

# Will You Still Vote for Me in the Morning?

*Why Politicians Aren't Rushing  
to Increase Taxes*

Andrew Norton

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***Perspectives on Tax Reform (5)***

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## Foreword

Despite repeated claims by advocates of big government that Australia is a 'low tax country,' we are clearly over-taxed, and there is a compelling case for cutting government spending and reducing taxes. Taxation gobbles up almost one-third of all the new wealth generated each year in Australia, and while western European governments absorb even more than this, governments in the United States, Japan and our neighbouring trading partners in Asia take much less.

Australian taxes impact particularly hard on successful individuals and companies. The proportion of total tax revenue that comes from taxes on company incomes is higher in Australia than in any other OECD country, and our top marginal rate of personal income tax is one of the highest in the western world (and is levied at one of the lowest income thresholds). The total federal tax take is at a record level, and outside of election periods, the trend is consistently upwards.

In previous papers in this series of CIS tax monographs, authors have set out the case for lowering this tax burden and have explored ways in which the unfairness and complexity of our current tax system could be addressed. Some critics have responded to these papers by pointing to the results of recent public opinion polls which seem to indicate that substantial numbers of voters are keen to pay even more tax than they do already. Social affairs commentators in the media, the universities and the pressure group world keep telling us that the public mood is shifting against tax cuts and in favour of yet higher levels of government spending. If this is really the case, our call for lower taxes appears to have little public backing.

In this, the fifth monograph in the series, Andrew Norton analyses the opinion poll evidence to see whether it really is true that taxpayer turkeys are now voting for Christmas.

He points out that the results of opinion polls depend crucially on the way the questions get asked. If you tell people that higher taxes will be used to fund better health care, you will find substantial numbers of voters apparently prepared to pay up. But if you ask people whether the current level of taxation is too high or too low, you will find very few arguing for an increase, for most people think that even the relatively high salary earners are already paying enough or too much. Opinion poll findings thus commonly contradict each other. Voters tell pollsters they are willing to pay higher taxes yet still complain that taxation is too high!

Although casting doubt on the validity of individual polls, Norton accepts that the *trend* in opinion polls seems to indicate a growing willingness among voters to countenance higher taxes in order to pay for better health and education services. He sees this mainly as the product of rising prosperity. As in the 1960s, so too today, a long period of rising real wages has increased voters' willingness to sacrifice some of their earnings in order to get better quality provisions from government.

Having said that, Norton also adds some heavy provisos. For a start, what people say is not necessarily indicative of what they actually believe. People who tell pollsters that taxes should rise to pay for better services will also say in the next breath that they personally stand to gain more from tax cuts. It is also well known that respondents' answers to questions about tax and services are often influenced by their desire not to appear 'selfish' (that is, they say what they think they are expected to say rather than what they really want).

Norton also observes that public support for higher government spending is very selective. People say they want more spent on services which they expect to use themselves (health is the clearest example), but support for spending that would benefit others (such as increased welfare benefits) is much more muted. Similarly, many of those saying they favour higher taxes do not expect to have to pay them themselves and think other people will pick up the tab. Left-wing commentators who interpret the opinion poll data on tax and spending as evidence of a renewed spirit of public altruism may be misreading the signs.

There is also the problem of what Norton calls the 'tax trap'. What are you to do if you are a low or medium income voter who wants better health care than you are currently getting? Private health insurance may appear an unattractive option, for you are already paying for the government system and the extra cost of going private will be substantial. The cheaper option

is therefore to opt for a marginal tax increase in the hope that it will produce a better outcome, even though past experience suggests you are likely to be disappointed.

Norton's review of the evidence does not indicate the existence of a population keen to pay more tax. The politicians know this, which is why the Coalition delivered limited tax cuts (as well as a lot more spending) at the May 2004 budget, and the Labor Opposition then announced that it would cut taxes even further. What the evidence reveals is rather a population which feels more prosperous after years of sustained economic growth, and which wants to use some of this prosperity to buy better health care (and to a lesser extent, better quality schooling too). When pollsters then ask them whether the government's budget surplus should be spent on improving the health system or on tax cuts, many opt for the former. But this does not mean we have suddenly turned into a nation keen to increase an already onerous tax burden, despite what some members of the social commentariat would have us believe.

**Peter Saunders**

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## Acknowledgements

My thinking on this subject owes much to discussions with Richard Grant, his PhD thesis, and his archive of opinion polls. Christian Gillitzer provided valuable feedback on this and an earlier paper on the same subject. Peter Saunders offered useful suggestions for improvement. The usual disclaimers apply.

So as not to clutter the text with footnotes, I have not referenced results from the Australian National Political Attitudes Survey, the National Social Science Survey, the Australian Election Survey, or the Australian Survey of Social Attitudes. These are all available from the Australian Social Science Data Archive at the Australian National University, <http://assda.anu.edu.au/>, along with full bibliographic details and information about sample sizes. Newspoll's results can be found at <http://www.newspoll.com.au>. More recent Roy Morgan polls can be found at <http://www.roymorgan.com.au>

## Executive Summary

Recently, higher taxation's supporters have made an argument they've not been able to use for 30 years—that opinion polls support their cause. One of them went so far as to say that 'social democracy has won the public debate, at least for the moment'. A closer examination of opinion poll evidence suggests that:

- Recent support for increased taxation is primarily to finance higher expenditure on health and education.
- If voters are aware of a budget surplus, they are more likely to reject tax cuts and increase spending believing it to be less painful when it comes out of the surplus.
- Polls do not show evidence of pro-tax ideological change, but rather because people's incomes have been rising, they feel more prosperous and want to spend more, including on services provided by the government.
- There is still widespread mistrust of government with 58% of people in 2003 believing the Federal government was run for only a few big interests rather than for the benefit of all. A majority also believe that the quality of health and education services has declined.
- Australians are in a tax trap. They pay so much in tax for public sector provision that if they opt for the private sector they end up paying twice. Following from this, voters believe it is easier and cheaper to get improvements on health and education by paying more tax rather than taking the leap to the private sector.

The 2004-05 Budget did not follow preferences for increased spending on health and education and instead opted for tax cuts. There are at least five reasons why:

- 1) Tax cuts are a safer option for politicians. Though they will suffer initial revenue loss, down the track this will disappear due to the effects of inflation and real income increases. Spending on services tends to blow out and is difficult to cut back if the economy weakens.
- 2) Tax cuts are far more visible to voters than spending on services. The public's estimates of government spending are usually inaccurate and it is difficult to even measure if increased spending actually does improve services.
- 3) If government spending on schools and hospitals increased, those in the private sector may transfer to the public sector and potentially overburden these services. More money would have to be spent to fix new problems.
- 4) Not all people who say they want higher taxes are necessarily committed to that position. People adopt preferences to suit majority opinion or they may also conceal socially unacceptable opinion.
- 5) People sometimes support higher taxes in the mistaken belief that they will not pay.

The pro-tax majority is vulnerable to change in Australia's economic fortunes but for the anti-tax agenda to achieve majority support, attractive alternatives to publicly provided health and education services need to be found.

## Introduction

In 2003 we started to see opinion poll results not seen for over 30 years. Surveys showed larger numbers of voters choosing more spending on social services than choosing less tax, when these were the available options. If asked whether they would forgo tax cuts or pay higher tax to fund health and education services majorities said ‘yes’. Anomalies exist—a belief that the top marginal tax rate is too high, for example<sup>1</sup>—but too many surveys from too many polling organisations say similar things to doubt the general trend. Tax is less unpopular than in the past.

Unsurprisingly, big government’s supporters are keen to enlist these results in their cause. The ACTU highlighted its own poll showing that ‘the community values public provision of health and education ahead of individual tax cuts’.<sup>2</sup> Shaun Wilson, a left-leaning academic and key public opinion researcher in this field, interprets the results as saying that ‘the public wants its government to follow enlightened social democracies elsewhere and invest in their future’.<sup>3</sup> John Quiggin, a prominent left-of-centre economist, hopes that these polls mean ‘that social democracy has won the public debate, at least for the moment’.<sup>4</sup>

Politicians seem less convinced. In the May 2004 Budget, the Coalition government announced tax relief for people earning over \$52,000 a year, and no significant new spending on health and education. The ALP Opposition agreed to pass these tax cuts, and promised to reduce tax more widely if they won office. Opposition Leader Mark Latham went so far as to say, in his reply to the Budget, that Labor would reduce ‘Commonwealth expenditure and Commonwealth taxation as a proportion of GDP’, as well as increasing what he called ‘social investment’.<sup>5</sup>

Policy is rarely perfectly responsive to public opinion. To use an apposite example, support for less tax was strongest in the 1980s, but taxation as a percentage of GDP was higher at the decade’s end than it had been at the start, 29.4% versus 27.4%.<sup>6</sup> Policies on taxing and spending have such broad-ranging implications, for almost all government activities as well as the economy, that political parties cannot consider tax and spend polls in isolation from their wider policy agenda. In this context, public opinion can only be one factor among many.

Nevertheless, the parties’ behaviour has pundits puzzled. Writing just before the Budget was delivered, Michelle Grattan suggested that either the Liberals’ private polling showed something different to the pro-tax polls, ‘or that the Liberals are not easily coming to terms with the way in which electoral thinking is moving’.<sup>7</sup> Writing after the Budget, when Labor had offered even more tax relief than

the Coalition, Ross Gittins said that ‘the ground has shifted under the politicians’ feet, but they’re having difficulty recognising the change’.<sup>8</sup>

This paper does not go deeply into the policy considerations surrounding taxing and spending. But it does examine the economic context in which questions about taxing and spending were asked, and how these might influence the results. It also looks at the polls from a politician’s point-of-view, and finds grounds for believing that recent surveys do not provide a solid public opinion foundation for any large increase in taxation. Before exploring why not, we must first examine what the polls are saying, their meaning, and the driving forces behind them.

