government country, when in fact it is one of the lowest-taxing nations in the OECD.

These misconceptions all have one element in common – that the tax system is more punitive than it actually is – and lend to the growing perception that the tax burden in Australia is excessive.

A final theme that contributes to tougher attitudes is one we have seen in previous Surveys. It is cognitive dissonance – the ability to hold two mutually inconsistent beliefs at the same time. People want to pay less tax but desire more public services. Wealthy people say they pay too much tax, but say the rich should pay more.

On one level, this phenomenon is people wanting to have their cake and eat it too. It is succinctly captured in Laura Tingle's recent Quarterly Essay, "Great Expectations: Government, Entitlement and an Angry Nation" (2012), which charts our increasingly unrealistic expectations of governments that themselves have less control over major economic variables. Of course, people prefer to enjoy lower taxes and better public services if these can be funded by someone else. On another level, it reflects a desire to keep up with the Jones. People don't consider themselves wealthy, despite objectively high incomes, if their point of reference is a peer group of similar wealth. So, to some extent, cognitive dissonance is unavoidable - it will always colour our attitudes towards tax and spending. Yet, like the other themes uncovered by the Survey, it is subject to political influence and policy leadership.



So how, if at all, should policymakers respond to these themes? The first observation is that any response will need to be found in policy design. Tax policy is inherently complex and involves values judgments which produce winners and losers. No amount of design elegance can remove the perceptions of unfairness, poor understanding and cognitive dissonance that surround it.

The great question for whoever wins the next election is “How do we repair the tax base?”. The tax take is currently at long-term lows and, given many years of income tax cuts and the fall-off in business profits, it is unlikely to rebound soon. Its rebuilding is an urgent national task, but a politically thankless one. What is required for this task is powerful political argument, grounded in values and succinctly communicated. To deal with voters’ unease with the tax system, politicians must be able to explain the trade-offs necessary to sustain a fair and prosperous society. Often this will involve the introduction of new taxes, either to pay for new investment in public goods and services or to compensate for the removal of other more distortionary taxes.

Successful governments have convinced the public of the merits of such changes. Malcolm Fraser introduced an income levy to pay for Medibank (later Medicare). Bob Hawke and Paul Keating implemented new taxes on capital gains and fringe benefits. John Howard rolled out a goods and services tax. In each case, the proponents made the case to the electorate based on national, rather than sectional, interests and in each case, they were re-elected at subsequent elections.

The current Federal government seems unable, and sometimes unwilling, to carry the same difficult case - that worthwhile public investment must be paid for with commensurate taxes. In part, this is because of the success of the Opposition counter-argument against taxation described above. It is also because recent new investments like the Building the Education Revolution (BER) and “pink batts” programs have attracted harsh criticism for perceived waste. However, political leaders need to be able to sell both the effectiveness of proposed investment and the need for sufficient taxes to be able to pay for them. One or the other is insufficient to build the trust needed for public support for tax changes or confidence in fairness of the tax system.

Finally, it is critical that politicians are able to communicate where necessary how lucky we really are. To do this, they must stop treating sectional interest groups as targets for largesse. This simply reinforces an (often false) perception that the group in question is hard done by in the first place. To give due credit, the Federal Labor government has begun to do this in areas like the private health insurance rebate and the baby bonus. The argument of Shadow Treasurer Joe Hockey that an entitlement culture has developed in Australia is correct (Hockey: 2012). Politicians have cultivated a sense of entitlement (and by extension a sense of ‘hard done by’) amongst a vast labyrinth of interest groups. The irony is that Mr Hockey was a senior Minister in the government that most aggressively pursued this strategy.

The unwinding of this culture of entitlement and its supporting pattern of transfers will go some way to addressing the cognitive dissonance revealed by the Survey. This requires political leaders to periodically make the case that Australia is a rich, prosperous and low-taxing country - that we’ve actually got it pretty good.

There remains latent support for more progressive taxation and greater public spending, but it is ebbing. Public confidence in our tax system is falling. So is support for more public investment. If progressive politicians can’t make a compelling argument for sustaining a fair and adequate system of tax and spending, this latent support may collapse completely and an important social consensus will be lost. It’s time to make the case.



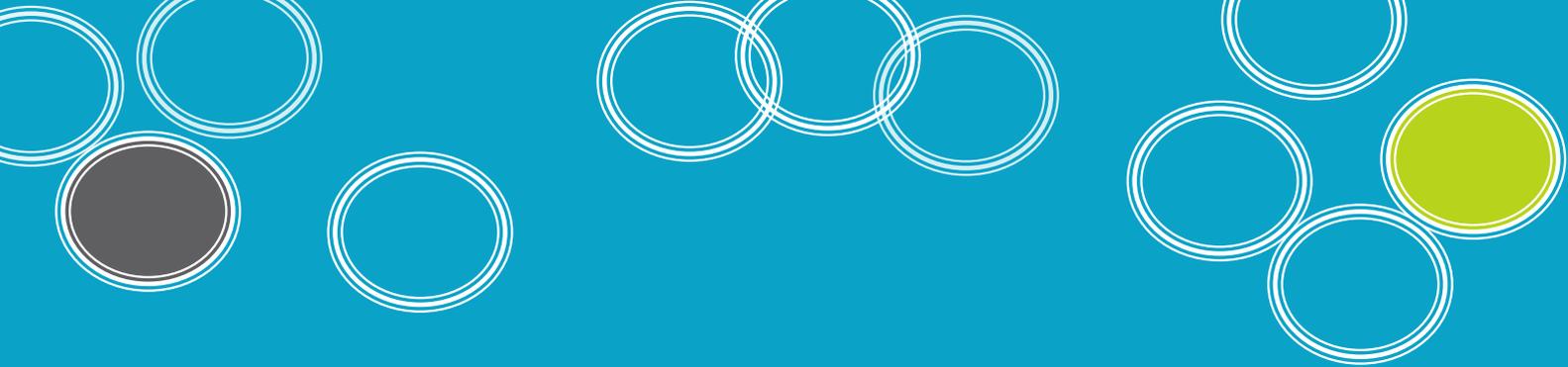
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Methodology

The Per Capita Tax Survey 2012 was answered online by 1,422 Australians aged 16 years and over in October 2012. This group was a nationally representative sample, with demographic data collected on age, gender, household status, state of residence, political party preference and income. The Survey was administered jointly with the Australia Institute's Omnibus Survey.

Respondents were asked 15 specific questions on tax, plus a range of demographic identifiers. The questions were authored by Per Capita staff, and the majority of questions were carried over from the 2010 and 2011 Per Capita Tax Surveys. The raw data was analysed in STATA and the dataset is available from Per Capita.



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