

AFTS Team,

I received a letter on 22Sep2008, stating my emails from 29May2008 and 17Jul2008 (appended below) had been forwarded to the AFTS review team.

I have some additional comments for a "root and branch" overhaul of the tax system. My comments are related to the general tax system and economic model, not specifically the retirement income system.

Guiding principles:

- 1) The simpler a system is, the more likely it is to work.
- 2) The fairer a system is, the more likely it is to last.
- 3) The economy should work for society, not the other way around.
- 4) A limited resource must be rationed.
- 5) For a sustainable system, resource depletion must equal resource regeneration.

The current economic model, coupled with the current taxation system as outlined in the "Consultation Paper", meets none of the requirements for an effective system.

Problems with the current system:

- a) It is overly complex, leading to inefficiencies and abuse.
- b) It is unfair, leading to regressive distribution of wealth.
- c) It focuses on monetary measures, and indicators such as the Gross Domestic Product, at the exclusion of other non-financial health and wealth indicators.
- d) It externalises essential resources such as water, land, vegetation and inadequately accounts for waste.
- e) It accelerates the depletion of essential resources, with its requirement for unlimited growth.

Suggested solutions:

- i) Remove all current taxes, subsidies, rebates and penalties.
- ii) Apply a price to all inputs to society, such as water, land, vegetation -- there are fewer inputs than users, and therefore taxing inputs is much simpler.
To further encourage efficient and sustainable practices, the outputs can also be taxed -- for example, force waste reduction by taxing the dumping of waste to landfill, to waterways or to the atmosphere.
- iii) For each limited resource, identify the amount available for use, then distribute the quota via the market using auctionable permits. To encourage behavioural change, it is important that the heavy users pay more per unit than light users. Polluting permits also a possibility.
- iv) Distribute a large proportion of the consequent revenue equally to all households, closing the gap between the rich and poor.
- v) The economy should be a tool for achieving social goals. As such, the goals of society must have greater visibility than the economic measures such as the Gross Domestic Product. Redefine the meaning of "wealth", and replace revenue targets with targets based on more holistic indicators, such as:

- Environment and Sustainable Development Indicators (ESDI) - <http://www.nrtee-trnee.com/eng/issues/programs/indicators/indicators.php>
- Measure of Domestic Progress (MDP) - <http://www.neweconomics.org/gen/well-being/mdp.aspx>
- Happy Planet Index (HPI) - <http://www.happyplanetindex.org/>

vi) Implement controls to stabilise and reduce population levels. To reduce the need for growth, the trade deficit must be reduced. Derive an import tax indexed to the trade deficit, by linking the total value of imports with the total value of exports.

In summary:

- Scrap the current tangle of taxes, and replace with an environment usage tax.

Sincerely,

Gary Ellett

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----- Original Message -----

Subject: Re: Rebates, Support, Means Testing and Growth

[removed for privacy reasons]

Date: Thursday, 17 July 2008 6:40:27 AM

To the Treasurer, the Hon. Wayne Swan MP,

I have not yet received any feedback regarding my email of 29May2008, so will take this opportunity to add another point:

Problem 7: Shortage of natural resources.

The crisis in the Murray-Darling system is one local example of global shortages in basic needs, such as water, food, and warmth (energy). Our current approach seems to focus solely on increasing supply, which to my mind simply pushes the problem around. For example, the Victorian Government's push for a desalination plant changes the problem from one of water shortage to one of pollution. In the end, future generations will have to pay for such myopic "solutions". We all seem to ignore the "elephant in the corner": we are living beyond our means. As well as improving the efficiency of our supply (through the use of 21st Century technology), we also need to reduce demand. In contrast to Cardinal George Pell's call to "Populate or Perish", I believe that we will surely Perish if we continue to Populate. We do not even know how many people the land can sustainably support, so how on earth can we rationally and responsibly suggest we take more? If we are not careful, we will "[strip the world bare like locusts](#)" and be left with a desolate wasteland.

In my case, I truly fear for the future well-being of our children and grandchildren, and feel a strong moral obligation and responsibility to all other creatures that do not currently have a voice.

Similar to point 5, but with a focus on controlling population growth, I propose that:

- a) We determine the limits to our natural resources, and the human population that can be sustained (eg. the only source of fresh water is rainfall -- we know and can measure our rainfall patterns, but we need to factor in how much is lost to evaporation, how much is needed by the rest of the biosphere, and how much our waterways need to remain healthy).
- b) We set and monitor "quotas" for resource use (potentially using a similar model as the Carbon Emissions Trading Scheme).
- c) We establish a plan to stabilise our population at sustainable levels, which will likely mean a *reduction* in population.
- d) We move to a steady-state economy (<http://www.steadystate.org/>), and embrace [ecological economics](#) ideas such as [natural capitalism](#). Note that negative growth is not a problem if the population decreases at the same or greater rate.
- e) I'd even go as far as suggesting we adopt the Chinese approach, and only issue procreation permits to those who can demonstrate sufficient spare capacity in terms of resource use (if people are unable to live with such draconian measures, I am quite happy for them to live elsewhere -- but I am *not happy* for my tax dollars to subsidise their deliberate choice to mismanage their family

planning and live beyond their means, and use more than their "fair share" of resources).

Yours sincerely,

- Gary Ellett

We are the stewards of the world, charged with maintaining it for future generations and for all other species.

----- Original Message -----

Subject: Rebates, Support, Means Testing and Growth

[removed for privacy reasons]

Date: Thursday, 29 May 2008 10:39:26 PM

To the Treasurer, the Hon Wayne Swan MP,

Firstly, congratulations on your first budget. I can appreciate how much time and effort goes into these things, and it contains a lot of very commendable and exciting initiatives. I do have a few basic problems with the budget, however. I am confused as to whom to address each of the problems, but since most issues are related to the Budget, I have sent it to the Treasurer's office, with a copy also to the Prime Minister's office, and a copy to my local MP, the Member for Chisholm. Please forward them on to other ministers if appropriate, and let me know where it has been sent and whether any of the issues have been helpful. I dislike simply identifying problems, so I have tried to offer some solutions as well.