## The polls

### *Long-term trends*

Since 1967, in a series of slightly varying questions, voters have been asked about their relative preference for reducing tax or spending more on social services. These surveys aren’t in themselves good guides for politicians. They omit an option that is always popular if available, the status quo. They leave implicit the higher tax corollary of more spending, and the lower spending corollary of less tax, creating an artificial choice between two positives. They ask about what the government should do, not whether the respondent personally wants less tax or

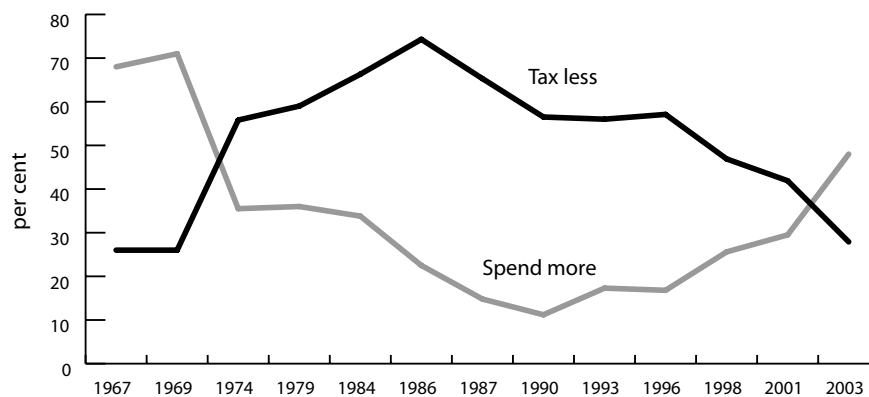
**Policy is rarely perfectly responsive to public opinion. Support for less tax was strongest in the 1980s, but taxation as a percentage of GDP was higher at the decade’s end than it had been at the start.**



more social services. As we will see, these issues are potentially significant. These surveys' value is in tracking broad tendencies in opinion over a long period of time, letting us hypothesise more confidently about their links to real-world trends than we can from one-off polls with very different questions.

As can be seen in Figure 1, the peak in pro-service spending opinion occurred in the late 1960s, and lasted for two surveys. By the time voters were asked again about their relative preferences for taxing and spending, in 1974, support for more spending had halved and twice as many respondents as before wanted less tax. In the mid-1980s the lower tax option increased its popularity, with very few people wanting more social service spending.<sup>9</sup> Though the anti-tax view subsided from its 1980s peak in the first half of the 1990s, it was still a majority position, and support for more spending remained at low levels. In the second half of the 1990s, opinion began to change, with less tax trending down and more spending trending up. In the last poll, for the first time since 1969 increased spending was more popular than less tax, though still just short of a majority on 48%. This result was probably boosted by express mention of health and education services, which are high priorities for Australian voters.

**Figure 1: Long-term trends in taxing and spending opinion, 1967-2003**



Questions:

- 1967-1979 ANPAS survey; 1984-1986 National Social Science Survey; 1987 & 1993-2001 Australian Election Survey: If the government had a choice between reducing taxes or spending more on social services, which do you think it should do?
- 1974 Morgan Poll: If you had to choose between the Federal government increasing social services or reducing taxes which would you choose?
- 1990 Australian Election Survey: Some people think that the Federal government should reduce taxes a lot and spend much less on social services. Others think that the Federal government should increase taxes a lot and spend much more on social services. And others have opinions in between. Where would you place yourself on this scale?
- 2003 ASSA: If the government had a choice between reducing personal income taxes or increasing spending on services like health and education which do you think it should do?

Where grades of support for taxing and spending were available, in all polls from 1986-87 onwards, responses have been aggregated. Following the practice of other researchers, I have translated the 1984 and 1986 National Social Science Survey 'mildly for' more taxing and spending as equivalent to 'depends' in subsequent surveys. The argument for doing so is that there is a consistently large minority (20-32%) of equivocal respondents who choose this option, so including them in either lower tax or more spending overstates support for these options.

*Recent one-off surveys*

Other surveys over the last two years about taxing and spending preferences confirm the impression given by the final poll in Figure 1. A 2003 ACNielsen survey taken after the May Budget changed the choice from alternative principles to alternative proposals. The Budget offered a small tax cut, equivalent to \$4 a week for middle-income earners. The *Sydney Morning Herald* story about this poll does not record the precise question asked, but reported that 20% of those polled wanted the tax cut, and 77% wanted better health and education

services.<sup>10</sup> Though the tax cut's trivial size may have affected the trade-off, this was a strong pro-spending result for a survey that reminded its respondents that government expenditure was not costless.

Later in 2003, the Australian Survey of Social Attitudes (ASSA) looked at spending priorities and personal willingness to pay, again prompting respondents to consider the potential personal financial consequences of their answers. It found 68.2% were willing to pay extra tax to spend more on health and Medicare, 63.5% for schools, 54.6% for defence and national security, and 53.8% for environmental protection. All up, 73% nominated at least one area in which they were prepared to pay more tax.<sup>11</sup>

Newspoll arrived at a similar result in January 2004. It asked 'If the Federal government has a large surplus, should this be spent all or mainly on health and education, on personal tax cuts, or spent on both equally?'. 72% said it should be spent all or mainly on health and education, 9% supported tax cuts, and 16% wanted it spent on both equally.<sup>12</sup> All up, 88% favoured at least some additional spending. The numbers were a little lower in a Taverner Research poll of voters in NSW and Victoria after the May 2004 Budget. This Budget offered generous payments to families as well as the tax cuts for people earning over \$52,000 a year. When its respondents were asked whether they would forgo the tax cuts and family incentives for spending on services 65% said 'yes, definitely', 14% wanted some of each, and 18% wanted the tax cuts.<sup>13</sup> The two pro-spending options add up to 79%, comparable to ACNielsen and ASSA results in 2003.

### Explaining discrepancies

While all polls conducted on taxing and spending issues over 2003 and 2004 arrive at similar conclusions, there is an anomaly that needs explaining. The 2003 question about reducing tax or increasing spending on services, seen in Figure 1, shows 48% support for the more spending option. That's at least 24 percentage points lower than one-off polls record, despite Figure 1's question only implying that more services meant more tax, and not mentioning at all that the respondent's personal tax bill may be higher. How is this to be explained?

#### *Specific spending*

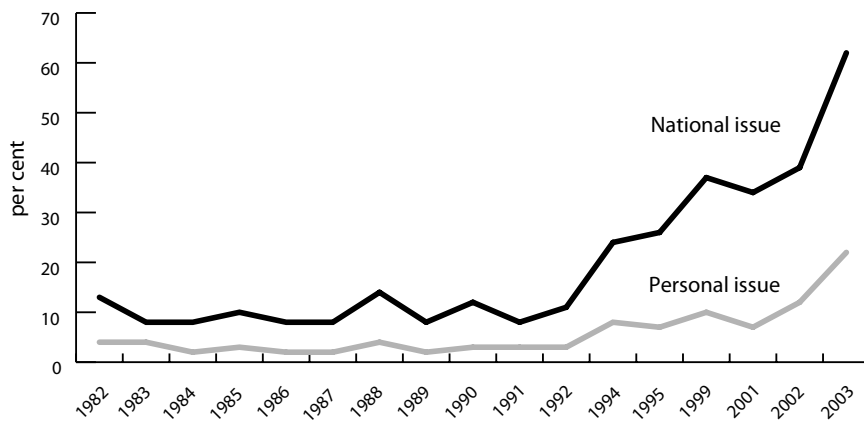
Part of the answer is that voters have reasonably clear ideas about which parts of the Budget should receive more resources. In the 2003 ASSA, for example, five outlay options are given: health and Medicare, primary and secondary schools, environmental protection, defence and national security, and welfare benefits. While 73% of respondents nominated at least one of these for additional taxing and spending, only 27% wanted more in all five areas. Welfare was the least popular spending option, with just 34% favouring more taxes to fund it.<sup>14</sup> Additional income support for able-bodied adults consistently registers low levels of support. A 1992 AGB-McNair survey found a preference for less spending on the unemployed, despite the high number of jobless in the recession.<sup>15</sup> A 1999 survey found no majority support for more government spending on the unemployed, except for people over 50 who could not find work.<sup>16</sup> When an ACNielsen survey for the CIS told respondents extra money would be spent on 'on welfare and social services', only 12% were for higher taxes and spending and 36% were for lower taxes and spending.<sup>17</sup> Mention of welfare increases opposition to tax.

**While welfare spending is unpopular, other poll evidence confirms impressions from the 2003 ASSA and the January 2004 Newspoll—health is a high priority.**

While welfare spending is unpopular, other poll evidence confirms impressions from the 2003 ASSA and the January 2004 Newspoll—health is a high priority. Over many years the Morgan Poll has asked its respondents about which are the most important issues the Federal government should be doing something about (a national question), and what the Federal government could do that would be of most benefit to you and your family (a personal question). As Figure 2 shows, health has increased very significantly as a top issue since the early 1990s. The difference between the national and personal levels is exaggerated, since for the national question respondents are specifically asked for three issues, while no number is

mentioned for personal replies (respondents can give more than one answer, but in practice few do). Newspoll's surveys also show that health has become a more important issue.<sup>18</sup>

**Figure 2: Health as an issue, 1982-2003**



Question 1: Thinking about Australia as a whole. In your opinion, what are the three most important things the Federal government should be doing something about?

Question 2: What could the Federal government do that would be of most benefit to you and your family?

Source: Morgan Poll.

Because people are quite specific about which services they want tax money spent on, they do not give unqualified support for more spending. As the last question in Figure 1 asked about spending on 'services like health and education' it received a lower response than asking about either of those two services individually (68.2% for health, 63.5% for education). 57% of the sample replied affirmatively to both specific questions, so some people with limited pro-tax and spend views were presumably deterred by mention of a service that they did not want money spent on, and shifted their preference to 'depends', an option nominated by 21% of respondents.

