THE CASE FOR INCREASED TAXATION*

Introduction

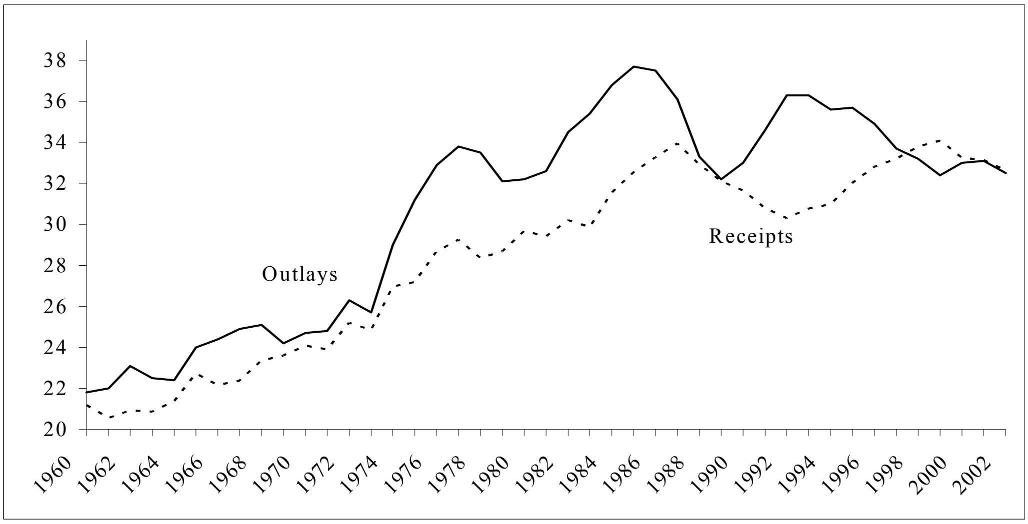
The great American jurist, Oliver Wendell Holmes, is reputed to have said, 'I like to pay taxes. In this way I buy civilisation.' The contrast with the present public debate about taxation in Australia could not be greater. Of course taxes have never been popular, but as the United Kingdom Commission on Taxation and Citizenship (2000) has noted, today they are usually described in terms that make them seem fundamentally *illegitimate.* For example, taxation is typically referred to as the '*tax burden'*, as if by definition it represents an unwarranted load that would be better lightened.

In reality taxation reflects our mutual obligation to one another as citizens. Taxation underpins an inclusive society and is an efficient way of paying for those services that enrich society and are collectively consumed. Moreover, many of the services paid for by taxation add to our quality of life and are a natural way to spend our incomes as they increase through economic growth. We have, however, become increasingly schizophrenic, wanting increased access to more and better services on the one hand and less taxation on the other. Unfortunately the link between taxation and citizenship has been broken. The result is a lop-sided debate about taxation, with governments under constant pressure to promise lower taxes with little regard for the consequences. In the end these promises are frequently exposed as hollow, and public cynicism about the political process further increases.

Interestingly, resistance to taxation has not always been a key determinant of Australian public policy. During the 1960s the outlays and receipts of all Australian governments (Commonwealth and State combined) rose fairly continuously relative to GDP (Chart 1). But government outlays spurted ahead during the mid 1970s. Possibly as a reaction to the speed of the accompanying increase in taxation, ever since the Whitlam Government Australian politics has operated on the assumption that taxes should never be increased and preferably wound back. Thus the Fraser Government was expected to reduce taxation, and has been regularly criticised for its failure ever since. The Hawke Government committed itself to the 'fiscal trilogy', which was intended to limit the size of government by allowing no further increase in the level of taxation and expenditure. The Howard Government has tried to keep taxation within a ceiling ratio of taxation to GDP established in 1996-97, combined with a target of wiping out public debt, rather than maximising the nation's net worth.

Nevertheless the present ceiling for taxation is essentially arbitrary. It does not reflect any consideration of the future demands upon government revenue, nor of the nature of any limits to the level of taxation. Accordingly the purpose of this paper is to try and promote a more balanced appreciation of the future needs for taxation and what that means for the future of our society. The paper

Chart 1
General Government Outlays and Receipts
Percentage of GDP



Source OECD

will argue that we should frame our target levels of government expenditure and taxation by assessing what level of public spending will be necessary to preserve and enhance our society and civilisation. Or as the present Prime Minister, John Howard, put it in a recent radio interview, tax cuts should be considered '*after* you have met all necessary and socially desirable expenditures' (my emphasis).

Of course, different people will have different views concerning the nature and extent of the public expenditure necessary to sustain our civilised society. Neo-liberals, for example, have a narrow conception of citizenship, where as far as possible individuals should be free to pursue their own private interests. The role of the state is then limited to the provision of a narrow class of public goods, such as defence and law and order that the market cannot provide. But in Australia a much broader conception of citizenship prevails, for the most part. Thus each of the political parties represented in parliament accepts that a defining characteristic of Australian society is the notion of 'a fair go' where the community has a responsibility to ensure that each individual has an equal opportunity to realise her or his potential.

Accordingly there is general acceptance that Australians should have access to a minimum income and to basic services including housing, education, health, childcare and aged care. Governments are also expected to guarantee security, including security from misfortune that is beyond an individual's control, such as natural disasters, disability and involuntary unemployment.

Interestingly the political debate in Australia tends not to be about the coverage or standards of service provision that the government should finance, but rather about how much if anything individuals should contribute on their own account. Even then the tradition has been that the majority of Australians will rely on a government funded age pension, and fully government funded education and health services.

Consistent with the view that expenditure needs should determine taxation, the main part of this paper will therefore consider the outlook for future public expenditures and what this would then imply for the level of taxation. But in order to establish the validity of this approach whereby the level of taxation is based on the amount of 'socially desirable expenditures', the paper will begin by considering whether there are economic limits to the level of taxation that might constrain what our society can afford. In addition, the latter part of the paper will examine possible alternatives to taxation that might be used to finance the expected increase in expenditure demands. First, what scope is there to achieve savings by re-ordering priorities and reducing waste? Second, how much of the cost of government services should be met by the individual who directly benefits, and how much by society because of the common benefits typically associated with public expenditures? The paper will then consider the critical issue of how we might achieve a better match between the demands for public expenditure and people's willingness to pay for it through taxation. Finally the paper discusses the mechanisms that might be used to achieve a higher level of taxation and how fiscal discipline might be maintained when governments have greater freedom to choose the future level of taxation.

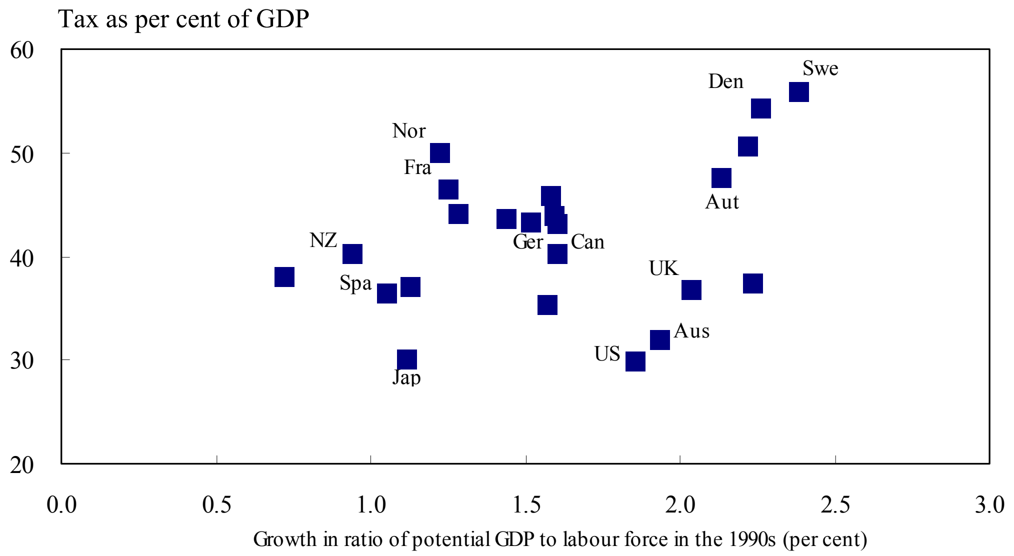
Economic Limits to Taxation

The traditional economic case against taxation is that it reduces economic efficiency by introducing a wedge that lowers the returns to employment and investment. Taxation can thus lead to sub-optimal decisions affecting the amount of employment and investment and other key drivers of the economy.

