

Centre for Tax System Integrity - Research Note 9

Attitudes to tax policy: Politics, self-interest and social values

Valerie Braithwaite

The attitudes that the community hold to taxation policy are commonly understood from the perspective of self-interest. Drawing on rational actor theory, tax policy is expected to find favour when it financially benefits the taxpayer and disfavour when it financially disadvantages the taxpayer. Following this line of argument, taxes that are costly to the community, such as a goods and services tax (GST), should receive a negative evaluation overall. Cuts to income tax, on the other hand, should be regarded more favourably, being supported by all beneficiaries.

Two problems arise with this argument. First, evaluations of the GST are not as uniformly negative as might be expected. Similarly, evaluations of income tax cuts are not as uniformly positive as might be expected. The data presented in Tables 1 and 2 show variability in community attitudes to the GST and tax cuts respectively.

Table 1: Percentage agreeing with statements about the GST in 2002 (2005) national sample

GST statement	%
The GST was a tax we had to have	41 (36)
My standard of living is just as high now as it was before the GST	53 (52)
Some goods and services should be exempted from the GST (reverse)	81 (81)
A GST is the best way to make sure the government has enough money to	34 (32)

run the country	
The GST has been hard on the most vulnerable members of the community (reverse)	69 (63)
The GST has increased the gap between the rich and the poor (reverse)	60 (53)
A tax on goods and services is a fair way of collecting the tax needed to run Australia	48 (43)

Note: These statements were rated on a 5 point rating scale from “No!!” to “Yes!!” The two upper categories of Yes! And Yes!! were combined to calculate the percentage in agreement.

Table 2: Percentage agreeing with statements that income tax cuts are fair in 2005 national sample

Income tax cuts statement	%
In the recent budget, the government made a choice between reducing taxes or spending more on social services and infrastructure. Do you think the government should have reduced taxes? ¹	28
Do these tax cuts make the tax system more fair? ²	36

¹The response categories were “definitely”, “probably”, “depends”, “probably should have spent more on social services/infrastructure”, “definitely should have spent more on social services/infrastructure”. The categories definitely and probably were combined to calculate percentage in agreement.

² The response categories were “much more fair”, “somewhat more fair”, “a little more fair”, “no different”, “a little less fair”, “somewhat less fair”, and “much less fair”. The categories much more fair, somewhat more fair and a little more fair were combined to calculate percentage in agreement.

The statements describing people’s evaluations of the GST formed a unidimensional attitude scale (alpha reliability coefficient = .87). Scores were aggregated and divided by the number of items in the scale. The attitude to the GST scale had a mean of 2.62 and a standard deviation of .95 (using 2002 data). This paper examines the factors that

explain variation in attitude scores on GST two years after the tax was introduced. The second analysis predicted attitude to tax cuts three years later in 2005. Responses to the two questions on tax cuts were standardized and aggregated. The aggregated scores were divided by 2 providing an average score over the two questions. Respondents' ratings for the two questions on the appropriateness of tax cuts correlated .30.

Explaining variation in attitudes to tax policy

In 2000, 2002 and 2005, three national surveys were conducted in Australia measuring attitudes to taxation, taxpaying and government policy.¹ A sample of 511 Australians completed all three surveys, the first conducted during the tax reform planning stage, the second after Australia's first goods-and-services tax (GST) was introduced, and the third after the tax reform program was bedded down and tax cuts were given to higher income earners in the budget. These data provided an opportunity to compare political party support, self-interest and value-attitude linkages as potential pathways leading to support or rejection of government policy on the GST in 2002 and income tax cuts in 2005.

Attitude to GST

The GST was a hotly contested and highly politicised issue over two federal elections, supported by parties of the right and opposed by parties of the left. On the first

¹ Details relating to survey methodology and measures are available in a series of working papers (Nos 2, 4, 79, 84) at <http://ctsi.anu.edu.au/publications/WP/WPlist.html>

occasion, the conservative parties lost the election. In 1998, they won with a mandate for the GST and for tax reform.

In order to investigate the relative importance of (a) being a party supporter, (b) being a self-interested actor, and (c) holding value-attitude linkages in the formation of attitudes to tax policy, a structural equation model was tested using the survey data. All measures were taken in 2000, while the outcome measure of having a positive or negative attitude to the GST was taken two years later in 2002.

