AUSTRALIAN EMPLOYEE OWNERSHIP ASSOCIATION

Australian Employee Ownership Association Inc (ABN 45 654 511 849) * GPO Box 2649 Sydney, NSW, 2001 * Phone 02 9817 8586 * www.aeoa.org.au

Australian Future Tax System Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600
Email: AFTS@treasury.gov.au

Friday, May 1st, 2009

Dear Sir or Madam

Shared ownership policies
In reference to Consultation Questions 1.1 and 1.2[1]

Further to our submission from our Public Officer, Alan Grieg dated September 10, 2008 our Association wishes to recommend shared ownership policies to counter the current bias in the tax system that overpays investors in way not reported by accountants and not recognised by economists. The bias introduces inefficiencies and inequities as it allows foreigners and residents already wealthy to accumulate wealth without limit.

The bias is:

(a) Inefficient as overpayment of investors is inconsistent with the rationale for adopting a market economy to efficiently allocate resources; and

(b) Inequitable as it denies fair division of national income with those citizens whose personal intellectual and/or physical exertion and/or custom have contributed to wealth creation.

To remove the bias we recommend that when investors elect to depreciate their assets to obtain a tax deduction that they are also required to relinquish ownership of the assets in favour of an employee trust at the same rate that the assets are written-off for tax purposes.

No reduction of reported profits would arise for investors who whose financial accounts are the same as their tax accounts. Reported profits could increase as employees now become in the jargon of economists "residual claimants" to provide them with the incentive to increase both profits and the operating life of productive assets.

It must be concluded that if the existing tax regime is perpetuated without ownership sharing, then investors are obtaining profits in excess of the incentive that they require to invest. Such "surplus profits[2]" are not identified by accountants and so are not recognised by economists who confuse the concept with "economic rent" that ***is*** reported by accountants. It is because economic text books do not identify surplus profits that governments have not developed policies to democratise the wealth of nations without the need for taxes and welfare transfers. Ownership transfer policies provide a genuine "Third Way" for *Democratising the Wealth of Nations*[3] without socialisation or

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[1] As presented at: http://taxreview.treasury.gov.au/content/ConsultationPaper.aspx?doc=html/Publications/Papers/Consultation_Paper_Summary/index.htm

[2] A more detailed exposition of surplus profits and how they are different from economic rent is presented by Turnbull (2006) 'Grounding economics in commercial reality: A cash-flow paradigm', in Kreisler, P., Johnson, M. and Lodewijks, J. (Eds.), *Essays in Heterodox Economics: Proceedings, refereed papers, Fifth conference of Heterodox Economics*, University of New South Wales, Australia, pp. 438-61, available at: http://ssrn.com/abstract=946033.

[3] Available at: http://ssrn.com/abstract_id=1146062.

for the need to distribute national income through either work or welfare. Ownership sharing provides a way to introduce a universal minimum income for citizens distributed through the private sector rather than the public sector.

Ownership transfer policies are also neglected by economists as they typically accept that: (a) the nature of property rights is fixed whereas financial engineers recognised that they are infinitely variable and (b) designing dynamic property rights is not seen as part of the remit of economists.

The practical and political advantages of introducing ownership sharing policies are that they:
Increase for employees:

(a) Job security by establishing bargaining power with an ownership joint venture;
(b) Income from capturing surplus profits from operating assets;
(c) Participation in management through joint ownership of operating assets;
(d) Economic equity by sharing “unearned income” from asset ownership;
(e) Increased income security from the cash obtained from: (i) renting the assets owned even if workers are laid off; and/or (ii) renting business asset owned even if the assets are sent offshore to be operated by cheaper foreign labour, and/or (iii) sale of the assets owned if the business is liquidated.

Decreases for society:

(a) Wealth concentration and so the need for taxes, welfare transfers and big government;
(b) Over payment of investors beyond their investment time horizons with surplus profits;
(c) Draining surplus values out of the country to alien interests to reduce domestic consumption, savings and investment;
(d) Loss of foreign exchange to increase the purchasing power of the Australian dollar;
(e) Foreign ownership and control of Australian business.

One way in which ownership sharing policies could be introduced immediately is to make it a condition for the government to provide: (a) financial or other support to industry such as provided recently to automobile manufacturing, banking, textiles and child care and (b) approval for foreign investment. In this way ownership sharing policies could be selectively introduced as submitted to the Hon Chris Bowen, Assistant Federal Treasurer on April 30th when he met with members of our management committee.

Further details on the ownership sharing policy proposed and their relevance to the consultations questions is included in another submission by the writer as the Principal of the International Institute for Self-governance. Ownership sharing is extended to corporations and realty to provide a universal minimum income to augment pensions, health care, education and welfare generally.

The Association would be pleased to discuss this submission in person and/or provide further information by contacting the writer.

Shann Turnbull

Shann Turnbull PhD, sturnbull@mba1963.hbs.edu
Vice President and co-founder
Australian Employee Ownership Association, www.aeoa.org.au
Ph: 02 9328 7466; Fax: 02 9327 1497; Cell: 0418 222 378