There is, however, only limited empirical support for this theoretical expectation. For example, cross-country comparisons for 20 OECD economies during the 1990s do not suggest any simple relationship between the level of taxation and the growth of labour productivity (Chart 2)[1]. Similarly an OECD review of the literature concluded that 'the effects [of taxes] on economic performance are ambiguous in some areas and unsettled and controversial in others'.[2] The net effect of taxation on economic growth depends upon the level and structure of taxation, how productively the revenue is spent, and where the incidence of the tax lies, which in turn depends upon the nature of competition in the goods and factor markets.

For example an increase in taxation that led to increased expenditure on education and research might well lead to an improvement in economic growth. Thus another OECD study found that there is no correlation between

Chart 2
Tax and Productivity Growth in the 1990s



income distribution and economic growth. Nevertheless, that study found that on the balance of evidence and other things being equal, higher taxation and social spending tend to be associated with lower economic growth, although the negative effects are small overall, especially for small government countries.[3] In addition, the speed of any increase in taxation might affect how productively the extra revenue is spent and the incidence of that change in taxation.

The OECD review by Liebfritz *et al* also found some empirical evidence that the average ten per cent increase in taxation relative to GDP in the OECD area, over the thirty-five years from 1960 to 1995, may have had a small impact on the growth of the OECD economy. This result was, however, very dependent on the European economies where there was a major shift towards higher taxation of labour[4]. Because of the inflexibility of European labour markets, this increased taxation led to higher labour costs, and it was the consequent reduction in the demand for labour that was mainly responsible for any loss of economic growth.

Interestingly most of the advocates of lower taxation base their case on the alleged effect on incentives, but there is not much evidence of taxation affecting the supply of labour or savings. For example, the considerable body of empirical research for the United States has found that taxation has had a weak effect on the hours worked by those in employment, although more limited evidence suggests that the impact on the decision to work at all may be a little stronger.[5] Male participation rates and hours worked are especially insensitive to net wages (after tax), and the strongest observed effects are for married women.[6]

Furthermore, if people work to sustain a certain income-consumption standard then it is likely that an increase in *average* tax rates would increase their work effort as they strive to earn the necessary after-tax income to retain that living standard. In this case, only an increase in the *marginal* tax rate on an extra dollar of income could be expected to alter the choice in favour of leisure over income. Of course much taxation is not levied on income, and a broad based expenditure tax, such as the GST, may even modestly increase the incentive to save. This latter point underlines the importance of considering the structure and mix of taxation when considering any possible disincentive effects, and comparing these disincentives with the expected efficiency gains from how the revenue is spent.

In fact, even for taxes on income the highest *effective marginal tax rate* (EMTR) is faced by someone on a relatively low income. It arises because of the stacking of means tests for various social payments on top of one another and their interaction with the income tax. Thus a woman in a family where there are two or more incomes, who is working part-time, can easily face an EMTR as high as 61.5 per cent, and it can be higher again where the family is eligible for more than one form of income support. By contrast the maximum EMTR for a high-income earner is 48.5 per cent. But this high income earner has little or no discretion about the number of hours he or she works, whereas the woman working part-time in a low income family may have some discretion about the number of hours that she works. Reducing the highest EMTRs for people such as this woman would involve unstacking the presently overlapping means tests or reducing their taper rates. Although incentives would thereby be improved, ironically either of these changes would probably lead to an increase in total public outlays and a commensurate increase in total taxation.

Another more recent argument against high taxation is that in a globalised world capital and highly skilled labour are highly mobile. In these circumstances it is argued that no single country can afford to tax more than other countries, because that country would then risk losing investment and its best labour to those other countries. So far there is, however, little evidence that we are engaged in a competitive race to the bottom of taxation. Rather taxation has remained high in most developed democracies, and some quite large differences have persisted between the level of taxation in different countries, with Australia already being low-taxed relative to most other developed market economies (Table 1).

Moreover, it is easy to exaggerate the impact of globalisation, and the extent to which the world economy has become integrated. Clearly the world economy is not as integrated as the economy of a single country such as the United States,

Table 1
General Government Revenue as a Proportion of GDP

	1988	2002		1988	2002
Australia	32.9	32.6	Italy	38.8	44.1
Austria	47.3	48.5	Japan	30.5	29.9
Belgium	44.9	46.2	Netherlands	46.2	41.9
Canada	38.2	39.2	New Zealand	44.5	39.1
Denmark	55.7	52.2	Norway	52.1	56.3
Finland	47.7	48.4	Portugal	33.6	38.4
France	45.3	47.0	Spain	35.7	38.5
Germany	42.8	43.5	Sweden	58.1	54.6
Greece	30.0	41.8	United Kingdom	38.6	38.3
Iceland	37.0	39.8	United States	29.3	29.8
Ireland	41.1	31.9			

Source: OECD

where there is no currency risk and it is much easier for both labour and capital to relocate within the same country. However, even in the United States, there remain persistent differences in the level of taxation among the different states. The obvious reason why such differences can persist is because how those taxes are spent is critical in determining the longer run viability of any particular level of taxation. For example, presumably the reason why highly mobile Americans do not rush to leave high-tax Massachusetts for low-tax Mississippi is because they value the services that their taxes finance in Massachusetts.

Interestingly the lack of a strong economic case for lower taxation seems to have been recognised by most Australian economists. For example, a survey in 1999 of Canberra based economists found that when they were asked if they favoured a reduction in 'government outlays as a per cent of GDP', those who said no outnumbered those who said yes by 2 to 1.[7] Moreover, as Argy further reports, the (in)famous Michael Pusey study of 'Economic Rationalism in Australia' found that econocrats did not have a systematic bias in favour of smaller government *per se*. Indeed a majority of econocrats ranked their concerns about social inequalities well ahead of their concerns about public spending. Instead the pressures for lower taxation have mainly come from business and people on higher incomes, both of whom have long demonstrated their capacity to confuse self-interest and the national interest.

In sum, the reality is that the Australian economy could tolerate a significant increase in the ratio of taxation to GDP without great difficulty. Obviously there must be some point where taxation would start to affect economic performance, but the evidence from other countries is that we are some distance from that point yet. The real opposition to a tax increase is essentially the political perception that the electorate is unwilling to support it. Of course people are understandably unwilling to pay higher taxation when they have little appreciation of how their taxes are being used, and often assume that they are being wasted. But the rational response to that sort of opposition is that we need to strengthen the link between any increase in taxation and what it is being used for. In effect we need a more informed debate about the future demands upon the public purse and the merits of these demands relative to further increases in private incomes and consumption. It is to these future demands for public spending that we will now turn.

The Future Demands for Public Expenditure

In considering the future outlook for public expenditure, one view might be that over the last 20 years Australia has managed to adapt reasonably successfully to changing demands by reviewing expenditure priorities. In this way Australia has been able to accommodate new demands without any significant increase in the overall level of taxation. Of course there have been claims of un-met need, but such claims are inevitable when publicly provided goods and services are mostly free. The critical question is what will change to make these demands more pressing in the future?

Some major changes are emerging which suggest that the pressures for additional public expenditure may well be of a different order to those experienced over the last two decades. The first such change is the pressure for additional expenditure because of the projected ageing of the population. This change has been widely acknowledged, especially since the Treasurer released his *Intergenerational Report* with the 2002-03 Budget.[8] The second such change is not widely recognised, but it reflects the concerns about the increasing inequality of earnings and the related decline in male employment relative to the population. Although there is a debate about the appropriate response to the increased dispersion of earnings and how best to increase employment participation, it is highly probable that public outlays will need to rise if we are to maintain our traditional cultural mix of egalitarianism and self-reliance. Finally some other sources of pressure for increased government outlays are the possible need for increased spending on environmental protection and public infrastructure, and the more recent concerns about national security.

This paper will focus on the first two of these new pressures for increased public expenditure, as they seem likely to make the biggest demands. Furthermore, this consideration of the spending implications of population ageing and greater equality will inevitably be broad brush. The aim is not to produce precise forecasts of future government outlays, nor a detailed consideration of the possibilities for further savings. That would be a major task and would require a major volume. Rather the aim here is to facilitate a conversation, and to allow an overall judgement on why national welfare might well be reduced if we remain constrained by the present level of taxation.