Six explanatory variables were measured for the purposes of building a path model using AMOS version 6.00 with maximum likelihood estimation (Arbuckle, 2005; Byrne, 2001). They are described below. Further details are provided in the Appendix.

- (a) and (b) harmony and security values (Higher score, stronger commitment);
- (c) political identification through being a supporter of a left or right political party (-1 left supporter, 0 non-supporter, 1 right supporter);
- (d) preference for more or less government spending on social services (education, health care, employment, and welfare) (Higher score, more positive attitude to spending);
- (e) desire for reform to reduce taxpayer burden (keeping taxes low, giving corporations tax incentives to serve community, keeping costs of tax administration down and minimizing taxpayer costs) (Higher score, more positive attitude to reform to relieve burden);
- (f) attitude of feeling burdened by tax (sample item: 'Paying tax means I just can't get ahead') (Higher score, greater feeling of burden);

The structural equation model showing pathways to having a pro- or anti-GST attitude is represented diagrammatically in Figure 1. The goodness of fit indices for the model are acceptable (Chi-square = 4.004, df = 4, p = 0.405; GFI = .997; AGFI = .986; RMSEA = .001).

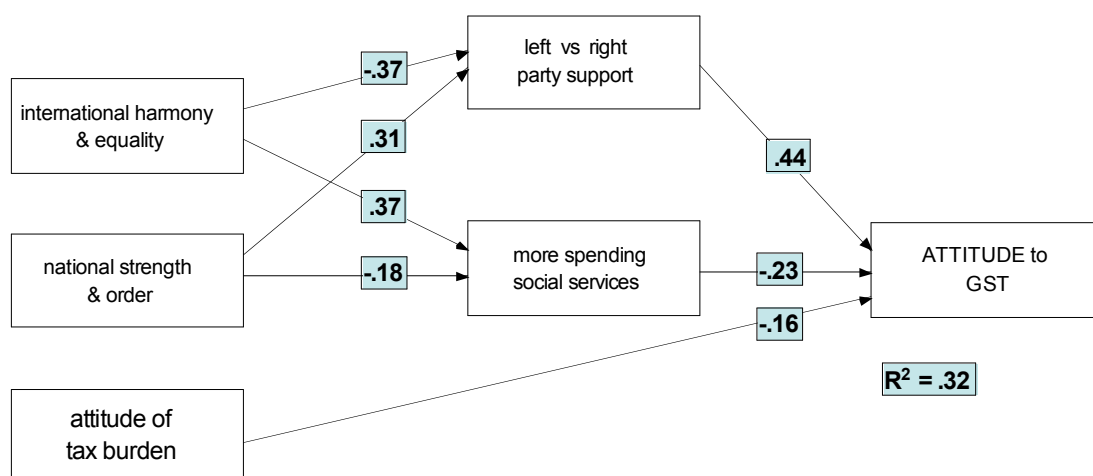


Figure 1: Path analysis predicting attitude to GST in 2002 from 2000 measures of social values and attitudes, self-interest and political party support

Political party identification defined the most important pathway. Harmony and security values shaped support for political parties of the left and right respectively, and it was political party support that directly determined how favourably the GST was regarded two years later.

The self-interest hypothesis also was confirmed by the model in Figure 1. Personal feelings of burden from taxation led to a negative evaluation of the GST, although the pathway was weak.

Value-attitude pathways that would lend themselves to values-based deliberation were partially evident. Harmony values and support for increased spending on social services led to opposition to the regressive GST. There is no value-attitude pathway in Figure 1, however, involving security values: Security values and wanting a more efficient tax system were associated at the bivariate level, but this coupling of values and attitudes did not predict a more favourable attitude to the GST two years on. A shared understanding had not developed among the security oriented that the GST was the tax Australia had to have to make the system more efficient. Instead, the security oriented, like the harmony oriented focused on spending on welfare, education, health and employment. While those supporting expenditure to reduce the gap between rich and poor rejected the regressive taxing measure of a GST, the security oriented opposed additional spending and through this pathway supported the GST.