Vague questions, like those asked about spending in Figure 1, are likely to reduce pro-spending opinion. An interesting feature of recent polling is that despite rising support for government spending, distrust of government remains strong. The 2003 ASSA asks whether its respondents thought that the Federal government is run 'for a few big interests' or 'for the benefit of all'. 58% thought that it was run entirely or mostly for a few big interests, suggesting an electorate that is only slightly less cynical about its political leaders than it was in the late 1990s.<sup>19</sup> In this context, questions which do not specify that the money is going to services that the respondent wants, or raise the possibility that it might be spent on things that they do not want—'services *like* [but not *only*] health and education'(emphasis added)—receive more negative answers than tightly-worded questions focusing attention on services respondents do want. Voters do not trust politicians enough to given open-ended support for more spending.

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#### *The psychology of the surplus*

Most Budgets in the Howard-Costello era delivered surpluses, collecting more in tax and other government revenue that they spent. This reversed the budgetary pattern of the preceding 25 to 30 years. Since the mid-1970s, in most years governments spent more than they collected, and filled the gap with borrowing. The issue here is whether this fiscal turnaround changes the way people think about taxing and spending issues. Is spending more attractive if it does not require any new taxes, tax rates, or tax brackets? Are voters more likely to reject a tax cut paid out of the surplus than to accept a tax increase from an in-balance budget?

In strict personal financial terms, a surplus should not make a difference. A forgone \$20 a week tax cut out of a surplus has the same effect on personal finances as a \$20 tax increase from a balanced budget—the taxpayer is \$20 a week worse off. However, psychologically the two are not necessarily the same, and rejecting a tax cut is more likely than accepting a tax increase. This is because the taxes that finance surpluses are already factored into taxpayers' financial calculations. Rejecting a tax cut will not interfere with otherwise anticipated spending by a taxpayer. A tax increase, by contrast, would reduce forecast spending capacity. It hurts less to lose something you did not expect to have than to lose something you did expect to have.

The psychology of the surplus helps explain differences between the 2003 ASSA and the May 2003 ACNielsen poll. The 2003 ASSA omitted mention of a budget surplus, and as noted 57% of its respondents replied affirmatively to paying more tax for both health and education. The May 2003 ACNielsen poll, by contrast, found that 'given the option, 77% of voters said they would prefer the \$10.7 billion budgeted [for tax cuts] to be directed to health and education'.<sup>20</sup> That is 20 percentage points higher support than for the same spending options when funded from increased personal tax, consistent with spending being less painful when it comes out of the surplus, even when accompanied by a lost tax cut.

Similarly, support for spending was above 57% in other polls that referred to or assumed knowledge of the surplus. The January 2004 Newspoll, which specifically mentioned the surplus, came out 15 percentage points ahead of the 2003 ASSA for spending on a comparable combination of services, and 31 percentage points higher if the money was to be split between spending and tax cuts. The May 2004 Taverner poll, also in the context of a Budget with a surplus but not directly reminding its respondents of it, found 65% for more spending on services rather than the tax cuts, and 14% for some of each. It had the lowest margin over the 2003 ASSA, 8 percentage points, probably because it did not specify popular health and education spending.

#### *Framing losses*

The factored-in cost (from the taxpayers' point-of-view) of the surplus also changes how losses and gains are perceived. The psychological literature on loss aversion finds that, in normal circumstances, losses loom large than gains.<sup>21</sup> To put it another way, most people are more upset about losing \$100 than they are happy about gaining \$100. When extra money is taken from voters in tax, it will be seen as a loss to the taxpayer. However, when the money is already held by the government (or will be held, given current tax rates and revenue projections) not spending the money on services becomes the 'loss' in people's minds, rather than paying tax. There are signs of this phenomenon in recent polls.

The May 2003 ACNielsen poll, taken after that year's Budget, is a possible example. It was well known that the tax cut was only \$4 a week for average earners, with which you would be lucky to buy a milkshake and a sandwich, as Amanda Vanstone famously observed. In this context, it was easy to see the lost health and education services as exceeding the small gain from lower income tax, so 77%

went for more health and education spending. Similarly, the January 2004 Newspoll's question framed the issue as tax cuts or services financed from a surplus. Because the surplus was the status quo, the negative of a potential loss of health and education services outweighed the positive of a tax cut.

For people who are net beneficiaries of the tax and social service system the 2004-05 Budget was easily framed as a 'loss'. They receive negligible or no benefit from a tax cut, and therefore lack a gain on the tax side of the tax and spend choice. A Newspoll published in *The Australian* after the May 2004 Budget shows how these people can be losers without losses. Though the Budget was unusually pain free for voters, 22% proclaimed themselves to be 'worse off' as a result. This wasn't just Labor partisans playing games with the pollsters, with 13% of Coalition voters believing they were worse off.<sup>22</sup> Ignorance may partly explain these replies, but it is also

**Though the Budget was unusually pain free for voters, 22% proclaimed themselves to be 'worse off' . . . some voters believed that with a large surplus they were entitled to a share of it, and failure to receive that share was a 'loss'.**

possible that some voters believed that with a large surplus they were entitled to a share of it, and failure to receive that share was a 'loss'. People earning less than \$52,000 a year (the point at which tax relief starts) were nearly three times as likely to say that they were worse off as people on higher incomes.

A second question in the January 2004 Newspoll illustrates the effect of framing losses particularly well. As we have seen, only 9% of its respondents wanted the surplus spent all or mainly on tax cuts. But its next question asked whether the tax rate of 47% on incomes over \$62,500 was too high. 50% said it was, 34% said it was about right, and just 8% said it was too low. If the strict logic of answers to the first question were carried through a 50% too high response would be unlikely, since without those high rates the projected surplus would not have been so large. Yet this second question was phrased to emphasise losses for taxpayers. The way the two questions were asked generated intuitive but inconsistent answers.<sup>23</sup>

Another example of how framing the issue to emphasise the cost to taxpayers produces anti-tax results comes from an ACNielsen/CIS poll in August 2003. This survey told respondents how much taxpayers on \$30,000, \$60,000 and \$120,000 paid in tax, and asked whether this sum was too high, too low, or fair and reasonable. Put in these terms, the constituency for lower tax changes from 9-20% in the three questions premised on the surplus to 41-46%, depending on the income group.<sup>24</sup> Taxes mentioned in isolation are seen as losses to taxpayers. Just 1-9%, again depending on the income group, thought that the tax paid was 'too low', well below the 27% wanting more taxing and spending in all five areas suggested in the ASSA being conducted at the same time. The difference was that ACNielsen poll talked only about tax, focusing attention on tax losses, while the 2003 ASSA talked about taxes and services.

Such are the contradictory impulses about gains and losses prompted by different questions that when offered the status quo more respondents choose it above either lower tax or more spending alternatives. The 2003 CIS/ACNielsen poll found 41.3% support for leaving taxes and social spending as they are, slightly more than the 38.5% in favour of reducing spending and taxing, despite the unpopularity of welfare spending boosting anti-spending numbers in this poll.<sup>25</sup> The status quo was also the most popular option when Figure 1 showed less tax at a majority when answers were restricted to two alternatives. A 1979 Age Poll found that 61% of respondents wanted the budgetary status quo, while 20% wanted less tax. This contrasts with 59% for reduced taxes when the choice was between less tax and more spending. Another Age Poll in 1985, just prior to the anti-tax peak in Figure 1, found 22% preferring less tax and 57% supporting the status quo.<sup>26</sup> In 2000, the International Social Science Survey found 42.6% support for the status quo, 30% support for more taxing and spending, and 24.7% for less.<sup>27</sup> This approximately matches the more spending option in the 2001 AES, but shows 20 percentage points lower support for less tax.

What results from the one-off surveys suggest is not ideology, but opinion that is acutely sensitive to context. Often, this context is nothing more than the question asked and which concerns it makes salient. The importance of question wording has always to be kept in mind when analysing these polls. Question wording cannot, however, explain the trends recorded in Figure 1, because the questions asked were similar (the main differences are no 'it depends' or 'mildly' options prior to 1984, and the specific mention of popular health and education services in 2003). Broader social, economic or political circumstances must be driving changing responses to questions that are the same or very similar.

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## Underlying causes

### *The importance of health*

Two other recent papers on taxing and spending conclude that opinion has changed because voters want better health and education services. The evidence above on where voters want tax dollars spent suggests that health and education are important parts of the tax and spend story, and data on trends in service standards support this analysis. These polls are reproduced in Table 1.

**Table 1: Perceptions of service standards**

Question: Standard of health services since the [1996/1998] federal election has...  
 Question: Over the last two years [since 2001], do you think that the standard of health services, including Medicare, has...

	1996 to 1998	1998 to 2001	2001 to 2003
Increased	12	13	15
Stayed the same	25	33	24
Fallen	63	54	59

Question: Quality of education since the [1996/98] federal election has...  
 Question: Over the last two years [since 2001], do you think that the standard of public education has...

	1996 to 1998	1998 to 2001	2001 to 2003
Increased	11	12	15
Stayed the same	39	41	35
Fallen	50	47	42

*Source:* Australian Election Survey 1998, 2001; Australian Survey of Social Attitudes 2003.  
 The increased and fallen responses have been aggregated, and all figures rounded.

