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A Tax Revolution To Reboot The Economy

To revive an economy increasingly hobbled by regulation, scrap income tax for a consumption levy. Then make sure that government is obliged to live within its means

The current government of Australia faces a near impossible situation. Manufacturing has declined to the lowest proportion of any developed economy. Food, energy and housing costs are among the highest in the world as is the level of personal debt. Although primary production is the backbone of the economy, smaller farmers, graziers, fishermen and miners have all been reduced to about a quarter of their numbers over the past few decades.

The big miners are bigger than ever; but, even they are struggling against development and operating costs which are double those in North America and higher still than in less developed nations. Despite record exports from mining the trade deficit is chronic and growing worse, as is the budget deficit of government. An economic crisis in the not too distant future seems unavoidable.

None of this cannot be fixed by tinkering at the margins. Budget cuts of the required magnitude would be political suicide and significant tax increases would only accelerate the economic woes. Worse yet, wage earners are at their limits of borrowing and desperate for relief now, not just more promises for some distant rosy *mañana*. Current polls indicate the honeymoon period for the new government is already over in a record short time.

The government, and indeed the nation, urgently need to find a credible path to a better future. Trying to undo the accumulated morass of stifling regulations and unaffordable commitments clearly cannot be accomplished through the usual legislative process in time to avoid further and more severe economic problems. A fundamental change at the very nexus of government revenue and spending is going to be necessary.

How we got here

The past half century has seen unprecedented prosperity for an increasing number of nations. This also made possible an unprecedented proliferation of government and expansion of its role in society. At the same time people are living longer, having fewer children, are more urbanised and working fewer hours than ever before. Technological advances have enabled the productive sector of society to shrink to a minority which supports the majority.

Despite this prosperity almost all developed nations now face a seemingly intractable trend of growing economic problems. The costs of health, education, welfare, pensions, defence and government itself are blowing out while taxation has reached levels where further increases in rates only results in economic suppression, with little or no net gain in government revenue.

The productive sector is struggling under an ever increasing burden of taxes, fees, demands, restrictions and endless red and green tape. In particular, the ability to innovate, invest and establish new enterprises has been seriously impaired.

Over the past half century these problems have grown into a vast economic quagmire. The situation faced is not unlike a massive log jam which cannot be freed by attacking it log by log but might hopefully be released by a single key log if such could be found. The core of the problem would seem to lie in three interrelated areas:

- 1. How revenue is collected
- 2. How it is spent
- 3. How money is created

Taxes on personal and corporate income provide the overwhelming majority of government revenue. Income tax began as a temporary expedient in time of war but has grown into a debilitating addiction of government. Its destructive side effects include:

- Penalizing saving and investment while rewarding spending and borrowing
- Establishment of a vast, insanely complex, unclear, ever-changing and often contradictory body of law wherein even the best efforts at compliance are uncertain
- Billions of non-productive dollars and man-hours wasted in compliance
- Creation of a huge non-productive industry of bureaucrats, lawyers, accountants and advisors dedicated to tax collection, minimization and compliance
- Imposition of major impediments to the efficient functioning of markets wherein capital is diverted from more productive investment into areas of greater tax advantage
- Generation of a highly detrimental and adversarial relationship between government and citizens

Arbitrary powers of taxation have provided a blank check for government expansion and unfunded commitments. This has led to the current situation of critical dependence on government by an increasingly large portion of the population and where there is no way for government to significantly increase its take from the productive sector without supressing the productive activity which supports the entire economy. Further increases in taxation not only can't meet government commitments but would only reduce investment, consumer spending and business profits while increasing unemployment.

Taxation simply cannot squeeze significantly more from the productive economy than it now does. We know this because it has been tried repeatedly and has failed. The current taxation system is grossly inefficient and complex while inflicting debilitating side effects. Ironically, it is hugely more onerous than the system which provoked the revolutions which led to the American Revolution.

Debt slavery

Unfunded spending commitments by government and punitive taxes on private sector earning and saving have led to the creation of a financial system based largely on debt. The consequence of both government and private sector spending chronically exceeding income has resulted in an ongoing expansion of the money supply and endemic inflation.

