

**Submission to Treasury inquiry into tax deductible gift recipient reform opportunities**

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## Scope of submission

This submission is centered on Consultation Question 12:

Stakeholders' views are sought on requiring environmental organisations to commit no less than 25 per cent of their annual expenditure from their public fund to environmental remediation, and whether a higher limit, such as 50 per cent, should be considered? In particular, what are the potential benefits and the potential regulatory burden?

and the associated House of Representatives [Standing Committee](#) on the Environment Recommendation 5:

... that legislative and administrative changes be pursued by the ATO to require that the value of each environmental DGR's annual expenditure on environmental remediation work be no less than 25 per cent of an organisation's annual expenditure from its public fund.

The Treasury paper, however, fails to note that this recommendation is no more than an opinion expressed by members of the Committee.

There are the views expressed by Jason Woods MP:

I have concerns about this recommendation, as there are a number of groups with deductible gift recipient (DGR) status or future groups that want to apply for DGR status that would have no remediation work or would find it very difficult to prove the 25 per cent target.

and the views expressed by five other Committee members in a strongly dissenting report:

The overwhelming weight of evidence presented to the committee points to the vital importance of maintaining the tax deductibility of donations to environmental organisations, without imposing further conditions or constraints on the operation of those organisations.

Despite the efforts of government members, no disinterested evidence was adduced in support of the proposition that a distinction should be drawn between so-called 'on ground' environmental activities on the one hand, and advocacy, on the other.

... Citizens should be supported to question government decision-making and corporate power, not manoeuvred into silence by legislative and administrative action.

However, government members have, seemingly, preferred ideology and interest to evidence.

We are particularly concerned by the apparent reliance on the submission and evidence of Senator Matthew Canavan in support of contentious recommendations (to which we are opposed) in preference to expert views and submissions given by those working in or with environmental organisations.

## Submission

### *Disclosure of personal interest*

I have no personal partisan affiliation, and apart from the occasional small (< \$100) donation to environmental organizations, no personal organizational interest. Rather, my concern is as a former public servant and a lecturer in public economic policy, in both of which occupations my concern has been for the public good. To quote from the Treasury's paper my interest is to see "DGR status encourages donations to organisations and encourages the delivery of goods and services that are of public benefit".

*Substance of submission*

I agree with Representative Woods' concerns, and concur with the findings of the dissenting report.

Maybe, in an ideal world, where politicians could be trusted to protect the common wealth from rapacious rent-seekers, where government environment departments were not muzzled and starved of resources by Cabinet, where regulatory agencies were properly staffed, where all citizens had a basic understanding of science, where corporate donations to political parties were prohibited, where public servants could give frank and fearless advice without fearing for their careers, where journalists in all the main media spoke truth to power, and where corporations were not flouting rules designed to protect the common wealth, environmental groups would not need to devote so many resources to lobbying.

But we don't live in that ideal world – as vividly demonstrated by the recent ABC exposure of theft and corruption in relation to water resources in the Murray-Darling Basin.

Our democracy needs a voice to countervail the overwhelming voice of rent-seekers and of those who are wont to plunder our environmental resources.

Those who finance corporate lobby groups, with the benefit of tax deductibility, do so at no cost to themselves. Rather they draw on corporate resources that would otherwise have been allocated to shareholders, employees, suppliers and the corporation's internal investment.

If their lobbying succeeds in securing economic privilege for their industry they stand to enjoy material personal rewards, generally in the form of higher executive salaries and directors' fees. Furthermore, the more success a lobby group has in securing privilege for itself, the more resource it has to lobby further.

That's the positive feedback dynamic described by the late Mancur Olson, in his influential works *The Logic of Collective Action* and *The Rise and Decline of Nations*.

By contrast, donations made by individuals to environmental and other public-interest groups rarely return any material benefit to the donor.<sup>1</sup> And there is no self-reinforcing positive feedback loop of increasing effectiveness as Olson described.

The adverse consequences of such corporate lobbying are manifold:

- an economic culture of rewards for rent-seeking rather than productive investment;
- a stifling of economic development, as corporate interests use their resources to defend the status quo by lobbying for laws to impede structural change and block new entrants;
- general resource misallocation if successful lobbying results in corporations not having to pay for externalities. The most notable instance is the absence of a price on greenhouse gas emissions;

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There are a few instances where donations may benefit the individual. Owners of businesses such as farms behaving ethically may donate to a lobby group pressing for enforcement of environmental regulations being flouted by their competitors; households may donate to a lobby group opposing a development that would detract from their enjoyment. These instances are trivial in comparison with the lobbying power of large corporations.

- depletion of scarce and non-renewable resources – often at a rate that is non-sustainable, and, as demonstrated by Australia’s recent experience, in a way that creates exchange rate volatility;
- non-remedial environmental damage
- eventually a loss of corporations’ social licence, and a breakdown in trust in government, as demonstrated by the emergence of populist movements.

It should not be necessary to make these points to the Treasury Department – a department staffed by highly-educated economists. No doubt it is all familiar to those reading this submission. (Olson’s work, for example, is virtually a [canonical contribution](#) to economic theory.)

But, as a charitable assumption, I imagine that their political masters are not so well-informed. That is to rule out the alternative explanation that they understand the political economy of corporate lobbying, but are in a corrupt relationship with rent-seekers and environmental vandals.

The central issue is one of asymmetric power, where the balance is already tipped against groups mobilizing support to put the case for resources to encourage “the delivery of goods and services that are of public benefit”. It defies any sense of fairness that they should be penalized by denying them a break already enjoyed by the corporate sector.

The point is best illustrated by a (possibly apocryphal) story from Nero’s Rome:

In a form of mass entertainment realism still not surpassed in 2000 years, the occasional Christian was thrown to the lions in the Coliseum.

In his wisdom and mercy Nero decreed that any Christian who survived three such events would be freed and given Roman citizenship.

Only one Christian, a fit and agile young man, had survived twice.

The third time, in order to give the lions a chance, Nero’s slaves ensured he was bound and buried up to his neck in the middle of the Coliseum.

Anticipating Nero’s trickery, on the morning of the event he gorged himself on garlic, herrings and aged French cheese.

When the first lion bounded up to him he blew hard in its face, and the lion, judging that smell was a reliable guide to flavour, decided to find someone more palatable.

As the lion passed over him the Christian threw back his head and with all his might bit the lion on its testicles.

The lion leapt away, yelping in pain.

High up in the stand, where the corporations had their boxes close to Nero’s, a cry came: “Fight clean you dirty Christian bastard.”