In their paper analysing the 2003 ASSA, Shaun Wilson and Trevor Breusch use multivariate analysis to identify the ‘real’ drivers of support for more spending. They find that, after controlling for other factors, those who believe that health and Medicare have declined in the last two years support more spending by half a point more on a five point scale, and those who think public education has declined move toward more spending by a third of a point. Those who think both have declined move by three-quarters of a point.<sup>28</sup> In his paper for the Parliamentary Library, Richard Grant focuses on health, providing further evidence from other polls on health-related concerns, such as the cost of private health insurance, the declining number of hospital beds, and ‘no gap’ private cover. He does however ask about the direction of causation: ‘it is difficult to know whether the belief that health standards have fallen has caused

**People identify more serious problems when asked about others than they do when they are asked about their own situation. (‘I’m worried about education, but my kid’s school is ok.’)**

more respondents to rate health as highly important (see Figure 2, p. 4) or whether the belief that health is important has led them to take a more critical view of existing health standards.’<sup>29</sup>

The difficulty with Wilson and Breusch’s argument is that it assumes that the perception that health and education standards are in decline is new. If it is not new, their analysis helps explain why people in the 2003 sample prefer more spending, but not why we see a trend. A constant cannot explain something that varies over time. The theoretical case for thinking it is not a new opinion is that questions like this tend to get negative answers.<sup>30</sup> In Australian and international surveys, people identify more serious problems when asked about others than they do when they are asked about their own situation. (‘I’m worried about

education, but my kid’s school is ok.’) Illustrating this phenomenon, Figure 2 shows that while only a small number of people nominate health services as something the Federal government can do that would benefit themselves or their families, a comfortable majority think the Federal government should do something about health services.<sup>31</sup>

Levels of concern differ partly because opinions about systems as a whole come mainly from the media, which focuses on newsworthy shortcomings, rather than personal experience, which usually provides a more balanced view. Another factor exaggerating negative perceptions is that accurate comparisons over time are very hard for non-experts. Bad memories fade more than good, so past difficulties are forgotten while current problems remain fresh. The result can be comparisons that are very wrong when measured against actual data from the two time periods. From constant news stories about hospital and medical service problems many people conclude that things are getting worse, whether that is true or not.

The empirical case for thinking problems in health and a desire to fix them are not new comes from polling over the last 20 years. As we can see in Table 1, voters took an even more negative view of trends between 1996 and 1998 than between 2001 and 2003, but with much less of a shift in opinion on taxing and spending (though this was the turning point time period). Unfortunately earlier questions about health did not ask about trends, but we can infer from answers to them that health services were a major concern. Back in 1984, when the polls were strongly for less tax, the National Social Science Survey (NSSS) nevertheless found that 57% of people believed that too little was spent on hospitals and medical care. The 1987-88 NSSS found 70% wanted more government spending on 'health, hospitals and Medicare'. In the 1989-90 NSSS, with a reminder that more spending might mean more tax, 67% went for more government spending on 'health, hospitals and medical care'. The 1993 NSSS was more specific about what government money might be spent on, and found 86% wanted more spending to reduce waiting lists for surgery, 69% wanted spending to train more nurses, and 82% wanted new equipment for hospitals. Only training more doctors fell just short of majority support. Of all the polls in this anti-tax era, there is only one partial exception to this strong emphasis on health, the 1990 Australian Election Survey. While 89% classed health as an important issue, 51% disagreed with increasing tax to spend more. It took the direct threat of more tax to push health down the list of priorities.

**Prosperous people want to buy additional health and education services, along with other new or improved goods and services, which they forgo when they feel less well-off.**

Other sources confirm health services were important before the strong pro-tax and spend polls of the last two years. Unlike the Morgan Poll of important issues (Figure 2), where respondents can choose any issue but are limited to three responses, Newspoll offers a restricted list of issues but allows any number to be nominated as 'important'. Right from the time Newspoll started measuring opinion on health and Medicare in July 1990 it has been an important issue, with a debut on 63%. It reached the high 70s in the mid-1990s, and with a few ups and downs remained there until June 2003, when it moved into the 80s. It was at 85% in October 2003 when the 2003 ASSA was being conducted. It did not show as highly significant in the Morgan Poll until later because economic issues, especially unemployment, were seen as more critical when poll respondents were permitted only three 'most important' issues. As the economy subsided as a concern, underlying concerns about health services rose to the top of the public's agenda.

It is conceivable that dissatisfaction with the quality of health services is the dynamic influence on public preferences; that over the last few years we reached a tipping point that reversed opinion on taxing and spending. Perhaps the demographic and technological changes driving up health costs finally overwhelmed the system and the public's patience. But I think a more plausible interpretation is that health services have been a major concern for a long time without any dramatic effects on opinion about government spending. From 1986 to 1996, support for more spending overall was below 20%—a number that doesn't match with the concern shown in specific questions about health during this time. As late as the 2001 Australian Election Survey, less tax had a declining but still comfortable 12 percentage point lead over more spending. Voters undoubtedly want health services to improve, but this fact on its own does not fully explain the trends we see.

#### *The impact of prosperity*

An alternative theory of tax and spend trends is that what varies is not the desire for better health and education services—this is an underlying constant—but the capacity to pay for them. In other words, prosperous people want to buy additional health and education services, along with other new or improved goods and services, which they forgo when they feel less well-off. Shaun Wilson, Trevor Breusch and Richard Grant correctly identify negative perceptions about health and education services are a necessary condition for voters supporting more taxing and spending, but miss that these perceptions are not on their own a sufficient condition for opinion to change.

If we look back on the long-term history of opinion on taxing and spending, going back to the late 1960s (Figure 1), this theory fits more closely with the trends we see. The last time we saw strong pro-spending opinion was in two surveys conducted in 1967 and 1969. This was a period of strong real wage growth.<sup>32</sup> If people judge their financial situation by comparing it with the past then at that time they should have felt prosperous. Contemporary opinion polls suggest that they did, as seen in Table 2. Two Morgan polls conducted in 1966 and 1967 found that hospitals and medical services topped the list of most important election issues, with education second, just as they have again since 2001.<sup>33</sup> In these circumstances, it is plausible that in the late 1960s Australians wanted to increase their overall consumption, and for services (like health and education) where government was the dominant financier, they accepted that the mechanism for doing so was more taxation.

**Table 2: Feelings of prosperity, 1967 & 1969**

Year	Better off	About the same	Worse off
1967	40	39	20
1969	43	42	14

Question: Are you and your family better off now than you were three or four years ago, are you worse off, or have you stayed about the same?

Source: Australian National Political Attitudes Survey.

By the time Australians were next asked about their preferences for taxing and spending, in 1974, opinion had changed markedly. 1969 to 1974, like 1998 to 2003, shows how views can reverse themselves, doubling and halving respectively, over five year periods. What drove this shift? Perhaps the Whitlam government's spending spree satisfied some demand for more services.<sup>34</sup> A consequence of increased spending was that the tax burden rose from 22.5% of GDP in 1972 to 25.9% of GDP in 1974.<sup>35</sup> Though real wages were still growing, by the mid-1970s, the marginal tax rate on average weekly earnings exceeded 40%.<sup>36</sup> Added tax had a perceptible impact on many families' finances, and consistent with what we would expect if household finances were the main variable, support for less tax greatly increased.

At the time of the mid-1980s anti-tax peak in opinion, as seen in Figure 1, households' overall financial situation was worse than in the 1970s. Wage increases were not keeping pace with the cost of goods and services.<sup>37</sup> Average income tax rates trended up to a record peak in the late 1980s, and the marginal tax rate on average weekly earnings exceeded 40% for several years from 1985.<sup>38</sup> In 1983 the McNair polling organisation asked 'during the last few years has your financial situation been getting better, getting worse, or has it stayed the same?', a similar though not identical question to that asked in the late 1960s. 48% said worse off, 36% said the same, and only 14% thought that they were better off.<sup>39</sup> In 1987 a 12 month comparison in the Australian Election Survey found 43% thought that they were worse off, 38% said the same, and 19% said they were better off. The public chose lower tax over more spending, needing financial relief more than additional services. Consistent with this, as can be

**[In the late 1980s] health was barely rating as one of the top three issues the Federal government should be doing something about, with economic issues dominating.**

seen in Figure 2, health was barely rating as one of the top three issues the Federal government should be doing something about, with economic issues dominating.

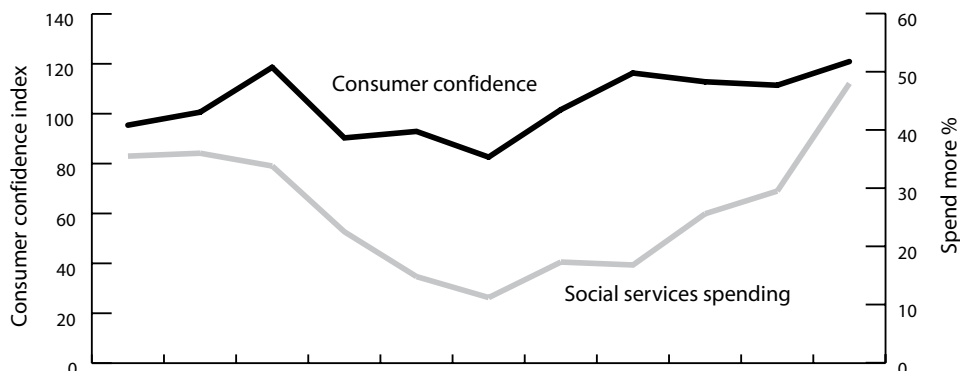
The overall household financial situation in the later 1990s and early 2000s was quite different. Real wages grew strongly from the mid-1990s, easing financial pressure on households. Between 1995-96 and 2002-03 real wages grew by 14.5%, compared to 6% in the previous eight years. After the Howard government's 2000 tax reforms the marginal tax rate on average weekly earnings was 30%, less than it had been through most of the 1970s and 1980s, though indirect taxes were higher because of the GST. Consumer confidence surveys, such as those carried out by Roy Morgan Research since 1973, let us check that people did perceive



their financial situation in the way the objective statistics suggest they might have. Consumer surveys are reported in an index including assessments of the family's financial situation compared to a year in the past and expected position a year into the future, perceptions of future economic conditions, and whether now is a good time to buy major household items. From 1984 to 1987, the period of the anti-tax peak in opinion, confidence declined significantly, and apart from one good year in 1988 did not exceed its baseline 100 index until 1993. Since 1994, the consumer confidence index has been in strongly positive territory, and above 120 since 2002.<sup>40</sup>

We are back where we were in the late 1960s. With real wages increasing strongly, unemployment declining, interest rates low, and inflation under control, economic issues are less significant.<sup>41</sup> Voters feel more prosperous than they did in the 1970s and 1980s, and want to buy more goods and services, including those services primarily financed through government. Figure 3 shows that over a nearly 30 year period consumer confidence and support for spending on social services broadly track each other, as we would expect if financial circumstances are the key variable driving trends in tax and spend opinion.