With loans for education, cars, houses and credit card spending plus future taxes to cover past government spending, the average citizen is born mired in debt and will spend their working life indentured to government and the banks. This condition has become a postmodern form of slavery without the worries of investment and maintenance entailed in outright ownership of slaves. These slaves are self-supporting. Only their useful productive capacity belongs to others.

A possible way out

Although the situation is indeed formidable, there is a foreseeable way out. Fortunately the advancing technology which enabled the situation is now also providing a point of leverage which could free up the whole mass. The key enabling technology is the nascent development of secure digital payment systems and in particular Near Field Communications (NFC) technology. About three-quarters or more of financial transactions in the developed world are already electronic. The convenience and security of using smart phones, cards or watches for NFC based transactions instead of cash assures rapid widespread adoption over the next few years. ATMs will be destined to go the way of pay phones further accelerating this change. Soon the only significant remaining use of cash will be for anonymity in illicit activities. That government will continue to maintain a costly and vulnerable currency system in such circumstances seems unlikely.

Abandonment of cash and adoption of digital payments opens the way for a vastly simpler, fairer, and more effective tax system based on spending rather than earning. It would be similar in form to a sales tax but would apply to all transactions. Differing rates would probably be desirable for basic necessities, luxury goods, and financial instruments with a general rate for everything else. Collection would no longer be the responsibility of the seller, but would take place automatically at the bank or other digital account provider.

Ideally such a tax should not just be added to the current tax system but would replace it as the sole source of government revenue with all others being abolished. Revenue could be apportioned between the various levels of government and deficit spending prohibited except in time of a defined and declared national emergency. An integral part of such a system would be a necessary determination of the proportion of GDP to be allocated for government with the rates to be imposed accordingly.

A further desirable adjunct to budgetary restraint should also be a provision that any, fees, charges, fines or other revenue generated by government might only be used for an

equivalent reduction in the rates for the transaction tax. In other words, government would be restricted to non-profit service provision funded by a single tax and could not increase its revenue through additional charges.

A litany of advantages

The benefits of digital currency combined with a single transaction based tax would be many and great. They include:

- Elimination of a gigantic non-productive tax compliance industry
- Inhibition of non-productive trading churn in financial instruments
- Billions of wasted man hours freed for productive activity
- Large gains in market efficiency
- Restoration of the government/citizen relationship from that of "the government" to "our government"
- Restoration of property rights to genuine secure ownership as opposed to tenancy subject to ongoing payment of ever increasing rent in the form of property taxes
- Armed robbery, drug dealing, money laundering and indeed any crimes involving money would become much more difficult to conduct secretly and the proceeds much harder to hide
- Counterfeiting relegated to history
- Tax avoidance rendered a non-issue
- Tax havens made irrelevant
- Repatriation of foreign profits become desirable
- Transaction based revenue would be much more stable and predictable for government than that based on income and profits
- Accurate near real time economic monitoring becomes possible
- The poisonous politics of resentment inherent in a graduated tax on income would be greatly ameliorated
- Major gains in both foreign and domestic investment for the nations which are first movers in this area
- Initiation of a sustained boom in business and consumer confidence
- A huge attraction for foreign investment into Australia and even for multinationals to establish global headquarters here.
- Redress of the gross imbalance in tax treatment between investment housing and homeowners. This has resulted in exorbitant house prices, much of the current working generation indentured to the banks for most of their working life and home ownership becoming a rapidly receding dream for the coming generation.
- Having to operate within a budget based on a defined portion of GDP would change the fundamental dynamics of government. It would mean any new activity would have to come out of the existing budget. This would force politicians and bureaucrats to prioritise, seek cost effective solutions and avoid unnecessary regulation. It would also do much to re-establish the proper role of government as a servant of the people, not their master

Inherent in such a system would also be the opportunity to use GDP to determine the money supply in a clearly defined and transparent manner. Any increases in the amount introduced might also be best effected as a proportional increase to balances in all accounts.

