

How Australia really could lead the world

by Walter Starck

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A key justification for the carbon tax has been that it is needed if Australia is to have an influence in the global fight against climate change. In other words, it is necessary in order for Australia to lead the world in this regard. However, jumping onto a bandwagon the wheels of which have already come off, then trying to strike a more dramatic pose than the clowns already aboard is more likely to be laughed at than to be followed.

For the major powers to follow the lead of a lesser one, the latter would have to do something that proves to be of obvious benefit and would not be too difficult, expensive or risky to emulate. Such opportunities are rare and the vision and courage to grasp them is even rarer. One is now developing and if Australia were to implement it, could genuinely lead the world. This one comes at the nexus of electronic banking with advances in communications and information technology. It offers major improvements to vexing problems in the areas of taxation and the monetary system as well as the nature of government itself.

The problem

Taxation is a major problem for all governments. The whole system has become a hugely expensive, inefficient, inequitable, administrative nightmare which effectively criminalises the most productive sector of society, distorts markets and turns government and citizens against one another. Key elements of the problem include:

- Taxing income penalises earning and saving while encouraging spending and borrowing.
- Payroll taxes inhibit employment.
- Property taxes render freehold land into leasehold subject to arbitrary levels of rent.
- Taxation law has become immensely complex, obscure and even contradictory.
- Compliance costs are massive. These include creation of a huge non-productive industry devoted to tax compliance and minimisation.
- Major distortions and impediments to market efficiency and capital flow are created.
- High marginal rates on personal income greatly reduce capital for investment in new business.
- High corporate taxes drive business offshore and discourage repatriation of overseas earnings.

- Byzantine complexity and uncertainty results in an adversarial relation between government and citizens.
- Otherwise honest highly productive citizens are treated as criminals.

Currency in itself presents another separate but related area of major problems for good governance. Important problems include:

- Theft and robbery
- Counterfeiting
- Constant need for replacement
- Irresistible temptation for governments to engage in deficit spending and to print more money to pay for it. The result is an ever decreasing value of almost all currencies over time.

The Opportunity

In most, if not all, developed countries a large majority of financial transactions are already conducted electronically and much of the remaining portion of cash transactions is set to soon be replaced by Near Field Communications technology. NFC capability is now starting to become a standard feature of smartphones. The convenience, security and record keeping capabilities of NFC payment systems combined with the ubiquity of cell phones assures the rapid uptake of this technology over the next few years. ATMs will go the way of pay telephones as their usage becomes less than the cost of providing them. With fewer and fewer cash sales remaining, businesses will start to reconsider the costs and security issues of continuing to handle cash at all. Governments will also be faced with a similar dilemma regarding the cost of maintaining and policing the production of bills and coins, especially when the main remaining use for cash will only be to provide anonymity for illegal activity and tax evasion.

The coming demise of cash presents a unique opportunity for a hugely beneficial reform of the basis for both taxation and money supply. At the same time it will also provide a quantum jump in our ability to accurately measure economic performance in real time. With electronic payments displacing cash, replacing the insane complexities of income tax with a simple transaction tax would be easy to implement, very difficult to avoid and would yield immense benefits to economic efficiency. The record keeping system for electronic transactions is already in place. All that is required for implementation of such a tax is to link the IRS into the electronic payment network. Suddenly businesses and individuals would be relieved of any obligation or concern regarding taxes. Another immense benefit could accrue if the primary mission of the IRS were to be transformed into economic monitoring. With real time data input at hand, algorithms could be developed to monitor numerous facets of the economy. Such real time economic information would in turn contribute greatly to economic understanding and management.

Privacy concerns could be addressed by appropriate legislation and in any event they would be no greater than they already are. With no concerns about tax avoidance, government would have little incentive or purpose in monitoring individual expenditure other than where

criminal activity is involved. Even much of that would become impractical without the anonymity of cash.

Accurate real time monitoring of economic activity would also make possible the implementation of a transparent objectified control of money supply determined by an agreed upon algorithm and not subject to political whims or manipulation.

An additional valuable benefit of such a system would be that it would directly tie government revenue to overall economic activity without the large fluctuations which arise when taxation is predominantly based on profits.

Instituting such an entirely new system would of course not be without problems; but, there is little doubt that it is eminently doable and would undoubtedly be a huge improvement over the current approach.

It has been estimated by advocates of a single tax system for the US economy that a GST rate of 19% would yield similar revenue to the current system. A transaction tax would be broader based than the GST so a somewhat lower rate would be necessary. It would probably also be found desirable to have a lower rate for basic necessities, a higher one on luxury items, a general rate for everything else and a special low rate for the sale of financial instruments such as shares, bonds and derivatives. As the collection of such a tax would be automatic at the time of transaction, the additional complexity of several different rates for different categories of expenditure would be minimal.

A further, more difficult but still eminently doable and desirable task would be to decide the division of tax revenue between local, state and national levels of government along with abolishment of all their existing taxes.

Once a simplified taxation system was in place and producing a stable source of revenue for government, conditions would be favourable for an additional sorely needed reform. This would entail a constitutional requirement for government on all levels to operate within their allocated income plus a defined limit to borrowing except in time of a declared emergency. The current system of continually enacting additional legislation and taking on unfunded commitments, then imposing ever more fees, taxes and debt is a certain recipe for financial insolvency and effective enslavement. The greatest threat to freedom, democracy and prosperity is ever increasing expansion of government. The surest and simplest protection against this is to limit government by limiting its spending. If every new commitment by government had to come from existing revenue or from the additional revenue generated by a growing economy, the effect on government efficiency would surely be miraculous.

With credit/debit cards and online banking already accounting for a majority of financial transactions and NFC set to displace much of the remaining use of cash, the phasing out of currency seems inevitable. Surely government is not going to maintain an expensive out-dated system whose only remaining function is to provide anonymity for illegal activity. With an all-digital system of payment in place, sorely needed reforms to taxation, currency control and limits to government would become relatively easy to implement. Most importantly, they would be of immense advantage. The present system is demonstrably failing throughout the developed world and in many places an economic crash seems unavoidable. There is a way out of the current malaise and no nation is better positioned to lead the way than is Australia. All that is required is genuine leadership.

There are two fundamentally different approaches to problem solving. The commonest is to find possible difficulties with any proposed change then use them as an excuse not to try anything new. The other is to recognise possible difficulties as a challenge to be dealt with if prospective gains promise to clearly outweigh the risks.

Throughout the developed world massive problems with over governance, over spending by government and bureaucratic sclerosis of the economy are approaching critical mass for a meltdown. The need to find a new approach to government and economics is looming.

Historically Australians have been at their best when dealing with adversity and the Australian psyche has embodied a strong element of "Give it a go". If that spirit has not yet been extinguished by urbanisation, regulation and the nanny state, Australia really could lead the way to a new and better approach.