

[removed for privacy reasons]
1 May 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Secretariat

Please find below some suggestions for the review panel to take into account, preceded by a brief account of my background.

My Background

I have a PhD in Psychology, a Diploma and Jurisprudence, and subjects toward a Diploma in Public Economic Policy (including taxation, welfare and public administration). I contribute lectures to the Masters in Public Policy (Social Policy) course at ANU, and have published papers in social policy, governance and public administration. Before retiring from the APS I headed the Secretariat for the review of child support. I am a member of the Australian Institute of Management Consultants, based on consultancies in governance and evaluation undertaken for state and federal departments.

Some preliminary observations

To paraphrase Baroness Thatcher, “there is no such thing as “the economy” – it is an abstraction, shorthand for the combined sum of human activities within a state that have a market value. It is misleading and dangerous to develop policy that affects this theoretical entity in isolation from the social, environmental and the full range of law policy and practice that form the complete matrix in which market activities are embedded.

The major economic indicators ignore non-market activity, including domestic production and voluntary activity; they ignore the contamination or depletion of natural resources, the problems created by inequality in income, exclusion from the labour market, excessive working hours, exploitative or oppressive work practices and the decline in domestic production and family welfare that may accompany certain patterns of increased labour market participation; they count toward the major proxies of national welfare costs associated with events and practices that are, if anything, contributing to national “ill-fare, including crime, oil-spills, accidents and disease, whilst ignoring factors that have an established relationship to human development and well-being – low levels of inequality, strong relationships with family and friends, high levels of personal control over the working environment, and sufficient income and material assets to participate fully in the life of the community, a healthy environment and good quality nutrition.

Taxation and social security policy has been developed in accordance with a set of assumptions about rational actors and the benefits of unregulated markets that are poorly supported by evidence. They also sit within an approach that is premised on unlimited growth in population, production and consumption at a time that appears to conflict with the current imperative to reduce the environmental impact of human activity.

Suggestions

1. In order to be more equitable, income tax should be based on equivalised household income. An Australian equivalence scale could be developed using data from NATSEM and ABS. Tax would be levelled on the combined equivalised¹ household income. For example, a household of two adults and two children, with a combined income of \$100,000, using the OECD equivalence scale would pay income tax on \$37,037 - ie \$100,000 divided by [1(first adult) plus 0.7 (second adult) plus 0.5 (first child) plus 0.5 (second child.)].

2. To reduce the distorting and occasionally inequitable effects of staircase tax thresholds, taxation levels could increase “continuously” between threshold points. In an age of automatic computation of liabilities, sudden jumps between thresholds are unnecessary. For example, the first level could move continuously from zero at \$6000 (or lower) to reach 15% at \$30,000, the next could move continuously from 15% to 30% at \$75,000 etc.

3. To reduce inequalities in after tax income, and ensure that marginal taxation thresholds keep pace with the current range of income, thresholds in the current year could be set to multiples of the median full time earning level from the previous year. For example, if the median full time earning rate for the last year was \$50,000, then the marginal tax thresholds from the previous year could be set as follows:

Lowest rate: up to the median

Next highest: from median to 1.5 times median

Next highest: from 1.5 times median to 2 times median

Next highest from 2.5 times median to 3 times median etc until all incomes have been included.

4. There are good public policy reasons for setting the top marginal rate at a high level to reduce after tax income inequality (see report of WHO Commission on the Social Determinants of Health 2008, as well as Keating & Hertzman “Developmental Health and the Wealth of Nations” 1999, and the Australian work on crime prevention which Prof Ross Homel authored “Pathways to Prevention” 1999). It would also help limit the undesirable effects that extremely high relative income seems to have on individual behaviour. In recent corporate collapses some of the most highly remunerated individuals have been responsible for extreme risk taking and or fraud: it is worth examining whether

¹ “OECD equivalence scale”. This assigns a value of 1 to the first household member, of 0.7 to each additional adult and of 0.5 to each child. This scale (also called “Oxford scale”) was mentioned by OECD (1982) for possible use in “countries which have not established their own equivalence scale”. For this reason, this scale is sometimes labelled “(old) OECD scale”.

• “OECD-modified scale”. After having used the “old OECD scale” in the 1980s and the earlier 1990s, the Statistical Office of the European Union (EUROSTAT) adopted in the late 1990s the so-called “OECD-modified equivalence scale”. This scale, first proposed by Haagenars et al. (1994), assigns a value of 1 to the household head, of 0.5 to each additional adult member and of 0.3 to each child.

• Square root scale. Recent OECD publications comparing income inequality and poverty across countries use a scale which divides household income by the square root of household size. This implies that, for instance, a household of four persons has needs twice as large as one composed of a single person. However, some OECD country reviews, especially for Non-Member Economies, apply equivalence scales which are in use in each country. From “What are equivalence scales” OECD at <http://www.oecd.org/dataoecd/61/52/35411111.pdf> (accessed 1 May 2009)

such high levels of remuneration encourage individuals to consider themselves as immune from the consequences of their actions and destroy their ability to empathise with others.

5. Taxation policy, in fact all government policy, should reflect the need for environmental health and sustainability– that is where human activity, including market activity, is not causing measurable degradation in ecological systems.

Yours faithfully
(signed)

Robyn Seth-Purdie