The Ageing Population

Australia's population is projected to increase to over 25 million in 2042, with the number of people aged 55 and over more than doubling. This population projection provides the starting point for the Treasurer's *Intergenerational Report*, which in turn projects that unless present spending policies are adjusted, Commonwealth taxes and expenditures can be expected to rise by 5 percentage points relative to GDP by 2041-42. In addition, further work by the Victorian Department of Treasury and Finance suggests that on a similar no policy change basis, the States might need to increase their revenues by another 4 per cent of GDP in 2041-42 to cover the projected increase in their expenditures.[9] Thus the total level of revenues for all Australian governments might need to increase by around 9 per cent of GDP over the next forty years if present policies are maintained.

As the *Intergenerational Report* makes clear, the ageing of the population is not the main driver of this projected increase in expenditure. Health and aged care is projected to account for most of the increase in the ratio of Commonwealth and State outlays to GDP. Furthermore, most of the increase in health expenditure is not driven by demographic changes. Thus the *Intergenerational Report* shows that non-demographic factors accounted for 3.2 percentage points of the annual 4.9 per cent real increase in Commonwealth spending on health between 1989-90 and 2000-01. Subsequent work in the Commonwealth Treasury shows that about 70 per cent of the projected increase in the ratio of health expenditures to GDP over the next forty years is accounted for by non-demographic factors.[10]

In brief, the main driver of increased health expenditures around the world is the advance in medical technology. Indeed cross-country comparisons of OECD countries reveal no correlation between the age structure of a country's population and the ratio of its health expenditure to GDP. There is, however, a strong correlation between health expenditure and the per capita income of the country. In effect, governments ration health expenditure, but as income rises each society spends disproportionately more on health. Looking to the future there are numerous proposals for changing the system for health care delivery and financing so as to improve the focus on the cost effectiveness of treatments and to provide better incentives to maximise that cost effectiveness. Changes along these lines may help to restrain the growth in health outlays to somewhat less than is presently projected and should be supported where they result in a better use of public funds. Nevertheless it seems unlikely that these changes could knock as much as five percentage points off the projected ratio of government health and aged care expenditures relative to GDP in 2041-42. Indeed the main reason why that ratio is likely to rise is because that rise would represent a rational decision by a richer society to purchase a better quality of life using its rising incomes to take full advantage of the improvements in medical technology. In that case a critical issue for the future of government outlays on health will be who should pay, and we will return to that issue later.

Future Inequality

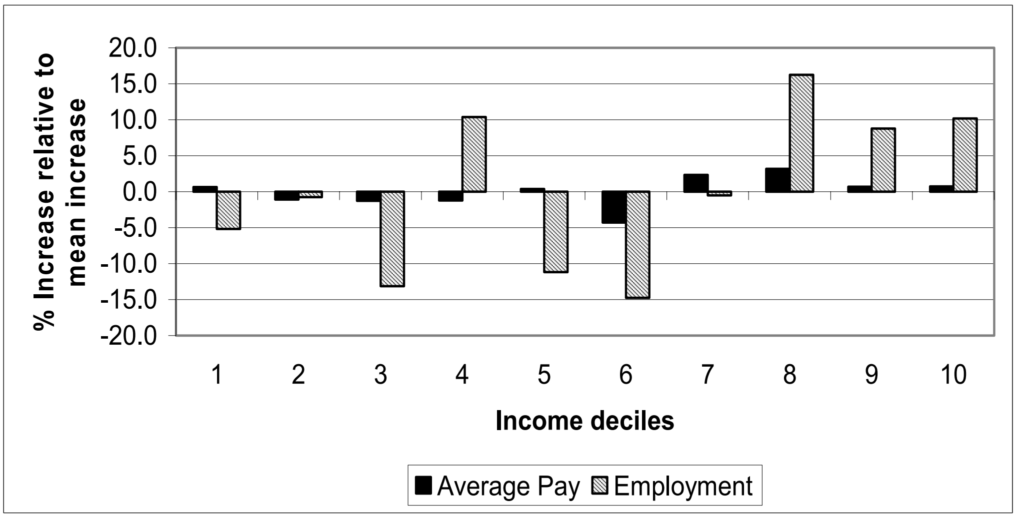
For almost 30 years the dispersion of earnings has been widening in Australia. In addition, the distribution of work has become more unequal. On the one hand, the proportion of households where there are two income earners has risen from 41 per cent in 1984 to 57 per cent in 2002. On the other hand, nobody is working in as many as one in six households where there are children. However, that greater inequality of earnings and employment opportunities seems to have translated into at most only a small increase in inequality of household *disposable* incomes, mainly because governments have dramatically increased their income and other support to low income families. For example, in January 2003 a single income family with a dependent spouse and two children under five, earning two thirds of average male earnings and renting privately, received 46 per cent of their net disposable income from government transfers. By comparison these transfers accounted for 41 per cent of that family's income in January 1996, but only 4 per cent of their income in January 1983. Indeed the real earnings of such a family were slightly less at the end of that twenty year period than at the beginning, but because of the substantial increase in government assistance their disposable income increased by as much as 59 per cent. Similarly the social security pensions received in those households where no-one was working increased faster than average weekly earnings over the last 30 years.

The critical question for the future is whether the inequality of *private* incomes will continue to increase, and in that case whether society will continue to support increasing assistance to offset that further increase in the inequality of private incomes. Already the present government is concerned that this assistance is creating a degree of welfare dependence. The government has accordingly proposed reforms to improve both the incentives and the requirements to return to work, and it is also offering some modest help in terms of training and work experience.

But a fully developed strategy for overcoming inequality needs to focus more closely on the causes of inequality and job loss. For those who are working, changes in the dispersion of their earnings can reflect changes in relative pay rates or changes in the composition of jobs, or some combination of both these changes. In fact the available evidence strongly suggests that relative rates of pay have changed very little over the last 30 years.[11] There have been a few exceptions, such as the most senior executives and nurses whose pay has increased more than the average, but when almost 300 occupations are grouped by income decile, there appears to have been little change in pay relativities. Certainly there does not appear to have been any systematic change in relative average pay for the different occupations, in favour of either the higher or lower earnings deciles (Charts 3-6). Instead the changing distribution of earnings, at least among different occupations, seems to have been almost entirely driven by the changing distribution of jobs. For example, almost all the shift in the dispersion of occupational earnings between 1986 and 2000, in favour of the high-income occupations, was due to their increasing share of employment.[12] The only income deciles where full-time employment systematically grew faster than average were the three highest deciles, while employment in the other deciles typically grew slower than average (Charts 3-6). In addition, although the distribution of job growth was somewhat more even if part-time employment is included, the top four deciles of occupations (ranked by income) still accounted for more than half of the increase in hours worked between 1986 and 2000 (Table 2).

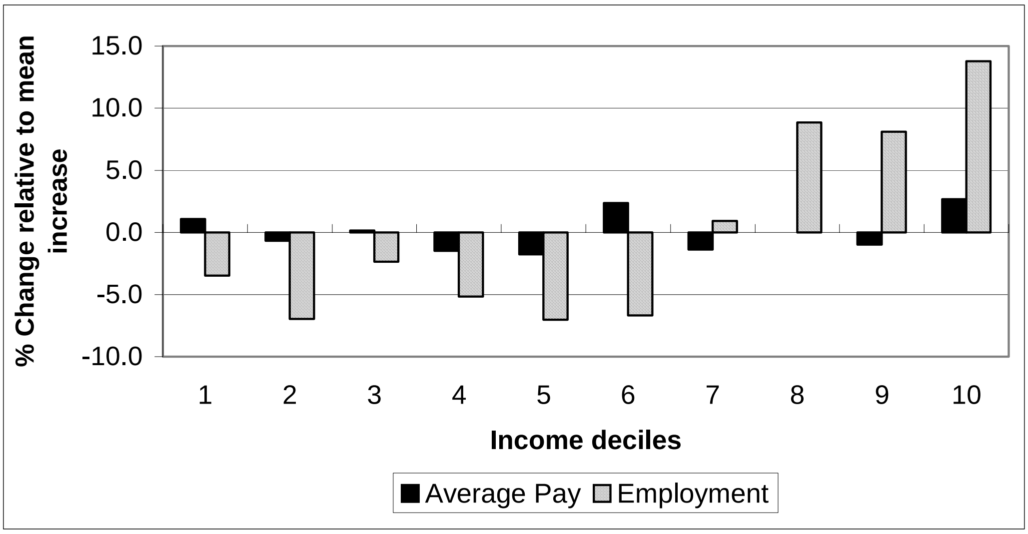
The occupations in the high income deciles are predominantly managers and administrators, professionals, and associate professionals, all of which are characterised by higher levels of education and skills. Indeed these three major occupation groups more than accounted for all the full-time job growth between 1989 and 2000, although in the case of female full-time employment, the number of 'intermediate clerical, sales, and service workers' also grew strongly.[13]