**Figure 3: Consumer confidence and preference for social service spending, 1974-2003**



Source: Consumer confidence data is from 'Fid7 in April but 93 consumer Confidence still high: Monthly Roy Morgan Consumer Confidence Figures—1973 to present', Article No. 320 (16 April 2004); Spending data: As for Figure 1.

#### *The tax trap*

There is one further puzzle that needs explaining. Table 1 shows a widespread perception that publicly provided health and education services are deteriorating, and I have reported other polls suggesting that concerns about health and education go back to the 1960s. If these problems have continued for decades and still majorities think the standards of health services are falling, private sector alternatives look like better options than more tax. People know that taxes have been going up since the mid-1990s (Table 3), but to little effect, if Table 1 is a guide. So why support a remedy that has failed in the past?

The reason, I think, is that many Australians are in a tax trap. They pay so much in tax that they cannot easily afford to opt out of public sector provision. For example, in 1998-99 the Australian Bureau of Statistics estimated that middle income (that is, in the third quintile) couples with dependent children paid \$283 a week in taxes and received back \$264 in government education and health benefits. The same family type in the fourth quintile paid about \$400 a week in taxes and received back about \$260 in education and health benefits.<sup>42</sup> If they opt out of the public sector and go private they will end up paying twice, once for the public services they no longer use and once for the private services (though they won't necessarily pay double, as most private services are also subsidised).

Given the large cost leap from status quo use of government services to the private sector, there is a logic to voters' willingness to pay more tax. It looks like a cheaper way of getting

some improvement in health and education. Unfortunately, increased taxes—or at least large tax increases—would exacerbate the problem. The more taxpayers must hand over to the government, the less able they are to afford private alternatives. They become trapped in the government’s churning of tax revenue, taking from and spending on the same people.

**Table 3: Perceptions of tax burden, 1996-98 to 2001-03**

Question: Taxes since the [1996/1998] Federal election have...  
 Question: Over the last two years [since 2001], do you think taxes have...

	1996 to 1998	1998 to 2001	2001 to 2003
Increased	47	60	75
Stayed the same	48	20	15
Fallen	5	20	6

Source: Australian Election Survey 1998, 2001; Australian Survey of Social Attitudes 2003.  
 The increased and fallen responses have been aggregated, and all figures rounded.

**The view from Parliament House**

If tax cuts are less popular than at any time since the late 1960s, and extra spending, especially on health, has high support when paid for from increased tax and overwhelming support if financed from the surplus, why did the 2004-05 Budget not follow those preferences, and why did Labor go along with the tax cuts? For politicians so often condemned as ‘poll driven’ there must be more going on. I cannot speak for the politicians, but there are at least five reasons why tax cuts now make more political sense than it might appear, having read only the polls discussed above.

*1) Tax cuts are short-term, but spending is long-term*

Understanding why recent polls show more support for increased service spending and less for tax cuts helps us see why politicians are wary of giving voters what they seem to want. This is that so far there is no evidence that voters’ preferences are undergoing an enduring change. The dominant driving force behind Figure 1 trends appears to be economic prosperity and consumers’ desire to increase their spending. Budget surpluses probably explain the exceptionally high support for more government expenditure shown in several one-off polls during the last two years. If economic growth slows significantly (as almost inevitably it must at some time), or we enter another recession, then consumer confidence will drop and surpluses disappear. With these preconditions of pro-spending opinion gone, public preferences could quickly change. As we’ve seen, since 1967 that has occurred twice over a five year period. If these poll results survive hard economic times then we can conclude that underlying opinion

**Of the three options in the 2004-05 Budget—more spending, deficit reduction, tax cuts—more spending is the most politically difficult to adapt to a weaker economy.**

is different. Until then, the safer hypothesis is that recent survey results reveal a stage in a longer-term cycle, not a new resting point. Political leaders need to think of the longer-term consequences of anything they do now, and what options they will have if circumstances change.

Of the three options in the 2004-05 Budget—more spending, deficit reduction, tax cuts—more spending is the most politically difficult to adapt to a weaker economy. This is because while tax cuts and more spending can have the same effect on the current year’s fiscal outcome, they have different longer term dynamics. Tax cuts mean that revenue is lower than it would otherwise have been, but cuts of the kind announced in the 2004-05 Budget do not disrupt the tax system’s capacity to generate ever-increasing revenue from the same rates. This dynamic improves the

Commonwealth’s fiscal position. Spending increases, and especially those increases that create new entitlements, also tend to grow, but these worsen the Commonwealth’s fiscal position.

The progressive tax system is why revenue can grow even in a stagnant economy. With inflation, nominal wage increases push workers into higher tax brackets. No difficult political decisions need to be made. With a growing economy, revenue will grow more quickly still, all

without changing tax rates or brackets. Also, the nature of job growth in Australia has been, and is likely to be in the future, lucrative for the Commonwealth. As Michael Keating has shown, full-time job growth since 1989 has disproportionately been in the relatively well-paid occupations classified as professional and associate professional.<sup>43</sup> Their incomes are taxed at high marginal tax rates, often 42 or 47 cents in the dollar, plus the Medicare levy. Thanks to these factors, the proportion of taxpayers paying a top tax rate of 30% or less decreases each year by 1.5% to 2%, all without the government doing anything.<sup>44</sup> Despite the tax cuts, the Commonwealth predicts real tax revenue growth of 2.7% in 2004-05 and 2.3% in 2005-06.<sup>45</sup> Only serious recessions, such as those in the early 1980s and early 1990s, reduce tax revenues in real terms.

The expenditure side of the Budget lacks the tax system's self-correcting (from the Commonwealth's view) mechanisms. To the contrary, it has self-expanding systems, causing spending to rise continually. Demographic change means that some areas of Commonwealth spending, such as old age pensions, cannot easily be controlled. Other forms of income support, such as disability and single parent benefits, cause the pool of people 'qualifying' for the various benefits to increase, partly explaining the extraordinary increase in the number of working age adults reliant on welfare.<sup>46</sup> This is why the 2004-05 Budget's family package, including new welfare payments of \$4.5 billion a year, is in the words of economics commentator Alan Kohler 'profligate', not because these payments are unaffordable now, but because it will be hard to get rid of them when the Budget is in a weaker position.<sup>47</sup>

Because spending programmes create their own clienteles, and because losses are felt more acutely than the gains from reducing or reallocating expenditure, spending cuts are very difficult to implement. Since 1970-71, only three budgets—two Labor, one Liberal—reduced total spending in real terms.<sup>48</sup> In each case, the cuts occurred after many years of deficits, fiscal necessity seemingly being the only politically acceptable reason for lower expenditure. These reversals disrupt the long-term trend to more spending, but they do not alter it. Spending growth returns quickly. In that time period, Labor on average increased spending in real terms by 5% a year, and the Liberals by 3.1% a year.<sup>49</sup>

Spending programmes are like marriages, not necessarily forever but requiring pain and misery to bring them to an end. By contrast, through tax cuts politicians can flirt with the electorate, knowing—as in 2004-05—that they are reducing the rate of revenue growth rather than taking in less revenue than before. The tax cuts will slowly disappear of their own accord as inflation and real income increases push more taxpayers and a larger share of total taxable income into the higher tax brackets. For politicians trying to manage economic and electoral cycles, tax cuts are the safer option.

**Through tax cuts politicians can flirt with the electorate, knowing—as in 2004-05—that they are reducing the rate of revenue growth rather than taking in less revenue than before.**

## 2) What have the Liberals ever done for us?

In Monty Python's film *Life of Brian* a very funny scene satirises relations between rulers and the ruled. While plotting to kidnap the Roman ruler's wife, a rallying the troops rhetorical question about what the Romans have ever done for them goes very wrong. The Romans, on reflection, have done a lot. It concludes as follows:

*Reg:* All right, but apart from the sanitation, the medicine, education, wine, public order, irrigation, roads, a fresh water system, and public health, what have the Romans ever done for us?

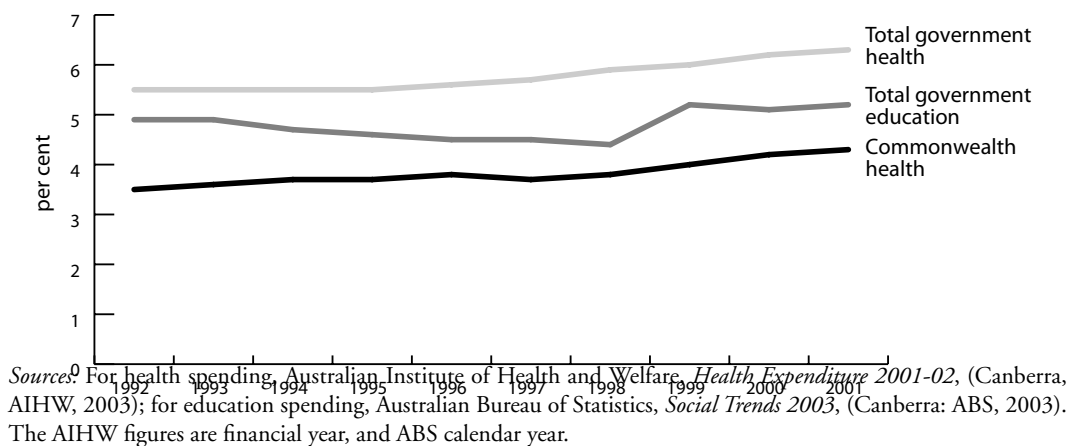
*Xerxes:* Brought peace.

*Reg:* Oh. Peace? Shut up!

