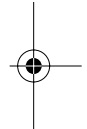
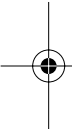




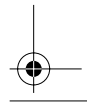
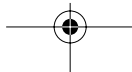
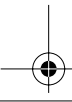
# **THE THIRTY YEAR PROBLEM: THE POLITICS OF AUSTRALIAN TAX REFORM**

---

Richard Eccleston



**AUSTRALIAN TAX RESEARCH FOUNDATION**  
Research Study No 42





## Acknowledgments

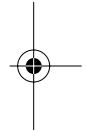
In writing this book I have accumulated a number of debts. Firstly I would like to thank my colleagues in the Department of Politics and Public Policy at Griffith University. In particular I would like to thank Professor Pat Weller for his support of this project, including the resources he has devoted to it under the auspices of Griffith University's Centre for Governance and Public Policy.

I would like to thank those who have had a direct input into the project including Tom Conley, Steffen Ganghof, Alex Gash, and Lindsay Rae. Special thanks go to Stephen Bell because without his expert guidance this book would never have been written. Thanks go to Neil Warren and the Board and staff of the Australian Tax Research Foundation for both their interest in this project and for publishing this book. Any remaining errors are my responsibility.

Finally I would like to thank Claire McKenny for her love and support and Bess, our spoilt border collie, for her constant companionship.

I would like to dedicate this book to Eileen Groom for her love and support during my formative years.

RE JUNE 2004



The views expressed in this and other publications of the Foundation are not necessarily those of the Foundation or those who sponsor its publications. They are published on the basis that they represent a significant contribution to public understanding of aspects of taxation policy.

The thirty year problem: The politics of Australian tax reform

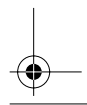
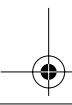
ISBN 0 949482 81 1

ISSN 0 817 4679

© The Australian Tax Research Foundation and the author, 2004

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, without the prior permission of the Foundation.

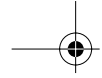
Other ATRF publications can be viewed at [www.atrf.com.au](http://www.atrf.com.au)



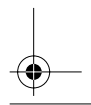
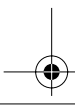
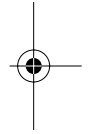
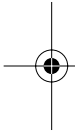
## CONTENTS

---

<i>Introduction</i>	6
The problematic politics of tax reform	7
The scope of the book	8
Explaining Australian taxation policy	10
The structure of the study	11
<b>1</b> <i>Explaining the politics of tax reform</i>	<b>14</b>
Tax reform and state capacity	16
The institutional dynamics of tax reform	17
Relational dynamics and institutional change	18
Economic forces, ideas and tax reform	21
Public opinion, leadership and successful tax reform	23
Towards a conceptual model	24
<b>2</b> <i>Funding a new nation: The historical basis of Australian Tax Policy</i>	<b>26</b>
The federal compromise and its implications for Australian taxation policy	27
The federal settlement: 'New protectionism' and the two-party system	30
Taxation in hard times: State capacity and tax reform 1910 to 1950	32
The context of Australian taxation policy at the end of the post-war boom	40
Conclusion	50
<b>3</b> <i>Taxing Times: The reluctant politics of tax reform 1970–1983</i>	<b>51</b>
The origins of the new taxation reform agenda	53
Policy without politics: The Asprey Committee of Inquiry	57
The reactive state: inflation and tax reform 1974–1976	63
Electoral pressure and the pork barrel: reform failure and the Fraser Government	68
Conclusion	71
<b>4</b> <i>The limits of consensus politics: The Hawke Government and tax reform 1983–1990</i>	<b>73</b>
Revisiting reform: the political and economic context	73
The limits of consensus politics	77
The stakeholders	79
The Draft White Paper	82
The National Tax Summit: A test of state capacity	89
The aftermath: Political learning and partisan adjustment	92
Conclusion	96



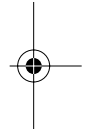
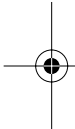
<b>5</b>	<b><i>Fightback!: The partisan politics of tax reform 1990–1993</i></b>	<b>98</b>
	The recession and its implications for the tax reform debate	99
	The Hewson ascendancy	102
	The Fightback! proposal	103
	The Keating coup and One Nation	106
	1992: the political and economic context	109
	State weakness and the social basis of authority	112
	Fightback! II and the 1993 election campaign	115
	Conclusion	119
<b>6</b>	<b><i>‘The thirty year problem’ The politics of Australian taxation reform 1993–1998</i></b>	<b>121</b>
	Political rhetoric and fiscal reality: The aftermath of the 1993 election	122
	The honeymoon is over: Fiscal squeeze and the adequacy debate	126
	Political learning and interest group mobilisation	129
	The Clayton’s campaign	131
	A New Tax System: the politics of policy formation	135
	The 1998 election campaign	143
	Conclusion	145
<b>7</b>	<b><i>A New Tax System and beyond: tax policy in the 21st century</i></b>	<b>148</b>
	Howard’s fragile mandate	148
	The Senate Inquiry	150
	The compromise: ANTS II	153
	The politics of implementation	157
	The Ralph Review of Business Taxation	161
	Reforming the tax policy process	166
	Looking Forward: The 2004 election campaign and beyond	169
	Conclusion	172
	<b><i>Conclusion</i></b>	<b>174</b>
	Explaining the politics of Australian tax policy	174
	The capacity of reform and the governance of the Australian state	180
	<b><i>References</i></b>	<b>183</b>
	<b><i>Abbreviations</i></b>	<b>198</b>
	<b><i>Board of Governors, Research Director and Secretariat</i></b>	<b>199</b>
	<b><i>Index</i></b>	<b>200</b>