Chart 3
Males: Relative Increase in Average Pay and Employment by Income Decile 1986 to 1996



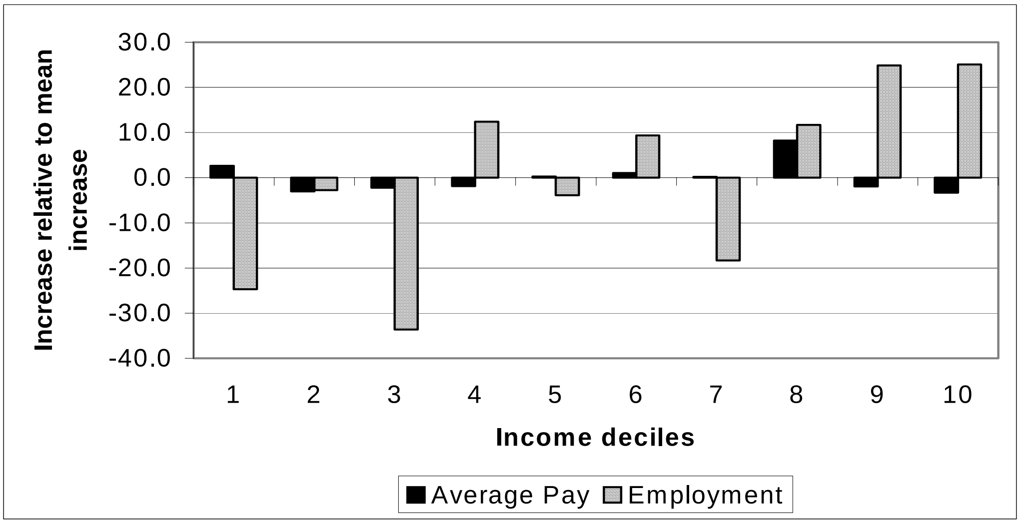
Source: Keating, 2003

Chart 4
Males: Relative Increase in Average Pay and Employment by Income Decile 1996 to 2000



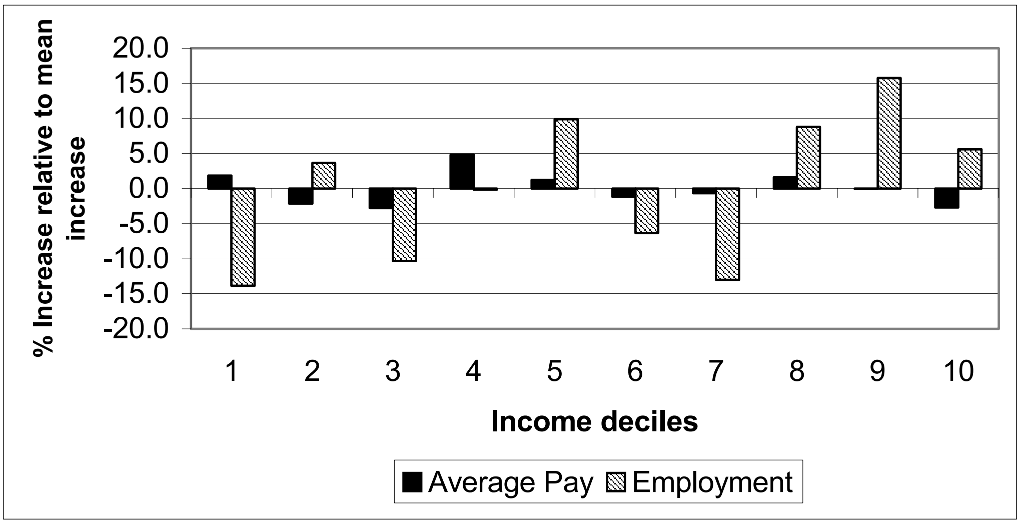
Source: Keating, 2003

Chart 5
Females: Relative Increase in Average Pay and Employment by Income Decile 1986 to 1996



Source: Keating, 2003

Chart 6
Females: Relative Increase in Average Pay and Employment by Income Decile 1996 to 2000



Source: Keating, 2003

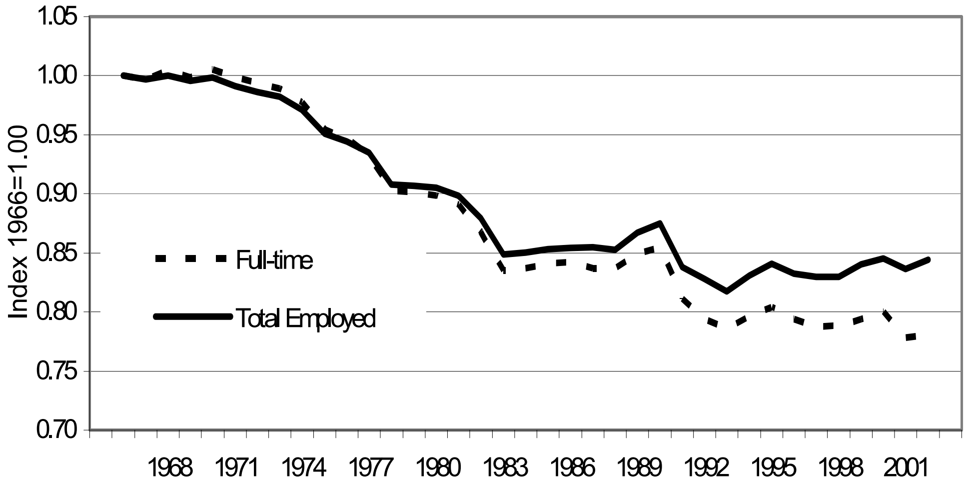
Table 2
Growth in Hours Worked in Occupational Deciles: Percentage of Total Growth from 1986 to 1995 and from 1996 to 2000

	Lower six deciles	Top four deciles
Males		
1986 to 1995	45.6	54.4
1996 to 2000	35.8	64.1
Females		
1986 to 1995	44.5	55.6
1996 to 2000	38.8	61.2

Source: Derived from the Commonwealth Government's Submission to the Safety Net Review, 2000-01, Appendix G, Tables G.2 and G.4.

This changing pattern of job creation not only helps explain the changing distribution of earnings, it also helps explain the change in the distribution of work among households. Over the last thirty years, female workforce participation has increased greatly, but the ratio of male employment for those aged 35 to 64 has declined substantially (Chart 7). This decline is consistent with the negligible growth in the number of manual and tradesmen's jobs of the traditional 'blue collar' kind since 1971. Indeed it is roughly estimated that the increase in the number of 'blue collar' jobs over the last 30 years ago has averaged less than 0.5 per cent per annum, and most of this increase reflected an increase in part-time employment.[14] Although Australia has enjoyed some success in creating new jobs in the professions, this success has been accompanied by the loss of many lower paying jobs of the traditional 'blue collar' kind, which in 1971 accounted for nearly two thirds of total male employment. As a result this job loss has particularly impacted on men, rather than women, and it is probably the reason why so many men have either become unemployed or more often have ceased looking for work and have left the workforce.