This scene neatly captures a basic political problem with spending on services—politicians don't necessarily get much credit for it. In his study of the relationship between increased Commonwealth government spending per person and subsequent election results Michael Warby found a *negative* correlation.<sup>50</sup> Many people find it hard to believe that under John

Howard as Prime Minister public spending on health and education increased more rapidly than under Paul Keating, as can be seen as a percentage of GDP in Figure 4. As GDP grew relatively quickly during this period, increases in per capita spending are larger than these trend lines suggest. At the same time, growing private health and education sectors took some pressure off the public sector. To finance all this without deficits the Federal government, despite occasional income tax cuts, let tax as a percentage of GDP drift up to record levels.<sup>51</sup> So Federal government policy has, contrary to common impressions, matched the polls, taking more tax and spending more on services. And what is the government's political reward for all this expenditure? The service standards perceptions recorded in Table 1.

**Figure 4: Health and education spending as % of GDP, 1992-2001**



One political problem is that spending increases do not directly improve services. Very rapid growth in spending on pharmaceuticals (averaging 14.3% annually in real terms between 1997-98 and 2001-02) improved health outcomes, but not more obvious aspects of the health system's performance, such as waiting lists for elective surgery or long delays in hospital emergency rooms.<sup>52</sup> Pay increases to staff working in health and education ease long-term recruitment and retention problems, but do little or nothing to improve services in the short

term. Though it is hard to find objective data to support perceptions that health and education services are getting much worse (as significant minorities believe), it is possible to spend a lot more without making any or much progress on key problems.

Another problem is that the public's estimates of government spending are usually wildly inaccurate.<sup>53</sup> This is hardly surprising. Without market prices, users of government services do not know how much is being spent on them, let alone on everyone else. People do not absorb Budget numbers like they remember football and cricket scores. Add to this the confusions created by divided Commonwealth and state financing responsibilities, with each level of government blaming the other for shortfalls and shortcomings, and the electorate can be forgiven for being rather confused. So the political danger is that voters will clearly see the tax increases—as Table 3 suggests that they have—but not accept that

money is being spent where it should be, or being spent effectively.

This is particularly troublesome for the Liberal Party. In the absence of accessible, accurate, and memorable information about spending voters fall back on impressions from the political system itself. There are long-standing political stereotypes of the Liberal Party as the lower tax party, and Labor as the stronger services party. Newspoll regularly asks which party would best handle various issues. In 40 surveys since July 1990, the Liberals have come out ahead of Labor

**Public estimates of government spending are usually wildly inaccurate. Without market prices, users of government services do not know how much is being spent on them, let alone on everyone else.**

on health and Medicare on only three occasions. By contrast, the Liberals have been ahead of Labor on tax on 41 of 45 occasions (despite their recent high tax record).<sup>54</sup> In the 1996, 1998 and 2001 Australian Election Surveys, when asked which party is closest to the respondent's own views on education, Labor was ahead by wide margins.

The dynamic of the adversarial party system reinforces these stereotypes. With the Liberals in power, Labor complains more bitterly about spending decisions than the Liberals would if they were in opposition. When Labor is in power, the Liberals are more critical of tax levels than Labor would be when the Liberals are in power (though more recently Labor has taunted the Liberals over their tax record). This helps explain why the Howard government receives minimal public opinion credit for its spending programmes, and why in an election year it chose to cut tax. They did something that fitted with Liberal stereotypes, and which had easily verifiable consequences. Tax cuts can be seen on pay slips and in bank accounts. Spending increases can be, and have been, politically invisible.

### 3) Labor's problem—public and private service delivery

While Labor is seen as better than the Liberals on health and education services, the ALP's commitment to public services has problems of its own. Unfortunately for Labor (or the Coalition, if they pursue this path), improving public services is not just a matter of upgrading services for their existing users. Significant enhancement of these services would attract additional patients and pupils from the private sector, with consequent additional expense.

Currently, just over 43% of the population is covered by private health insurance.<sup>55</sup> In 2001-02 private spending on hospital treatment was \$4.2 billion, compared to \$16.8 billion in public expenditure.<sup>56</sup> Any substantial cost transfer from the private to the public sector would put major new strains on the public system. This is not a hypothetical problem. As Ian Harper has argued, the steady decline in the proportion of Australians with private health insurance from the early 1980s coincided with steep increases in real public hospital expenditure, which eased off only since various measures were introduced to boost private health coverage in the late 1990s.<sup>57</sup>

In school education, there is also a large private sector, especially in secondary schools. In 2002, 37% of secondary students were in independent or Catholic schools. These schools are subsidised to varying degrees by government, but also charge parents fees. Any large scale transfer of these students into the public system would impose enormous additional expense on governments and taxpayers. Parents sending their children to a Catholic rather than a government school save taxpayers each year, on 2001 figures, \$4,200 a child, and parents sending their children to an independent school save taxpayers \$5,500 a child.<sup>58</sup> If 20% of current non-government school students shifted to the public sector it would cost taxpayers another \$1 billion a year without improving the government school system at all.

Because the public and private health and education sectors interact, governments face a paradox: more spending in the public sector could make things worse, by making schools and hospitals more over-burdened than they were before. Demands would follow for still more spending to fix problems that would not have occurred were it not for the original spending increase. By this time, tax increases may exceed political acceptability, taking them beyond the current high point in the tax-spend political cycle. Though the 2003 ASSA found majorities for higher taxes to fund health and education expenditure, only minorities supported significantly higher taxes. Just 16.5% were prepared to pay 'quite a bit more' tax for spending on health, and 14% for schools. The other 51.7% (health) and 49.5% (education) were prepared to pay only 'a little more tax'. But a 'little more tax' is not enough for public services to be improved *and* to pay for any significant percentage of the people now using private health and education.

**The steady decline in the proportion of Australians with private health insurance from the early 1980s coincided with steep increases in real public hospital expenditure.**

### 4) Private truths, public lies

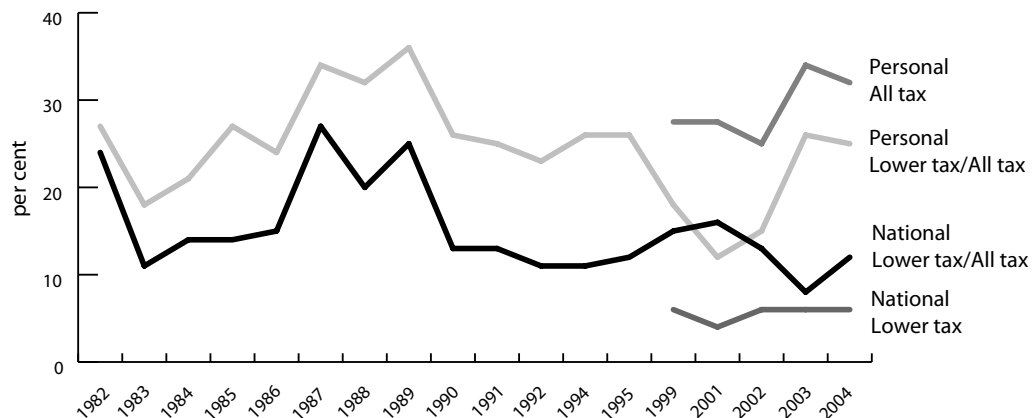
Voters tell pollsters that they are prepared to pay more tax, but is this what they really want? For

the reasons explained earlier, I believe the polls correctly identify an increased willingness to pay at least some additional tax in exchange for better health and education services. For some voters, however, their tax and spend answers may not reflect deep beliefs, but the joining of a bandwagon. Political scientists have found bandwagon effects before. In an experiment, a researcher told one group that public opinion was becoming more permissive toward abortion, and another that it was being more restrictive. The first group was 12% more likely to oppose restrictions on abortion.<sup>59</sup> They also find candidates win more support if it is known that they have done well in previous polls.<sup>60</sup> With several well-publicised polls over 2003 and 2004 showing popular support for more spending, we have the basic precondition of a bandwagon effect.

Bandwagon answers are not lies, but they are so superficial that a change in real-world events (such as taxes going up) could see these respondents switch sides very easily. Another group of respondents may have firm preferences that they conceal for reasons of social acceptability. This is the ‘private truths, public lies’ phenomenon described by Timur Kuran in his book of that name. With a national consensus that public services should be a top priority, nominating something else, especially something self-enriching like tax cuts, looks selfish. In these circumstances, fewer people than in the past say that they prefer tax cuts, even if privately they still want them. They give the answer they feel they should give, the socially or politically safe response, not what they genuinely believe.

The Morgan Poll most important issues surveys give us some insight into differences between public and private opinion on political issues. By inquiring about what would benefit the respondent and his or her family, as well as what should be done for Australia, there is a question that minimises pressure to give the socially acceptable response—especially as the personal question is asked second, after good citizen bona fides are established. As Figure 5 indicates, tax is always more nominated as something that the Federal government could do for respondents and their families than it is nominated as a national issue. The contrast is more dramatic than Figure 5 reveals, because for national issues respondents are encouraged to

**Figure 5: Tax as a national and personal/family issue, 1982-2004**



Question 1: Thinking about Australia as a whole. In your opinion, what are the three most important things the Federal government should be doing something about?

Question 2: What could the Federal government do that would be of most benefit to you and your family?

Until 1999, all tax responses were classified by Morgan as ‘lower tax’. After that, ‘no GST’, ‘tax reform’ and ‘other taxation issues were added. This creates difficulties in drawing trend lines. In that period ‘lower tax’ as a personal issue drops significantly, but taxation issues more broadly are stable. Pre-1999 some complaints about the tax system were probably coded as complaints about tax levels, though prior to the GST it is unlikely that this was a major factor. At least some of ‘no GST’ could probably be re-classified as a complaint about tax levels. Overall, the before 1999 ‘lower tax’ figures are likely to be slightly inflated, and after 1999 slightly deflated. The particular point of interest here, results from 2003 on, are unaffected by these changes.