This analysis suggests that if there are values underlying tax reform processes, they operate through party politics and not through considered debate about the best options for achieving both specific and broader goals. These findings reflect the way in which tax debates in the public arena often develop. Taxation is assumed to be an unpopular topic and governing parties are only too ready to avoid a debate about its values base. Tax discourse is full of practical necessity and detail rather than serious public engagement with broader societal goals. Deflecting debate to the politics of policy expenditure probably suits both a conservative governing party and a progressive opposition party. In such situations, the public can be forgiven for thinking that taxation is not principle-based.

Attitude to tax cuts

The second structural equation model predicted attitude to tax cuts in 2005; the higher the score, the more likely individuals were to favour tax cuts as opposed to spending on social services/infrastructure. The variables measured in 2000 to explain attitudes to tax cuts were identical to those used in modelling attitude to the GST. The model is presented in Figure 2. The goodness of fit indices were acceptable (Chi-square = 2.819, df = 5, p = 0.728; GFI = .998; AGFI = .991; RMSEA = .000).

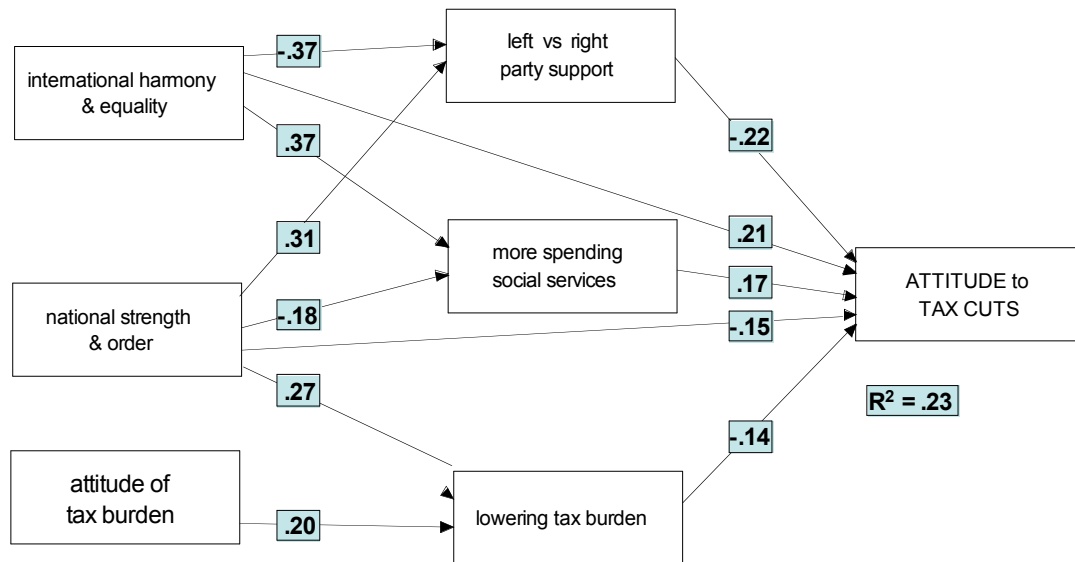


Figure 2: Path analysis predicting attitude to income tax cuts in 2005 from 2000 measures of social values and attitudes, self-interest and political party support

The institutional context for tax cuts was different from that for the GST. The tax cuts were handed down in the federal budget after the conservatives won the 2004 election. They were delivered as “a gift” to workers and taxpayers with disproportionate benefits for higher income earners. In the same budget, the

government embarked on welfare reform, introducing policy “sticks” to move people off welfare and into the workforce. The governing and opposition parties did not adopt high profile adversarial positions over the tax cuts – the community in large measure was left to make up its own mind about the policy decision.

As in the earlier model predicting GST attitude, harmony and security values influenced support for parties of the left and right respectively, and this in turn predicted attitude to the tax cuts. Supporters of parties of the right agreed with the tax cuts, supporters of parties of the left thought that the money would have been better spent on social services and infrastructure. Self interest again was significant as a factor shaping attitudes, with those feeling burdened in 2000 expressing support for the goal of taxation efficiency; and support for tax efficiency predicted a favourable attitude to the tax cuts five years later.