Chart 7
Males Aged 35-64 Full-Time and Total Employment to Population Ratio Australia 1966-2002

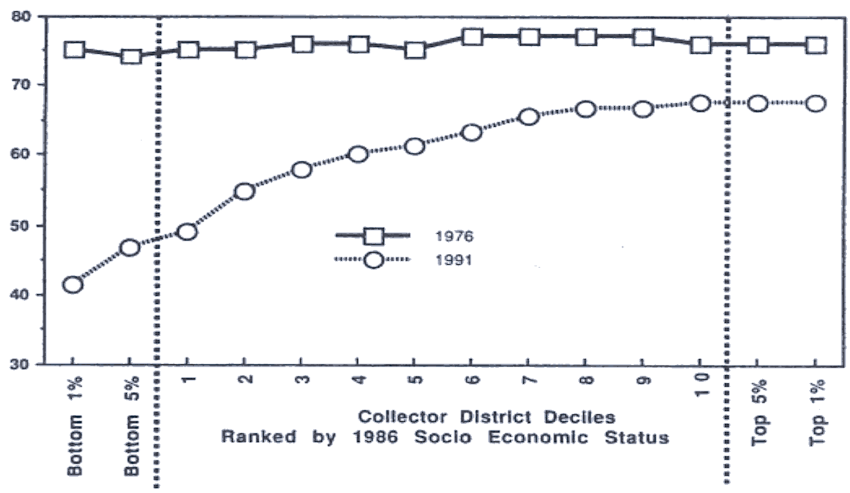


This decline in the availability of 'blue collar' jobs is also closely related to a substantial increase in spatial inequality. Gregory and Hunter (1995) found that when neighbourhoods are ranked according to their socio-economic status (SES), the ratio of the mean household income from the lowest to the highest 5 per cent of SES neighbourhoods had fallen from 60.4 per cent in 1976 to 37.9 per cent in 1991. As they remark, 'There is a significant increase in the geographic polarisation of household income across Australia. The poor are increasingly living together in one set of neighbourhoods and the rich in another set'.[15]

Moreover, as Gregory and Hunter show, 'The relatively narrow income dispersion across neighbourhoods in 1976 was generated by similar employment-population ratios across neighbourhoods'.[16] In 1976 Australians had much the same chance of being employed irrespective of where they lived (Charts 8 and 9), and this equality of employment experience contributed to our sense of equality. By 1991, however, the chances of being actively employed had fallen from around 75 per cent for males from the lowest SES neighbourhoods to only about 40 per cent, while the fall for males from the highest SES neighbourhoods was much less. On the other hand female employment opportunities mostly improved over this same period. Although females from higher SES neighbourhoods experienced the greatest improvement, only neighbourhoods in the bottom SES decile actually experienced a fall in the ratio of females who were employed between 1976 and 1991.

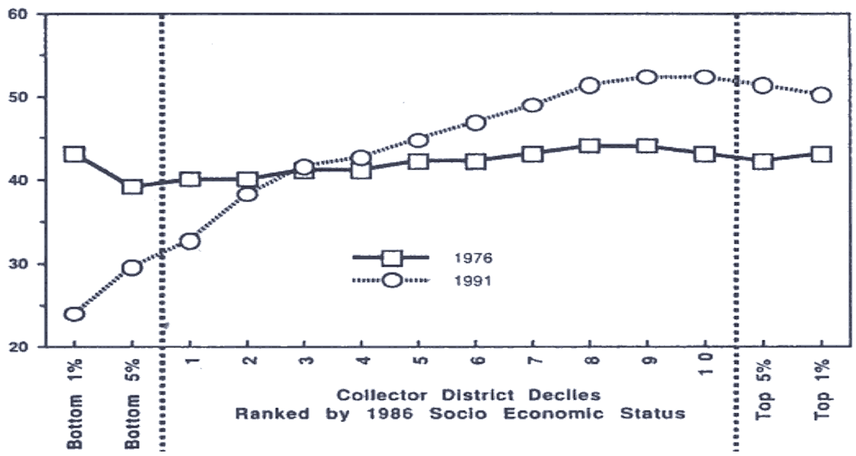
In effect, what happened between 1976 and 1991 is that the low-paid jobs that used to be located in the lower status neighbourhoods disappeared, while the new professional and associate professional jobs were created in the higher status neighbourhoods. Furthermore, the available data for employment by occupation,[17] and data for the geographical distribution of income, suggest that this trend to more spatial inequality of employment opportunities has continued since 1991[18]. Indeed even the part-time jobs that are being created in occupations like waitressing, cleaning and gardening, are now more likely to be located in high status neighbourhoods, and are therefore more readily accessed by students who live with their parents in these neighbourhoods. In

Chart 8
Male Average Employment-Population Ratio, 1976-1991



Source: Gregory and Hunter: 1995

Chart 9
Female Average Employment-Population Ratio, 1976-1991



Source: Gregory and Hunter: 1995

addition, there is a worry that this geographic difference in employment opportunities may itself be breeding further inequality. Young people from suburbs where there is high unemployment risk a loss of social capital and the successful role models that can affect their scholastic performance, and make them less able to compete for the jobs that are being created elsewhere.

Reversing Male Early Retirement

Clearly the key to reducing the dispersion of private incomes and restoring a more egalitarian society is to increase the job opportunities for men, and especially for older men. Furthermore, an increase in male job opportunities could also be expected to reverse the trend to early retirement and thus limit the projected demands from an ageing society. For example, McDonald and Kippen[19] have developed a scenario where male participation rates for those aged 35 to 64 are restored to their 1973 levels by 2018, and female labour force participation continues to increase in line with cohort trends. Under this scenario, the labour force dependency ratio for all retirees would actually fall until 2018, and it would only return to its current level after another 30 years. In effect, an ageing society would not represent a problem for another 50 years if the next cohort of men entering their fifties kept working a little longer and postponed their retirement for as long as the previous generation did.

Similarly a Treasury scenario shows that a (somewhat less ambitious) reversal of the trend to early retirement would go a long way towards financing the fiscal demands from an ageing society. Thus the Treasury[20] has estimated that if participation rates for each age and gender cohort rose towards the top fifth of the OECD by 2020-21 and remained there, instead of at recent levels, then GDP per capita in 2041-42 would be around 9 per cent higher than projected in the *Intergenerational Report*. Subsequent research[21] suggests that under this scenario the Commonwealth Government budget would remain in surplus until the mid 2020s, and in 2041-42 the projected increase in expenditure and taxation would be only 3 per cent compared to a projected increase of 5 per cent of GDP in the *Intergenerational Report.*[22]

A critical question then, is how can we reverse the trend to early retirement, and thus meet the demands from an ageing society while also helping to preserve our egalitarian traditions? The present Government for its part has chosen to concentrate on the supply side, and has sought to make early retirement less readily available as an option. Thus the entry age for the age pension for women is gradually being raised to 65; the preservation age for private superannuation is being increased over time from 55 to 60; and a bonus has been introduced to encourage eligible people to defer accessing the age pension for up to five years. More controversially the Government has sought to require recipients of the Disability Support Pension to more actively pursue opportunities for work and training, although the Senate has not agreed to the necessary legislation. These measures could all lead to budgetary savings, but whether they will ultimately be successful depends to a significant extent on whether there are sufficient job opportunities for these older workers. Certainly a successful reversal of the trend to early retirement will require us to provide a lot more such job opportunities in the next 40 years than we did in the last 30 years.

To some extent job opportunities for older men can be expected to increase automatically as the projected increase in the age-dependency ratio implies that the demand for labour will increase relative to its supply so that labour will become scarcer. But it would be imprudent to wait until labour became scarcer and then hope that employment participation then increased by as much as necessary. On the other hand how government can best intervene to increase future job opportunities is a contentious issue.

In reality, the main reason why so many male 'blue collar' jobs have been lost over the last thirty years is the rapid changes in technology and in the pattern of demand in favour of services.[23] Too often the former 'blue collar' workers have not been suitable for the new jobs that are being created at the wage rates demanded. And these changes in technology and demand can be expected to continue and even accelerate. Although future job opportunities will clearly require sustained economic growth, the experience of the last thirty years is that economic growth on its own may not be sufficient to restore male employment participation. Job opportunities will also depend upon the cost of labour. There is, however, little scope to reduce wage rates and especially minimum wages without putting unacceptable downward pressure on pensions and benefits. For that reason alone, any reduction in minimum wages would probably need to be accompanied by some sort of budget-financed earnings credit in order to retain an appropriate gap between the net income of workers and pensioners. A group of five economists has proposed a wage-tax trade-off along these lines as a way of increasing the employment content of economic growth, and especially the number of least skilled jobs.[24] But of course that earnings credit would also add to taxation, at least for some time, until GDP was higher than it otherwise would have been.