Source: Morgan Poll.

nominate three issues, while generally they nominate only one at the personal and family level. At the personal and family level, tax is 16 percentage points ahead of health as something the Federal government could do something about, and 20 percentage points ahead of education.

The last two years are particularly interesting. While all other polling data suggests that tax is less of an issue than in the past, it has increased significantly as a personal and family issue. Due to a change in polling methodology it is difficult to make exact comparisons, but these figures look more like the 1980s and early 1990s era of strong opposition to more tax than what we would expect from an electorate 'relaxed and comfortable' with its tax bill. Whether Figure 5 exposes a 'public lie', or just shows that the minority for less tax rates tax as their most important issue, is impossible to say. Whichever it is, Figure 5 warns politicians of a constituency still very concerned about how much tax they are paying, despite the pro-tax impression given by other polls.

#### 5) *What, me?*

It is easy to say sincerely that *other* people should pay more tax. Some people who support higher tax may do so because they believe that they will not pay, or will not pay much. Since the share of all income tax paid by the top 25% of earners is 64.1%, for most people that is not an entirely unreasonable assumption if increased taxes are paid in proportion to the existing tax burden.<sup>61</sup> However, many people erroneously believe that they are not in the top group of relatively high income-earners. Research by UNSW's Social Policy Research Centre shows that many affluent Australians significantly underestimate their position in the nation's income distribution. When asked which income decile they were in, only 2% of those in the top 20% of earners located themselves correctly.<sup>62</sup> They could get a nasty surprise from the first Budget to increase taxes.

Others volunteering the 'wealthy' to pay more tax may not realise that, due to high marginal tax rates on modest incomes, they are dobbing themselves in. Though this danger has been alleviated by the 2004-05 Budget, before these threshold changes were announced the Melbourne Institute of Applied Economic and Social Research estimated that between 2000-01 and 2005-06 more than 600,000 additional taxpayers would move into the top tax bracket.<sup>63</sup> Perhaps more significantly Neil Warren estimated, using the tax scales applying before the 2004-05 Budget, that as early as 2005 the average worker would move into the 42% marginal tax rate (though of course their average tax rate would be much lower, because most of their income would be taxed at 30% or less).<sup>64</sup> Average workers paying marginal tax rates above 40% were a feature of strong opposition to more tax in the 1970s and 1980s, and there are signs that marginal tax rates are still an issue, such as the January 2004 Newspoll which found 50% thought that 47% tax above \$62,500 a year was too high. The Howard government's tax cuts delayed expanding the base of taxpayers paying high marginal tax rates.

Another difficulty is that as voluntary taxation creates free-riders; tax cannot be targeted on those willing to pay. Even for relatively popular spending priorities like health and education, still we see between one-quarter and one-third of voters in the 2003 ASSA saying that they are not willing to pay any more tax. In their analysis of that survey, Shaun Wilson and Trevor Breusch note that those without any political party identification are more in favour of tax cuts than other voters.<sup>65</sup> These are also the people whose votes are most likely to swing in an election campaign. Though I am not aware of research showing that these voters are disproportionately located in marginal seats, politicians may believe that these people are a key constituency, and structure their tax policies accordingly.

### Conclusion

Australia's politicians are prudently not rushing to follow the advice of poll-driven pundits. As yet, there is no clear evidence of a stable constituency for significantly higher taxes. The strong support for more health and education spending seen in the last two years is a product of prosperity, not ideological change. An economic downturn would re-focus voters' attention on their household budget, and wipe out the surpluses that made spending seem easy. Even while

**Others volunteering the 'wealthy' to pay more tax may not realise that, due to high marginal tax rates on modest incomes, they are dobbing themselves in.**

the polls remain pro-spending, political caution is advisable. Shallow (bandwagon), insincere (public lies), and cynical (mistakenly thinking others will pay) support for taxation is unlikely to survive the transition to higher tax reality. Those genuinely for more tax may be disillusioned when it fails to deliver significantly better services (Table 1 suggests they are disappointed already, just not yet disillusioned). The Liberals in particular are unlikely to get political credit for high spending, and are politically better off working on their lower tax credibility.

While majority support for spending is not likely to continue indefinitely, this is not to say we can easily go back to mid-1980s to mid-1990s peaks in support for less tax and lows for more spending. We are accumulating a large population of long-term welfare dependants, each with a vested interest in taxing the economically active population. At least the demographic element of this—the elderly—cannot be substantially reduced in the short to medium terms.<sup>66</sup> In fact, they will grow considerably. Add them to those with an ideological preference for more spending, and we probably have a higher floor than before below which support for more tax-financed expenditure is unlikely to fall.

While welfare dependence underpins support for more tax, it is also a complicating factor for those wanting higher taxation. Except perhaps among high-income families already paying twice for their health and education services, there is little evidence of altruism in recent tax and spend polls. Voters support more spending on services they or their families use or might use. Indeed, in the Morgan most important issues poll, a concern that was largely altruistic, with unemployment, has been replaced as the single most important issue by health, which is motivated at least partly by self-interest. Yet while welfare spending remains unpopular, it is very hard for governments to control, because anyone who meets eligibility criteria is entitled to assistance. If increased taxes disappear into transfer payments rather than services used by taxpayers, such as health and education, ‘less tax’ will re-assert itself among those paying Australia’s tax bills.

Because opinion on taxing and spending seems driven more by real-world events than ideology it contains ironies for both the free market right and the high-tax left. As dissatisfaction with public health and education services is a necessary condition of support for more tax, to the extent that satisfaction is achieved support for higher taxes will decline. As the left wants higher taxation to reduce income inequality as well as to finance services, there will be some

regret along with triumph in the (admittedly unlikely) event that the public is very satisfied with the standard of public health and education services.

Conversely, the free-market political right’s desired affluence is undermining popular support for lower taxes, as people seek to spend their money on more public sector services. As Australia becomes wealthier it is unsurprising and unobjectionable that people want better health and education services. The political difficulty is that these services are traditionally provided or financed by government. The public already half-understands that government is a very clumsy intermediary between spending desires and service delivery. The figures in Table 1 suggest dissatisfaction with the state agencies’ health and education performance, despite the ever-increasing sums spent on them. But because of the tax trap many taxpayers have a practical choice only between increased taxes

and paying twice for health and education services. For them, increased tax is the cheaper of the available alternatives.

Very few polls ask their respondents to think outside the constraints of the current system. The ‘less tax’ option is usually just that; it is not less tax so that better health and education services can be purchased privately. A small poll carried out by ACNielsen for the CIS in 2003 was a rare exception. It asked respondents about a hypothetical alternative to Medicare for health care, with taxes to be reduced so people could afford their own health insurance, with government helping to pay the premiums of low income people. 41.7% said it was a good idea, while 46.3% said it was a bad idea. This is a higher preference for tax cuts than in any other recent poll with an explicit or implicit trade-off, but it is still minority support. These divided

**Very few polls ask their respondents to think outside the constraints of the current system. The ‘less tax’ option is usually just that; it is not less tax so that better health and education services can be purchased privately.**



views on how to fund the health system are longstanding.<sup>67</sup>

Opinion on taxing and spending in Australia is linked closely to opinion on how health and education services should be delivered. Only minorities see taxation and government spending as inherently good or bad; everyone else sees both as means to ends. While the electorate retains, despite experience, its belief that government should deliver these services we have the necessary (though not sufficient) condition of support for higher taxation. Stinginess does not make sense if important services are inadequate as a result. Only with attractive alternative sources of health and education services can a low tax agenda have any serious chance of political success, as the ACNielsen poll on health insurance suggests. The absence of these alternatives in the 1980s helps explain why the strongest anti-tax sentiment yet recorded in the polls did not translate into lower taxes, and why flaws in government services in the early 2000s are not triggering demands from taxpayers to get their money back, so they can spend it more effectively themselves.

