

## ***Contingent Loans to reduce taxation and greenhouse gas emissions***

One of the functions of the tax system is to redistribute wealth within the community. At the moment this is normally achieved by taxing profits of individuals and organisations and then distributing some of the taxes to other individuals or organisations according to different policy objectives.

There is another parallel approach that is already in use. This is the idea of contingent loans such as HECS where zero interest loans are given to individuals for them to spend on education and then for them to pay the money back through the taxation system. That is the money is given first and then collected. This is reverse of collecting tax and then distributing it. Although over the long term the amount of taxes collected is the same, it removes the need to collect taxes first to pay for projects that increase community productivity. It will significantly reduce the amount of taxes collected in the early years.

In particular the idea can solve the current financial crisis, reduce greenhouse gas emissions and distribute new wealth to the needy as well as the already wealthy.

### **Major policy issues**

At the moment the government is faced with the problems of how to provide fiscal stimuli (spend money) to keep the economy operating in the face of a world wide contraction of credit and at the same time finding ways to reduce greenhouse gas emissions. These two problems have a single solution.

### **A scenario**

The government issues zero interest loans to individuals and requires the individuals to invest the loans in ways to reduce greenhouse gas emissions. The loans are distributed by non government organisations like banks or community groups. The loans are paid back from the tax on the profits from the investments. Loans are given to anyone who volunteers. The size of a loan is in inverse proportion to the person's previous consumption of mains electricity. The loans must be spent in a licensed market place in infrastructure to reduce greenhouse gas emissions. The market place requires both buyers and sellers to provide ongoing information for the market place to calculate the effect of sales on emissions.

### **Outcomes of the scenario**

The cost of renewable energy will become less than the cost of fossil fuel energy. This happens because the finance costs of interest on capital and repayments are removed from renewable energy infrastructure costs. One of the investments in the market place will be direct investment in companies that produce renewable energy. As finance costs are the major costs of renewable energy plants this immediately makes renewable energy profitable and people will be encouraged to invest their loans in renewable energy companies as they will get a good return on their investment. The profits will produce taxes, part of which can be used to repay the zero interest loans. This will reduce greenhouse gas emissions but without increasing the price of energy. It will remove the need to issue emissions permits as a way of increasing the cost of fossil fuel burning energy plants which in turn encourages investment in renewable energy plants. It is likely that the cost of energy will drop with the consequent economic benefits flowing to the economy.

The zero interest loans feed into the regular economy after the money has created an asset. This means the government has a guaranteed way of increasing the money supply and at the same time knowing that the money is backed by a productive asset. This reduces the need for banks to create money through lending money they do not have. This breaks the connection between debt and money for the Australian economy and so frees the money system from destabilising positive feedback of debt. This may lead to a much more stable Australian financial market that may decouple Australian money from the excesses of foreign debt markets.

It is estimated that \$20 billion dollars of investment in renewables per year will reduce Australia's net greenhouse gas emissions to zero within ten years.

The loans will be invested efficiently as they will be invested through a stable market place of investment opportunities.

The size of the of loans criteria could also include an income criteria so that the poorer the person the higher the loan. This reduces the need to increase social security payments. As a person receiving a loan can sell the loan for unrestricted cash it allows recipients to choose between immediate cash and long term income from their investment.

## **Implementation and Running Costs**

The cost of implementation and running the system would be covered by a transaction fee paid by merchants in the market place. For large amounts of money this would be as low as 1%. The system could be introduced and run for no cost to the government. The government, including the Treasury, could be paid for the cost of ensuring compliance from the merchant transaction fees.

## **How effective will it be in reducing greenhouse gas emissions?**

Buyers and sellers as part of their terms and conditions agree to provide ongoing information with respect to the effectiveness of the investments. The system can be tuned to favour those products and services that give greater emissions for the same amount of money. It is likely that the system will reduce greenhouse gas emissions for the lowest cost.

## **Other infrastructure systems**

The same model - with variations - can be used to finance and develop any community infrastructure including Water Systems, Urban Transportation Systems, Broadband infrastructure, Medical Facilities, Child Care, and Education. This would remove the need for many transfer payments made by government and would reduce the need for taxes and enable the government to give ongoing tax cuts.

## **Effect on the Government Budget**

As the money is new money it does not have to be supplied from existing taxes so it will make no demands on the government budget.

## **How quickly can it be implemented?**

It can be implemented, in a small way within three months and can cover the entire country within two years.

## **Won't it cause inflation?**

It need not cause inflation because the money has to be invested in productive assets. If too many loans are issued for a particular purpose then the money for that purpose will inflate but that will only affect those people holding those loans. If all new money is created through this system the outcome can be zero inflation for the whole economy if the government adjusts the amount it takes from taxes it collects to pay off the zero interest loans.

## **Won't it be hard to enforce compliance?**

All markets in the system are voluntary. That is both buyers and sellers agree to participate in the markets and agree to the terms and conditions of the market place. If they break the rules of the market then they are banned from the particular market place and they do not receive any new loans or are allowed to sell through the market place. The cost of compliance including government compliance costs can be covered by the merchant fees.

## **Summary**

The system proposed is a generalisation of the idea of contingent loans with their known benefits. It can be introduced quickly and different market places can be set up for different policy issues. Policy can be implemented by building a targetted system to achieve policy outcomes rather than by trying to regulate the large complex overall economy to achieve a specific policy goal. The approach will reduce the demands on the taxation system to supply money for community wealth creating infrastructure.

## **Further Information**

Kevin Cox  
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