The alternative way to reduce the cost of labour over time is by increasing labour productivity through education and training. By increasing the skills of the labour force more people would be able to participate and take up the jobs that will be created in the future. Economic growth would then be higher and a more equal distribution of earnings might be achieved over time by effectively 'levelling up' as a higher proportion of people captured the higher skilled and paid jobs.

Future cohorts of older men are more likely to have already received an initial education and training that will better enable them to adjust to the changing needs of the labour market.[25] But in a world of rapid change they will still need retraining during the course of their working lives. In effect, the retraining of the next cohorts of older workers should be more productive for many of these workers because of the higher quality of their initial training. Nevertheless future retraining efforts will still need to be much greater than in the past if we are to reverse the trend to early retirement.

Moreover, much of the necessary retraining will be a government responsibility as this retraining will need to focus on *transferable* skills, and private employers have no particular interest in the development of these skills. The upside is that by spending more now on improving employment participation, the future level of taxation would be less than is currently projected in a no-policy-change scenario. As well, the most effective way to preserve our egalitarian traditions will be to increase education and training so that more people will be able to participate in the skilled jobs that are being created.

Other Pressures for Increased Public Expenditure

Over the last couple of decades government expenditure has partly been held in check by reordering priorities. In particular, funds were redirected from defence spending and investment in public infrastructure declined. Australia was thus able to meet new demands for social spending without any significant change in the overall level of taxation. However, the demands for increased spending on environmental protection, infrastructure and defence could all rise faster than GDP over the next couple of decades putting further upward pressure on the level of taxation.

First, as material living standards improve, it is not surprising that Australians are becoming more concerned about quality of life issues, and especially about the state of our natural environment. The Australian Bureau of Statistics (ABS) reports, however, that in the last decade five of its six measures of our natural capital have deteriorated.[26] In these circumstances it seems most likely that governments will come under further pressure to increase their efforts to protect the natural environment. Indeed, the Commonwealth and State Governments have already agreed that substantially more money will need to be spent to improve the flow and quality of water in the Murray-Darling river basin.

In addition, in the past environmental protection was often pursued through command and control regulation and this approach limited the demands for public expenditure. But this regulatory approach is less acceptable today. The costs of regulation can be economically damaging, and where people have invested in the expectation that they would be allowed to continue with past practice there is typically a demand for government compensation if the environmental rules change. These considerations have led to a new approach to environmental conservation, which relies more heavily on using subsidies and taxes to create incentives and disincentives respectively. The idea is to induce a willing change in human behaviour, which can be more effective. Although this new approach, that combines taxes and subsidies, may often prove to be self-financing, it does however involve an increase in taxation relative to GDP.

Second, there is some concern that the decline in investment in public infrastructure has proceeded too far, and that the quality of infrastructure is starting to suffer. Some examples are complaints about the quality of the road and rail systems, especially in the major cities, and the need for renewal of buildings and equipment in our hospitals, schools and universities. It is, of course, difficult to judge the validity of these complaints. Much of the recorded decline in public investment represents the effect of various forms of privatisation, and does not necessarily mean that there has in fact been any decline in the overall level of investment in these facilities. In addition, there is some evidence that cost-benefit appraisal of public investment is now more strictly practised, although not always. Thus some of the apparent decline in public investment might only represent a retreat from previous over-investment. For example, there is now considerable agreement that Australia has previously over-invested in dams and irrigation projects, and that better pricing for water would have led to greater economies as well as less environmental damage.

Looking ahead, the Commonwealth Government no longer has direct responsibility for the development of the ACT and the Northern Territory and it has privatised many of its other major responsibilities, such as for most office accommodation and airports. Accordingly the major demands for infrastructure investment will mostly fall on State Governments, not the Commonwealth. In a careful consideration of these demands the Victorian Department of Treasury and Finance has suggested that they could increase future State Government expenditure in that state by a little less than one per cent of gross state product over the next forty years. And the increase for the other states would probably be of the same order of magnitude. Much will, however, depend upon the extent to which the private sector is involved in the provision of public infrastructure, its financing and how it is charged for. Instead of an increase in taxation of up to one per cent of GDP over the next decade or so to pay for infrastructure it could be that private user charges rise by around the same amount.

Third, since the 'war on terrorism' there has been a reconsideration of our defence spending. Apart from the new global threat from terrorism, our own immediate region also looks much less stable. One consequence is that Australia is now facing a renewed tension between developing a defence force capable of integrating with our allies in more far-flung conflicts, and maintaining the independent capability to intervene to provide stability in our region. In addition, Australian defensive strategy has always been based on being at the forefront of technology to offset our comparative disadvantage in population and numbers of defence personnel. But the pace and cost of military technology is expanding rapidly. As a result the defence budget has a pronounced tendency to blow out – by at least $12 billion before the latest review – and much of the equipment is facing premature obsolescence before replacements will be ready. While defence spending is in some respects 'as long as a piece of string', in present circumstances there must be a distinct possibility that there will be further additions to defence spending that will put more upward pressure on government outlays relative to GDP.

In sum, it would be excessively optimistic to believe that Australia will be able to constrain government outlays to their present ratio relative to GDP over the next couple of decades or more without a radical shift in policies. The spending pressures outline above could result in government outlays increasing by as much as 10 percentage points as a share of GDP, depending on how much GDP accelerates in response to the spending, particularly on education and training.

How Will Future Expenditure Demands be Paid For?

Faster Economic Growth and Employment

Clearly faster economic growth and employment represent the easiest ways to meet the demands for increased government outlays. Moreover, much of the additional expenditure on education and training that has been identified could be considered to be an investment that will pay for itself over time, as employment and economic growth respond. Indeed, as noted, the Treasury scenario cited earlier suggests that increased employment participation could lead to Commonwealth budget surpluses until the mid-2020s. Thus over the next two decades or so it would be possible to use those notional surpluses to finance much of the proposed increased expenditure on education and training. In effect this expenditure could then be said to be self-financing. Without that additional expenditure on education and training, the higher economic growth and employment would be much less likely to eventuate, but the higher economic growth would then increase the tax base to help pay for much of the additional expenditure. However, the increase in the tax base is unlikely to cover all the other demands for increased government outlays that have been identified, especially over time, when the Treasury scenario still projects a revenue gap even after the increase in employment participation.

Savings From Existing Programs

Another possibility is that the additional expenditures identified in this paper might be at least partly financed from savings that might be made in existing programs. While the share of total outlays relative to GDP is not particularly high in Australia, compared to other OECD countries, this is mainly because of the tight means testing of transfers. Government outlays on public services are about the same as elsewhere, and of course governments should make every effort to review these expenditures and cut down on waste. But over the last two decades governments have already taken a number of difficult decisions to curtail their expenditures, and today most, although not all, of the apparently easy savings have been largely garnished. Indeed, in some areas, such as defence, which previously provided savings opportunities, there is now pressure to increase its share of total outlays. Moreover, since 1990-91 the sum of all the discretionary decisions by the Commonwealth government to spend has added more to government outlays than the decisions to save. Indeed the Howard Government's only substantial savings budgets were in 1996-97 and 1999-00, and the *net* impact on outlays from all its budget decisions amounts to around $4.5 billion extra spending in 2000-01 prices. In addition, much of this additional expenditure reflects the reversal of the savings cuts that were made in 1996 in a number of areas, including employment programs, universities, childcare, and general-purpose grants to the states.

While there will always be areas where priorities have changed and further savings could be realised, it is extremely doubtful that these savings could amount to as much as 10 per cent of GDP. Instead if Australians are to continue to enjoy the sorts of public services and the egalitarian society that they take for granted then either taxation will need to rise or new ways will need to be found to finance those services.

User Charging

Most people take it for granted that governments will charge for 'commercial' services such as electricity and gas, and for most forms of public transport, although cross-subsidising different users has been common in the past and it still continues to some extent. Today budget funded subsidies for these 'commercial' services are rarer, and for example, higher charges for water are widely supported. Charging for government provided human services is more controversial, but charging for services such as childcare, aged care, universities, and health has a long history in Australia. What is critical in the present context is that the extent of such charges could affect how much extra taxation revenue will need to be raised.

