

Tax Reform and Change Leadership

POLITICAL ECONOMY OF TAX REFORM

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NOTE: THE VIEWS EXPRESSED ARE OF THE AUTHOR ONLY AND NOT NECESSARILY OF ANY ORGANISATION WITH WHICH HE IS ASSOCIATED

Broad bases, low rates

Henry Recommendation 1

- *Revenue raising should be concentrated on four robust and efficient broad-based taxes*
 - *Personal income*
 - *Business income*
 - *Rents on natural resources and land*
 - *Private consumption*

Benefits

- Robustness (revenue yield over time as conditions change)
- Economic efficiency (mainly allocative)
- Horizontal equity
- Vertical equity

The political economy of change

Type 2 change

- Changes the fundamental conditions, approach or objectives
- Resisted by the beneficiaries of the status quo
- A task for LEADERS

Type 1 change

- Changes needed to restore or maintain existing approaches and systems
- Generally understood by most stakeholders
- A task for MANAGERS

What happened to “A New Tax System”?

1. GST has declined as a share of GDP from 4% to 3½%
 - Higher savings rate, and consumption shifts to untaxed rent, health and education
 - Partly offset by the increase in state mining revenue from \$2 b to around \$8½ b (2014-15)
2. Other Indirect taxes have declined by nearly 1% of GDP
 - Failure to index fuel taxes, and weaker customs duty (free trade), tobacco and gambling
3. Erosion of sustainability, fitness for purpose of superannuation
4. Boom and bust business and commodity cycle, and especially capital gains, company tax
5. The world has kept changing – company tax rate competition
6. Unfinished business from 2000 – inefficient state taxes, bracket creep
7. Plus the ongoing increase in economic share of health (plus ageing and disability) pressuring all governments

Type 2 Change leadership tasks – 2015 stocktake

Change Leadership Task	Some Current Issues
Establishing a sense of urgency	“Over narration” and agenda creep 24 years of economic growth Mixed messages, unclear fiscal story
Forming a powerful coalition	Weaker/divided role of main social actors Strengthened position of some vested interests Weakened public service and Treasury agencies
Developing a change vision	Many blueprints, few strategies, unclear purposes e.g. GST revenue ‘spent’ at least five times
Communicating the change vision	New hope? but so far putting things “on the table”
Empowering others to act	How engaged will key players be for the implementation stages?

Into 2016, a year of decision?

All will be revealed? White papers and more on a range of interacting issues?

The backdrop: Global financial and economic low point, or ongoing weakness?

Renewed clarity of fiscal policy realities, and purpose?

Repair of some key local institutions?

Electoral mandate?

- Essential to get a much simpler and more consistent vision