## Endnotes

- <sup>1</sup> Surveying for *The Australian*, Newspoll found in January 2004 that 50% believed that the top tax rate of 47% for incomes over \$62,500 was too high. Poll available at [www.newspoll.com.au](http://www.newspoll.com.au), first reported in George Megalogenis, 'Top rate too high, say half voters', *The Australian* (23 February 2004). Also, an ACNielsen poll conducted for the CIS found that large minorities (41% to 46%, depending on income group) thought that existing income tax payments were too high: Peter Saunders, 'What is Fair about a "Fair Go"?', *Policy* (Autumn 2004), p.9. These results are explained in this paper.
- <sup>2</sup> Australian Council of Trade Unions, *Government Services and Tax Resolution*, ACTU Congress 2003, p.1.
- <sup>3</sup> Shaun Wilson, 'The voters are getting restless, and government policy is yet to soothe them', *The Sydney Morning Herald* (3 May 2004).
- <sup>4</sup> John Quiggin, 'The social desirability of social democracy', <http://www.johnquiggin.com/archives/001682.html>, posted 8 May 2004.
- <sup>5</sup> Available here: <http://www.alp.org.au/media/0504/20007469.html>, delivered 13 May 2004.
- <sup>6</sup> OECD, *Revenue Statistics 1965-2002* (Paris: OECD, 2003), pp.73-74.
- <sup>7</sup> Michelle Grattan, 'Are tax cuts losing their lustre?', *The Age* (5 May 2004).
- <sup>8</sup> Ross Gittins, 'Hip pocket nerve losing its appeal', *The Sydney Morning Herald* (26 May 2004).
- <sup>9</sup> Results from 1984 onwards only record clear preferences; mild preferences or 'it depends' answers have been excluded. Earlier polls did not offer these options, and so produce larger numbers.
- <sup>10</sup> Mark Riley, 'Forget tax cuts, Coalition voters want health, education', *The Sydney Morning Herald* (20 May 2003), p.6.
- <sup>11</sup> Shaun Wilson and Trevor Breusch, 'After the tax revolt: Why Medicare matters more to middle Australia than lower taxes', *Australian Journal of Social Issues* 39:2 (May 2004), p.110.
- <sup>12</sup> The Newspoll was conducted 16-18 January 2004, details [www.newspoll.com.au](http://www.newspoll.com.au) It was first reported in George Megalogenis, 'Top rate too high, say half voters', *The Australian* (23 February 2004) There is an ambiguity in the way Newspoll presents their data here, with the 'spent on both equally' result reported immediately below 'all or mainly on health and education', making it appear as if these people supported equal spending on health and education. However, it seems unlikely that they were given two very similar options rather than the third distinctive option of some tax cuts and some spending.
- <sup>13</sup> Results with an article by Phillip Hudson, 'Poll shock for PM as budget misfires', *The Sunday Age* (16 May 2004), pp.1-2.
- <sup>14</sup> Wilson and Breusch, 'After the tax revolt', p.110.
- <sup>15</sup> Glenn Withers, David Throsby and Kaye Johnston, *Public Expenditure in Australia* (Canberra: Economic Planning Advisory Commission, 1994), pp.32-34.
- <sup>16</sup> Peter Saunders, *The Ends and Means of Welfare: Coping with Economic and Social Change in Australia* (Melbourne: Cambridge University Press, 2002), p. 111. This is the Peter Saunders who works at UNSW.
- <sup>17</sup> Peter Saunders, *A Self-Reliant Australia: Welfare Policy for the 21<sup>st</sup> Century* (Sydney: CIS, 2003), p.34. This is the Peter Saunders who works at the CIS.
- <sup>18</sup> See Richard Grant, 'Less tax or more social spending? Twenty years of opinion polling', *Research Paper* No. 13 (Canberra: Parliamentary Library, 2004), p.18.
- <sup>19</sup> For results 1967-1999, see Murray Goot, 'Distrustful, disenchanted and disengaged? Public opinion on politics, politicians and parties: An historical perspective', in Andrew Leigh and David Burchell (eds), *The Prince's New Clothes: Why Do Australians Dislike Their Politicians?* (Sydney: UNSW Press, 2002), p.27.
- <sup>20</sup> Riley, 'Forget tax cuts', p.6.
- <sup>21</sup> For discussion of loss aversion, see Daniel Kahneman and Amos Tversky, *Choices, Values and Frames* (New York: Cambridge University Press, 2000), especially Chapter 8, 'Daniel Kahneman, Jack L. Knetsch and Richard H. Thaler, 'Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias'.
- <sup>22</sup> Results with an article by Dennis Shanahan, 'Latham steals budget bounce', *The Australian* (18 May 2004), p. 2.
- <sup>23</sup> Results reported originally in *The Australian*. Data available from Newspoll, [www.newspoll.com.au](http://www.newspoll.com.au)
- <sup>24</sup> Peter Saunders, 'What is Fair?', p.9.
- <sup>25</sup> ACNielsen /Centre for Independent Studies survey, March 2003.
- <sup>26</sup> Age Polls reported in Richard Grant, *Parties, Press and Polls: Institutional Influences on Public Attitudes to Social Security and Health Policy in Australia, 1945-99*, unpublished thesis, Australian National University, 2001, pp. 237-38.

- <sup>27</sup> Withers and Edwards, 'The Budget, the Election and the Voter', p.13.
- <sup>28</sup> Wilson and Breusch, 'After the tax revolt', p.109.
- <sup>29</sup> Grant, 'Less tax or more social spending', pp.18-19.
- <sup>30</sup> For a more detailed analysis of these tendencies, including citations to relevant literature, see my 'Quality of Life and the Prophets of Gloom', *Policy* (Summer 2003-04), pp.12-18.
- <sup>31</sup> The differences in Figure 2 are exaggerated because respondents were encouraged to give multiple answers in response to the first question. Converting the 2004 results to a more comparable percentage of all mentions, 23% of federal issue mentions were health related, compared to 13% of personal and family issue mentions.
- <sup>32</sup> Reserve Bank of Australia, *Australian Economic Statistics 1949-50 to 1996-97*, [http://www.rba.gov.au/Statistics/op8\\_index.html](http://www.rba.gov.au/Statistics/op8_index.html)
- <sup>33</sup> Morgan Result supplied by Richard Grant. There had been a House of Representatives election in 1966 and a Senate election in 1967. The question format differs from the later Morgan Polls in Figure 2, as respondents were asked about what would affect their vote rather than which issues the Federal government should be doing something about, and they were given a list of 11 issues to choose from, rather than being asked to nominate their own issues.
- <sup>34</sup> In a Morgan Poll conducted for the 1974 election, health was the second most important issue, with 42% nominating it as one of their top three issues. Inflation on 53% was the most nominated. It is however hard to interpret this as on-going concern about the quality of the health system, since division between the parties over Medibank's introduction made it an issue independently of concern about the current state of health services: Morgan Poll No. 100, published in *The Bulletin*, 18 May 1974.
- <sup>35</sup> OECD, *Revenue Statistics 1965-2002*, pp.73-74.
- <sup>36</sup> Neil Warren, *Tax Facts, Fiction and Reform*, (Sydney: Australian Tax Research Foundation, 2004), p. 108.
- <sup>37</sup> Data on wages from the Commonwealth Treasury, <http://www.treasury.gov.au/documents/562/XLS/Dec03.xls>
- <sup>38</sup> Warren, *Tax Facts*, p.108
- <sup>39</sup> McNair Anderson, *The Changing Australian*, (Sydney: Sentry Holdings/McNair Anderson, 1983)
- <sup>40</sup> Roy Morgan Research, 'Fall In April But Consumer Confidence Still High: Monthly Roy Morgan Consumer Confidence Figures—1973 to present', Article No. 320 (16 April 2004).
- <sup>41</sup> A graph I constructed showing the decline of economic issues in the Morgan Poll of most important issues appears in Grant, *Less Tax or More Social Spending*, p. 32. From a peak of all issues mentioned of 71% in 1983, economic issues declined to 12% in 2003.
- <sup>42</sup> Australian Bureau of Statistics, *Government Benefits, Taxes and Household Income* (Canberra: ABS, 2001), p. 11. My calculations from their estimates.
- <sup>43</sup> Michael Keating, 'The Labour Market and Inequality', *The Australian Economic Review* 36:4 (2003), pp.374-96.
- <sup>44</sup> Warren, *Tax Facts*, p.110.
- <sup>45</sup> Commonwealth Treasury, *2004-05 Budget Paper No. 1*, Part 6, Table 2: <http://www.budget.gov.au/2004-05/bp1/html/bst13.htm>
- <sup>46</sup> Jennifer Buckingham (ed.), *State of the Nation: An Agenda for Change* (Sydney: The Centre for Independent Studies, 2004), pp.81-85.
- <sup>47</sup> Alan Kohler, 'A mortgage taken on tomorrow', *The Sydney Morning Herald* (12 May 2004).
- <sup>48</sup> Peter Costello, *Budget Strategy and Outlook 2003-04*, (Canberra: Commonwealth of Australia, 2003), p.13-4. Two Liberal spending cuts appear in the Budget papers, but it is due to the classification of GST revenue and expenditure as 'state' revenue and expenditure. It was not to the Commonwealth's own-purpose outlays.
- <sup>49</sup> Own calculations from *Budget Strategy and Outlook 2004-05*. I omitted 1999-2000 and 2000-01 because changes in Budget systems and treatment of GST revenue and states grants make it difficult to compare years.
- <sup>50</sup> Michael Warby, 'Can votes be bought?', *Policy* (Spring 2004), forthcoming.
- <sup>51</sup> 31.5% in 2002-03: Australian Bureau of Statistics, *Taxation Revenue 2002-03* (Canberra: ABS, 2004), p.7.
- <sup>52</sup> Australian Institute of Health and Welfare, *Health Expenditure Australia 2001-02* (Canberra: AIHW, 2003), p. 20.
- <sup>53</sup> See Simon Kemp, *Private Goods and Public Wants: A Psychological Approach to Government Spending* (Cheltenham, UK: Edward Elgar, 2002), chapter 8.
- <sup>54</sup> My calculation from original data available from Newspoll, [www.newspoll.com.au](http://www.newspoll.com.au)

- <sup>55</sup> 31 March 2004 figure from the Private Health Insurance Administrative Council, <http://www.phiac.gov.au/statistics/membershipcoverage/hosquar.htm>
- <sup>56</sup> Australian Institute of Health and Welfare, *Health Expenditure Australia 2001-02* (Canberra: AIHW, 2003), pp.20-21.
- <sup>57</sup> Ian Harper, 'Health Sense: When Spending Money Saves Lives', *Policy* (Spring 2003), p.21.
- <sup>58</sup> Own calculations from Buckingham, *State of the Nation*, pp. 46-48.
- <sup>59</sup> Timur Kuran, *Private Truths, Public Lies: The Social Consequences of Preference Falsification* (Cambridge, Mass: Harvard University Press, 1995), p.72.
- <sup>60</sup> David Hirshleifer, 'The blind leading the blind: social influence, fads and information cascades', in Mariano Tommasi and Kathryn Ierulli, *The New Economics of Human Behavior* (New York: Cambridge University Press, 1995), p.201.
- <sup>61</sup> Sinclair Davidson, *Who Pays the Lion's Share of Personal Income Tax?*, Policy Monograph 63 (Sydney: The Centre for Independent Studies, 2004), p.4.
- <sup>62</sup> Saunders, *Ends and Means of Welfare*, pp. 204-05.
- <sup>63</sup> George Megalogenis, 'A creeping feeling', *The Australian* (21-22 February 2004), p.17.
- <sup>64</sup> Warren, *Tax Facts*, p.111.
- <sup>65</sup> Wilson and Breusch, 'After the tax revolt', pp.108-109.
- <sup>66</sup> Those aged 50 and over are more likely to support spending: Wilson and Breusch, 'After the tax revolt', p.104.
- <sup>67</sup> Grant, *Parties, Press and Polls*, pp.255-269.

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