In principle, asking people who benefit directly from a service to pay a charge commensurate with that benefit seems fair, especially when a majority of the population are unlikely to access the service. In the case of university fees, for example, most research suggests that the extra lifetime earnings from university study more than compensate for the loss of earnings while studying (the biggest cost) plus the fees presently charged.[27] In addition, since the introduction of income contingent loans, the actual payment of university fees by HECS students is matched with their capacity to pay. As a consequence the available evidence suggests that this form of user charge has had a negligible impact on access to university places.[28] Similarly, by encouraging people to take out private health insurance, governments may be able to reduce the demand for publicly financed health care, although it is doubtful whether private insurance will make the overall health system more cost effective.

Both sides of politics have increased user charging on this basis in recent years. Nevertheless their attitudes to user charging do differ to some extent. Indeed user charging probably encapsulates the most important philosophical difference between our two major political parties that affects their attitudes to the size of government and its interaction with society. In particular, the two major political parties differ in their interpretation of the benefits to the community versus the benefits to the individual from public services, the pros and cons of targeting 'free' service delivery to the most needy, and how far a two-tier system of service delivery is likely to eventuate and be acceptable. Ironically the Labor Party tends to favour tighter targeting of income support to the most needy, but supports wider coverage of 'free' services. In contrast, the Coalition Parties have weakened the means tests for income support. But especially in the areas of health and aged care, the Coalition is seeking to limit access to 'free' services to only those who are on low incomes or those whose high level of expenditures qualify them for safety net arrangements. The net budgetary impact of these different party political positions is, however, uncertain.

Overall what can be said in the present context is that increased reliance on user charges, in combination with income contingent loans and private insurance, potentially offers a way of reducing the demands for higher taxation. However, a rough assessment of the scope for introducing additional user charges suggests that the revenue raised would not be anywhere near sufficient to eliminate the need for higher taxation in the future. At the same time, the extent of user charging and the way in which it is introduced could make a difference to the future nature of our society. A cut in taxation that is financed by increased user charges is effectively a form of redistribution and should be judged accordingly. In addition, our experience has been that people are most likely to purchase private health and private school education when the public systems are starved of funds and their quality deteriorates and the public queues lengthen. Subsidies to the private systems make it easier for those who have already quit the public system, and/or are often wasted on higher costs, without necessarily reducing net budget outlays.

Those who argue against the privatisation of services have a strong conception of citizenship. They insist that the members of our society are interdependent and have a mutual obligation to each other. In such a society collective or social goods and services make an important contribution to wellbeing. The contention is that these services should be available to all, and as far as possible universally used in order to maximise social inclusion and cohesion. In this argument, these services should then be paid for by taxation, which reflects ability to pay rather than use, as part of our mutual obligation to each other. In effect, the citizen is seen 'as an individual bound into wider social relationships, both contributing to and receiving benefits from the civic community'.[29]

Our Willingness to Pay Higher Taxation

The key constraint to higher taxation is not economic but political. As noted at the outset of this paper our political debate has been governed by the assumption that there is no support for higher taxation. But this assumption begs the question as to why Australians are so opposed to higher taxation? The answer from research commissioned by the UK Commission on Taxation and Citizenship[30], which seems equally apposite to Australia's present circumstances, is that there is 'a deep sense of "disconnection" from the taxes people pay and the public services which these finance'. 'Yet this sense of "disconnection" did not mean that the respondents were simply unwilling to pay more tax. Most people strongly valued public services … The dominant argument to emerge was that, if people could be sure that the money were genuinely going to improve the priority public services, they would be willing to countenance higher taxation.'

The conclusion is that the major fiscal priority for government must be to make people feel better connected to the taxes that they pay and the public services that they finance. There are a number of ways in which this 'connectedness' could be improved, and these are briefly canvased in the remainder of this section.

First, any return to a 'tax and spend' approach to public policy will meet with continued taxpayer resistance. Instead the public needs to be reassured that every effort has been made to eliminate waste. That will involve the political will to knock back a number of special interests. It will be assisted by further improvements in accountability and in the transparency of information provided regarding the cost-effectiveness of programs.

Second, hypothecation or earmarking of taxes to finance specific expenditures can make it easier to raise those taxes as the connection between the extra revenue and how it will be spent is then clearly established. For example, in recent times in Australia levies to finance road construction or the buy-back of guns have been widely accepted. In the past, however, hypothecation of taxation has been opposed by many economists for the very good reason that hypothecation limits the fiscal freedom of governments to adjust to changing priorities. It is argued that in our system of representative democracy such choices are best made by our elected representatives who are better able to comprehend the necessary trade-offs involved and who will thus limit the chances of a policy change having unforeseen consequences. By contrast neo-liberals have often supported revenue hypothecation precisely because it limits the power of government, especially when each tax, and its accompanying expenditure, is set by a citizens' referendum.

It is now timely to reconsider these competing considerations with respect to hypothecation of taxes. Fundamentally the choice may be between raising some necessary revenue to finance some highly desirable expenditure and foregoing that expenditure. Moreover, in reality the earmarking of taxes for particular expenditures becomes increasingly meaningless over time. The whole intention is that the higher taxes should lead to higher expenditure, but with the passage of time it becomes difficult to determine what the base-line expenditure would have been in the absence of the ear-marked tax. Nevertheless, it must also be acknowledged that hypothecated taxes only seem to work for relatively small expenditures, and are not the solution where, as projected, a major increase in taxation may be needed.

Third, increases in some taxes and the introduction of some new taxes might be supported precisely because they could be expected to have some positive benefits. Generally taxes are expected to alter behaviour, and as discussed earlier that is the classic reason for opposing them. But where private markets do not fully reflect the true costs of a particular activity then taxation may have a positive effect on behaviour. The most obvious examples are environmental taxes, which can be set to reflect the cost to the environment of any particular activity. But taxes can also be extended to reflect the scarcity value of products such as water and oil, where the private cost of bringing these products to market is well below their true long-term value.

Fourth, it is likely that people will feel more connected to taxing and spending when the government that does the spending also raises the taxes. Of course, such a close link between taxation and spending has always been desirable for reasons of democratic accountability. However, this link does not apply in Australia where there is considerable vertical fiscal imbalance, with the Commonwealth government raising almost half of the total revenue that the States currently spend. Traditionally the reasons for maintaining this vertical fiscal imbalance have included the efficiency of revenue raising in a highly integrated national market, the effectiveness of macro-economic policy, and the desire to maintain a very high degree of horizontal equity between the different states and territories of Australia. But if governments perceive that they are experiencing increasing difficulty in raising the necessary revenue to finance their desired expenditures they may be prepared to take another look at the States becoming more accountable by raising more of their revenue directly on their own behalf.

Fifth, taxpayers may perceive a closer connection between public services and their taxes if governments funded the consumers of these services rather than the suppliers. Funding consumers would provide them with more choice and would shift power to the taxpayer and away from bureaucracies and monopoly service providers. Indeed medical services, childcare and aged care are already largely funded by the state, but the money is paid at the behest of the customer who can choose the service provider.

Sixth, where the state is unwilling to shift the funds away from the direct control of the service provider, the public may be more supportive of increased expenditure if they had more direct say in how that money is spent. This could be achieved through the devolution of more management authority away from the centralised bureaucracies in favour of individual schools and hospitals so that they had greater flexibility to better respond to local needs. At the same time it would then be desirable to increase community control of these schools and hospitals. Community representatives on the relevant boards could participate in setting the strategies for service delivery and priorities within a framework that would be set by governments. Already Victoria has taken some significant steps in this direction with its schools, but arguably it could go further and allow individual schools greater flexibility to set salaries and other employment conditions so that the most disadvantaged schools could better compete for the best teachers.

Mechanism for Increasing Taxation

Although this paper has argued that the level of taxation should be set after considering the demands for expenditure, that does not mean that Australia should abandon any fiscal ceiling. Our experience is that the adoption of a fiscal ceiling for taxation and budget outlays can help governments maintain the necessary discipline over their expenditures, so that they properly address their priorities. The difference between what is proposed in this paper and past practice in Australia is that the fiscal ceiling in future should be carefully chosen and not just arbitrarily derived from the historic level of spending and taxation.