Slaying the regulation monster

The separate but related problem of dealing with the already accumulated mass of over-regulation might be most effectively addressed by creating a legal means whereby affected individuals and businesses could challenge regulations on the basis of their being of negative or marginal cost effectiveness. This might best be decided by a jury trial empowered to determine if a regulation should be set aside in its entirety or in particular circumstances. Certainly a vast amount of costly, ineffective and unneeded regulation might be efficiently disposed of in such manner. Such an approach would both avoid having to burden parliament with the task and would assure that the most vexing and unjustified regulations would soon be addressed.

Not perfect but certainly much better

Any proposal for significant change in a society is always met with objections that for some hypothetical reason or another there might be problems associated with it. Certainly where an existing system is working, albeit imperfectly, it may be prudent to retain what works rather than risk a large detriment for a small or uncertain gain. However, the existing system is failing disastrously and a much better way is apparent. It wouldn't be perfect, nothing is, and always unforseen problems can be expected with any significant societal change. However, it is as certain as is ever possible with changes of such magnitude that one's along this line are eminently feasible and would be a major improvement over the currently failing approach. Incremental introduction of a new system over several years could permit necessary adjustments to be made as experience may indicate.

Privacy concerns will undoubtedly be raised; but here too, replacing the income tax with a transaction tax would be a massive improvement. Apart from criminal activity, government doesn't really care about a detailed accounting of every cent we earn and spend. They just want to collect their revenue and not needing to examine details of the personal lives of millions of taxpayers would be a glorious relief for both sides.

This is only the kernel of an idea but it is clearly feasible and would undoubtedly be of great advantage. The present system was never a well-conceived one and is now in terminal disarray. After a century of patches, attempting to make it work it has failed economically, socially and legally. Either we must throw it out and start over on sounder principals or remain mired in decline until collapse forces fundamental change under pain of chaos.

Australia is well positioned to take a lead and enjoy the advantages of implementing such a system. It already possesses the relevant technology and financial system. It has the means to impose the necessary security and provide users a guarantee against loss from cyber criminals. An Australian digital currency firmly indexed to the GDP of one of the most prosperous and stable democracies in the world would be hugely attractive compared to any of the obscure uncertain fiat paper currencies now presiding or the Bitcoin type alternatives created by unknown parties and backed by no one. Not least as well is also a dire need for such fiscal and taxation reform.

An initiative in this direction would do much to refocus national energy toward hope for a brighter future and could attract broad support across the electorate. All that is really required is the will to do so.

An open public rethink needed

Probably the best immediate path would be to implement public inquiries into the three principle matters of interest, *i.e.* adoption of all digital payments, a single expenditure based tax and deregulation.

The credit card companies, banks, PayPal, Google and several well-funded startups are all in the process of developing competing systems for user friendly, secure electronic payment systems. This will go ahead without government initiative and the market will determine the winners and losers. However, a public inquiry could stimulate early adoption, assist in the addressing of concerns and hely with inclusion of desired features. It could also identify areas in which government might facilitate development and adoption. In addition it might seek to examine whether government itself should offer such a system or leave it entirely to private companies.

The transition to electronic payments replacing virtually all remaining legal and licit cash transactions is likely to be rapid and to begin in the next few years or even the current year. The cost and benefits of maintaining a currency system when the main remaining use is for tax evasion and illegal drugs will have to be considered and it seems unlikely it will be found desirable. With an all-electronic system of financial transactions in place a transaction tax becomes a simple and effective no-brainer. The only real question will be whether to add it to the existing system with all its waste, inequity and collateral damage or to simplify everything by abandoning most or all of it in favour of a single transaction tax with a requirement for government to operate within its resulting revenue.

The problem of growing over-regulation is of course separate, though not unrelated and could benefit from a public inquiry immediately. Some workable means to start pruning back the proliferating mass of costly, ineffective and unneeded regulations is desperately needed. Little of it has significantly improved on the situation that existed before it was enacted. We could err on the side of deregulation at no great risk and a public inquiry could be most valuable in finding a practical way to do so.

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