But of greater importance than either the self-interest or party supporter pathways were those represented by values and attitudes. The hypothesized security and harmony pathways were present, providing evidence that community dialogue over what the priorities of the government should have been in the budget was possible. Security values linked directly and indirectly to support for tax cuts, indirectly through wanting greater taxation efficiency. Harmony values linked directly and indirectly to rejection of tax cuts, indirectly through support for spending more on social services. The value basis for arguments between those in favour and those against the tax cuts was apparent, perhaps more so because of the ‘absence’ of political party divisions on the issue.

In contrast to the GST, neither of the major parties was prepared to say that tax cuts were not in the public interest (though political commentators did)². Even so, the model illustrates that being a supporter of a political party was significant in shaping attitudes five years later. Importantly, however, being a party supporter did not drown out value-attitude pathways in shaping policy preferences. Security and harmony value orientations framed the pursuit of different goals and policy, pulling respondents in two different directions in the process. On the basis of these data, values-based dialogue over the relative merits of the two ways of thinking about tax cuts was possible with the community. Interestingly, evidence of these pathways and of the potential for critical analysis became apparent in a context where political parties had virtually bowed out of the debate.

Conclusion

Tax policy may not arouse public interest to the same extent as environmental policy or health policy or security policy, but it is not the case that the processes by which individuals evaluate policies in these other areas are different from the processes involved in evaluating tax policy. Values and attitudes about what is in the public interest are as relevant to tax policy as to other policy evaluations. As expected, self-interest has a role to play in policy evaluation as does political party identification, but these factors do not drown out the potential in the community for responsible dialogue expressing values, attitudes and the public interest.

² For example, see Gittens, Ross. Popularity ahead of responsibility, *The Age*, May 11, 2005.

<http://www.theage.com.au/news/Ross-Gittens/Popularity-ahead-of-responsibility/2005/05/10/1115584966222.html>

References

Arbuckle, J. (2005). *Amos 6.0 User's Guide*, Chicago, Ill: SPSS.

Byrne, B. M. (2001). *Structural Equation Modelling with Amos: Basic Concepts, Applications, and Programming*. Mahwah, NJ: Lawrence Erlbaum.

Appendix

Details of Measures

Security value orientation (Mean = 5.67, SD = 1.00)

Respondents used a 7 point scale from “reject” through “accept of the utmost importance” to rate the following items: (a) national greatness (being a united, strong, independent, and powerful nation); (b) national security (protection of your nation from enemies); (c) rule of law (living by laws that everyone must follow); (d) national economic development (having greater economic progress and prosperity for the nation).

Harmony value orientation (Mean = 5.72, SD = .84)

Respondents used a 7 point scale from “reject” through “accept of the utmost importance” to rate the following items: (a) a good life for others (improving the welfare of all people in need); (b) rule by the people (involvement by all citizens in making decisions that affect their community); (c) international cooperation (having all nations working together to help each other); (d) a world at peace (being free from war and conflict); (e) Human dignity (allowing each individual to be treated as someone of worth); (f) a world of beauty (having the beauty of nature and the arts: music, literature, art); (g) equal opportunity for all (giving everyone an equal chance in life); (h) greater economic equality (lessening the gap between the rich and the poor); (i) preserving the natural environment (preventing the destruction of nature's beauty and resources); (j) social progress and reform (readiness to change our way of life for the better).

Attitude of personal loss through tax (Mean = 3.09, SD = .86)

Respondents used a 5 point scale (“strongly disagree” through “strongly agree”) to rate the following items: (a) I would be better off if I worked less given the rate at which I am taxed; (b) Paying tax removes the incentive to earn more income; (c) Paying tax means I just can't get ahead.

Political identification

-1 = supporter of political parties of the left (27%)

0 = not a party supporter (47%)

+1 = supporter of political parties of the right (26%)

Attitude to government spending on social services (Mean = 3.87, SD = .63)

Respondents used a 5 point scale (“much less spending” through “much more spending”) to rate the following items: (a) education; (b) health care; (c) employment; (d) welfare.

Attitude to minimizing taxation burden (Mean = 3.78, SD = .69)

Respondents used a 5 point scale (“not important” through “utmost importance” to rate the following items: (a) keeping taxes low; (b) improving business competitiveness; (c) giving corporations incentives to serve community; (d) keeping costs of tax administration down; (e) minimizing taxpayer costs.