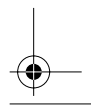
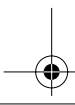
### List of Figures

Figure 2.1	Major sources of Commonwealth revenue 1909/10–1928/29	33
Figure 2.2	Major Sources of Commonwealth expenditure 1909/10–1928–29	33
Figure 2.3	Australian Government Taxation 1929-30 and 1938-39	37
Figure 2.4	Key variations in Commonwealth finance across World War Two	38
Figure 2.5	Australian economic performance relative to OECD average, 1970	41
Figure 2.6	Australia’s trade profile (1965) relative to other OECD countries	42
Figure 2.7	Total national revenue as a % of GDP, 1968/69-1970/71	45
Figure 2.8	The Structure of Australia’s tax base relative to select developed countries (1970)	46
Figure 2.9	Post-war growth in taxation burden on average earnings	48
Figure 2.10	Sources of State and Local Government Revenue 1967-68	49
Figure 3.1	The incidence of total Australian taxes raised, 1966-67	54
Figure 3.2	Wages and profit shares as a percentage of GDP, 1959-94	55
Figure 5.1	The impact of the One Nation package on ALP support	110
Figure 6.1	Public support for a GST 1996–1999	128
Figure 6.2	Benefits of ANTS income tax cuts across income groups	140
Figure 6.3	Comparison of the distributional impact of the Coalition and ALP’s 1998 tax reform proposals	142
Figure 7.1	Electoral support for the major political parties October 1998 – July 2001	154



### List of Tables

Table 2.1.	Sources of public revenue: Victoria and New South Wales 1897/98	29
Table 5.1	Reductions in income tax rates proposed in Fightback!	105
Table 7.1	Comparative marginal income tax rates	156



Tax reform is seen as particularly urgent. Keywords: tax reform; Australia; policy constraints; Henry Review; Asprey. Suggested Citation: Suggested Citation. Hewson, John, The Politics of Tax Reform in Australia (July 30, 2014). Asia and the Pacific Policy Studies (APPS) vol. 1, no. 3, pp. 590-599, Available at SSRN: <https://ssrn.com/abstract=2506377>. John Hewson (Contact Author). Australian National University (ANU) - Crawford School of Public Policy ( email ). 7 Liversidge Street Lennox Crossing Canberra, ACT 0200 Australia. Download This Paper. Open PDF in Browser. Eccleston, RG 2004 , The thirty year problem: The politics of Australian tax reform , Australian Tax Research Foundation Research Study No.42 , The Australian Tax Research Foundation, Sydney, NSW. PDF (Whole Book) [30\\_year\\_problem...pdf](#) | Request a copy Full text restricted Available under University of Tasmania Standard License. Preview. Taxation policy has assumed a prominent position in Australian politics in recent decades. From the National Taxation Summit of 1985 to the bitterly contested 1993 federal election and the Howard Government's historic implementation of a Goods and Services Tax (GST) in 2000, taxation issues have never been very far from the news headlines. Tax experts and economists agree that tax reform is the best way forward, and political leaders and policymakers are already canvassing options, but opinions differ on exactly what those changes should be. Aside from Dr Richardson, ABC News spoke with three other leading tax experts, including the author of Australia's most recent comprehensive Commonwealth tax review, Ken Henry, to assess the leading candidates for change. Henry tax review gathers dust. A decade after his comprehensive tax review was handed to the Rudd government, Dr Ken Henry laments the lack of action and warns it is c Australian tax arrangements that eliminate the double taxation of company profits. Grandfathering. The practice of introducing legislative changes without those changes affecting rights or benefits that have already been built up. The problem of the lack of equity in the superannuation system would be addressed by taxing compulsory employer superannuation contributions at the member's marginal income tax rate. All superannuation contributions could be paid to the relevant superannuation fund on at least a quarterly basis. total superannuation assets are increasing at around 17 percent per year. 91 per cent of employees have superannuation, while only 36 per cent of the self employed have superannuation.(8) The growth in this coverage is shown in Figure 1. The Australian Council of Social Service said tax reform must not be reduced to a narrow argument over increasing taxes on consumption such as the GST. The group's chief executive, Cassandra Goldie, argued income taxes were the fairest taxes and should be made more efficient. "People understand we have a public budget problem: they want solutions that don't impose the greatest burden on the least well-off," she said. "It is too easy for people with high incomes to avoid paying their fair share of tax through devices such as negative gearing and private trusts, for some international companies