For example, New Zealand has a budgetary framework that allows ‘fiscal provisions’ to evolve over time, with the fiscal limits for each parliamentary term being set at the start of that term. In Australia’s case the present Charter of Budget Honesty, which has been legislated by the parliament, does not actually lock the government into any particular expenditure level. Instead the Charter requires the government to specify the government’s fiscal objectives and targets for the budget year and the following three financial years. The government is also required to explain the broad strategic priorities for the budget, and this requirement could be expanded to comprehend the principal reasons why expenditure and taxation need to change and the expected outcomes in terms of service delivery. Thus this Charter could readily be adapted to allow a medium-term consideration of future expenditure plans over say the next four years at the beginning of each parliamentary term or in the run-up to an election. A ceiling for expenditure and taxation for the new parliamentary term would then evolve from that consideration of expenditure and taxing demands.

Conclusion

This paper has argued that the present approach to setting the overall level of taxation in Australia is arbitrary. The present taxation ceiling is essentially politically determined, and the economic case against an increase in the level of taxation in Australia is not strong. The principal problem with our arbitrary tax ceiling is that it does not reflect any serious consideration of the future needs of the country and their relative priority, whereas this paper has argued that the future demands for public expenditures are likely to increase. The main element of future discretion is likely to be the extent to which services might be privatised, with more people excluded from access to public services and paying for private services instead. But a change along these lines would imply a narrower concept of citizenship than has traditionally applied in Australia, and it would tend to change the nature of our society.

While some people will profess to be horrified by a significant increase in taxation, it needs to be remembered that economic growth in Australia has been founded on the rapid adoption of new technologies and the opening up of our markets to the forces of globalisation. But left to themselves, markets will not ensure that the fruits from higher economic growth will be evenly shared. Fiscal intervention by the government is necessary to help those adversely affected by economic change to adapt and maintain their participation in a fair society that protects the quality of life. In these circumstances if the present size of government was considered to be about right twenty years ago, it should not altogether be a surprise that taxation might rise in future, given the nature of the challenges that our society is facing. Indeed our willingness to pay for some increase in the size of government might well influence our capacity to increase employment participation and achieve the desired rate of future economic growth.

The problem with continuing the present limits to taxation and spending is that we risk fooling ourselves that these limits are sacrosanct and that they are capable of reflecting our future priorities. But the reality is that by limiting taxation from the outset, without any serious consideration of what it implies, we are more likely to distort our priorities. Unfortunately the resulting tensions may in due course then lead to increasing disillusionment with our system of democracy.

The specific proposal in this paper is that it is time for the country to have a proper debate about the sort of society that we want to maintain and what that implies for the levels of government expenditure and taxation. Such a debate would of itself assist in forming a better connection between taxation and how it is spent. But such a desirable connection between taxation and public spending would also be reinforced if more taxes were earmarked to finance particular expenditure purposes and if people had more direct control over the actual purchases of services that are government funded. When people feel more confident that their taxes are being *well* spent on services that they can directly associate with, then the majority of public opinion might well agree that higher taxation is warranted.

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Notes

[*] This paper has benefited from comments by Ric Simes and research assistance by Sandra Dandie. Naturally the author takes sole responsibility for any remaining errors.

[1] This chart is reproduced from Simes, R (2003), *Fiscal Policy Rules in Australia,* Chifley Research Centre, accessed at http://www.chifley.org.au/index.php. The data have been constructed from the OECD's *Economic Outlook* 72, December 2002. To minimise any cyclical influences, productivity growth is defined as average growth in potential output less the growth in the labour force.

[2] Leibfritz, W, Thornton, J and Bibbee, A (1997), *Taxation and Economic Performance,* Economics Department Working Papers 176, OECD, Paris: 11.

[3] Cited by Argy, F (2003), *Where to From Here? Australian egalitarianism under threat,* Allen & Unwin, Sydney: 66.

[4] Of all the OECD countries in the review, Australia had the lowest average effective tax rates on labour, and the equal smallest increase in labour taxes.

[5] Heckman, J (1993), 'What has been learned about labor supply in the past twenty years?' *American Economic Review,* 83, 2: 116-21.

[6] Feldstein, M (1995), 'Behavioural responses to tax rates: evidence from the Tax Reform Act of 1986', *American Economic Association Papers and Proceedings*, 85, 2: 171.

[7] Argy, F (2001), 'Economic rationalism in Australia – survey of members of the Economic Society of Australia, ACT Branch', *Economic Papers,* 20, 1: 6.

[8] Commonwealth of Australia (2002), *Intergenerational Report, 2002-03,* Budget Paper 5, Commonwealth of Australia.

[9] Victorian Department of Treasury and Finance (2003), *Shaping a Prosperous Future: Prospects, Issues and Choices,* Discussion Paper, State of Victoria.

[10] Gruen, D (2003), 'Longer-term fiscal projections'*,* Presentation to Fiscal Policy and Financial Markets Conference 28 October, Australian National University, Canberra.

[11] Keating, M (2003), 'The labour market and inequality', *The Australian Economic Review,* 36, 4: 1-23.

[12] *ibid*.

[13] *ibid*: 7.

[14] Keating, M (forthcoming), 'Increasing Labour Force Participation in Australia's Ageing Population: Fiscal, Labour Market and Social Implications', Committee for Economic Development of Australia.

[15] Gregory, RG and Hunter, B (1995), 'The macro-economy and the growth of income and employment inequality in Australian cities' Centre for Economic Policy Research Discussion Paper, 325, Australian National University: 6.

[16] *ibid*: 11.

[17] Keating (2003) *op cit.*

[18] The AMP-NATSEM (2002), *Trends in Taxable Income,* AMP-NATSEM Income & Wealth Report, Issue 1, available from www.amp.com.au/ampnatsemreports shows that from 1995 to 1999 the average taxable income rose by 25 per cent for the top decile of taxpayers ranked by the taxable income of their postcode. By comparison

taxpayers in the middle and lower deciles of postcodes only had an increase of around 16 per cent in their taxable incomes.

[19] McDonald, P and Kippen, R (1999), 'Ageing the social and demographic dimensions', in *Policy Implications of the Ageing of Australia's Population,* Conference Proceedings, Productivity Commission and Melbourne Institute of Applied Economic and Social Research, Commonwealth of Australia.

[20] Commonwealth of Australia (2003), *Sustaining Growth in Australia's Living Standards,* Budget Paper 1, Statement 4, Commonwealth of Australia: 4-11.

[21] Gruen (2003) *op cit.*

[22] In this scenario the increase in participation rates would increase GDP, and a similar improvement in State Government budgets could also be expected.

[23] OECD (1994), *The OECD Jobs Study,* Parts I and II, OECD, Paris; Borland, J (1996), 'Job creation and job destruction in manufacturing Industry in Australia', *The Economic Record,* 72, 216: 46-62; and Murtough, G, Pearson, K and Wreford, P (1998), *Trade Liberalisation and Earnings Distribution in Australia,* Industry Commission Staff Research Paper, AGPS, Canberra.

[24] Dawkins, P (1999), 'A plan to cut unemployment in Australia: an elaboration of the "five economists" letter to the Prime Minister', *Mercer-Melbourne Institute Quarterly Bulletin of Economic Trends,* 1.99: 48-59; Dawkins, P (2001), 'The "five economists" plan': the original ideas further developed', paper presented to Creating Jobs: The Role of Government Conference, Australian National University, Canberra 6-7 September; and Dawkins, P and Keating, M (2002), 'Full employment: The "five economists" plan revisited', paper presented to Towards Opportunity and Prosperity Conference, University of Melbourne, April.

[25] For example, in May 2002 only 33 per cent of males aged 45-54 reported Year 10 or below as their highest qualification, compared with 47 per cent of those males aged 55-59.

[26] Australian Bureau of Statistics (2002), *Measuring Australia's Progress,* Catalogue 1370.0: 24-35.

[27] Chapman, B and Ryan, C (2003), 'The access implications of income contingent charges for higher education: lessons from Australia', Australian National University, Centre for Economic Policy Research, Discussion Paper 463.

[28] *ibid*.

[29] The Commission on Taxation and Citizenship (2000), *Paying for Progress: A New Politics of Tax for Public Spending,* Fabian Society, London: 96.

[30] *ibid*: 3.