Problem 1: The Means Testing model is inadequate.

As I understand it, Means Testing is based on a family's *gross* income. This is inadequate because it does not account for family expenses, the amount paid in tax, and the real disposable income.

In my case, both my wife and I have expensive chronic illnesses. The *direct* costs of managing those illnesses is approximately \$10,000 per annum. We also each have a significantly shortened working life, which we try to extend by careful management of our illnesses. Another inequity is in the taxation of families. Our combined income is about \$120,000 and I earn about \$90,000 of that, so we are a lot worse off than a couple who each earn around \$60,000. So, just because a family has a gross income of \$120,000 does not mean they are in the "rich" bracket -- there is more to it than that.

I propose that:

- a) Income Tax be based on the *combined* family income;
- b) Means Testing be based on the *net* family income, after allowable expenses which include medical expenses.

Problem 2: Welfare can encourage bad management practices.

A healthy society requires a welfare system, but also needs to discourage practices that get people into difficulty. Currently, bad decisions and bad management is propped up and perpetuated by government subsidies and handouts.

For example, the long and debilitating drought has caused farmers a lot of grief, many of whom now rely on government assistance to survive. However, there are also farmers in the same regions that are surviving without assistance, due to better crop choices, better drought mitigation practices and so on. Another example is the fossil fuel industries, who get massive subsidies on the price of diesel, but do not have to pay for the pollution and climate change that they cause. If we view climate change as a major threat to our future and an enemy of the world, then it is ludicrous that we encourage providing the enemy

with its major weapon: fossil fuel.

In my case, I take great care to successfully control my illness, yet know of many with the same illness who continually end up in the hospital system and on welfare due to mismanagement and reckless behaviour.

I propose that:

- a) All welfare or other assistance require proof that specific criteria is met, that demonstrate that the predicament was due to misfortune and not mismanagement, and demonstrate a willingness and progression toward getting off the welfare.
- b) For some forms of welfare, apply a similar approach to HECS, where the assistance is "paid back" when the recipient is in a position to do so.
- c) We start implementing "Product Stewardship" (<http://www.environment.gov.au/atmosphere/ozone/publications/stewardship-faq.html>), where an industry is responsible for the manufacture, distribution *and disposal* of goods. Industry is then responsible "cradle to cradle" (http://www.mcdonough.com/cradle_to_cradle.htm).
- d) I am also interested in the reasons why we do not phase out and stop the use and export of coal for electricity generation. At the moment, Australia is the major exporter of coal, ergo Australia supports global CO₂ emissions. This is a huge contradiction and sends mixed messages.

Problem 3: Thresholds, for taxation and rebates, are inadequate.

Thresholds need to be periodically redesigned due to bracket creep and inflation. It spawns a whole new industry, of accountants and schemes that stretch the truth in order to get a person's income below an abstract threshold.

In my case, it irks me that so many people "fiddle" with their income in order to keep under certain thresholds -- I can't change their behaviour, but I can change my own and refuse to play such games. I am disheartened that my family suffers due to my principles.

I propose that:

- a) Instead of thresholds, use a formula, where the level of taxation or rebate slowly changes in proportion with net income.
- b) We scrap some of the damaging "salary packaging" options, such as for a car which encourages the continued reliance on CO₂-based transport rather than seeking alternatives.
- c) A real "root and branch" overhaul of the tax system simplifies things so that our highest income earners do not get away with paying the least amount of tax.

Problem 4: Rebates designed to encourage a behaviour should not be targeted to those who cannot afford to change.

For example, the rebate for solar panels is to be available only to families with a combined income of under \$100,000, however families earning under \$100,000 are generally having enough trouble making ends meet that they cannot afford the initial outlay to install \$12,000+ worth of solar panels. Also, a higher proportion of these folk are renting, and cannot install the panels anyway. We will now have one threshold for the baby bonus, and another for the solar panel rebate, which sends the curious message that, "We won't encourage you folk on \$100-150K to supply your own electricity with zero emissions, but we will encourage you to increase demand by having a larger family." This is a double-whammy against the environment. Instead, I believe we need a "carrot and stick" approach -- dangle a "carrot" by providing significant incentives for achieving target levels of emissions, and wave the "stick" by enforcing significant penalties for failing to meet minimum targets.

In my case, I have scrapped next year's plans to install approximately \$15,000 worth of solar panels because we will no longer get the \$8,000 rebate. We cannot afford the

\$15,000 capital outlay, and there is simply insufficient return on investment.

I propose that:

- a) The rebate for solar panels not be means tested, but rather encouraged as a step in the fight against climate change.
- b) The cost of coal-fired electricity be increased over time, for example by requiring coal-based power stations to pay a hefty carbon tax, while at the same time providing those on low incomes with alternatives to avoid the increasing cost.

Problem 5: Continual growth is unsustainable.

The global economy is stuck on a runaway train to Doomsville. We cannot keep growing both population and industry in what is ultimately a closed system. The current model was formed when the population was small, the natural resource pool seemed endless, and overpopulation was managed by disease and war. And now we are rapidly approaching the limits, as can be seen from the expansion in Chindia (a mythical developing country of high population and high industrial growth), out-of-control pollution, and the world rice shortage. Professor Ian Lowe put it nicely in his speech "Shaping a Sustainable Future" (http://www.acfonline.org.au/articles/news.asp?news_id=921&c=295141) with a process he called "negative brainstorming": "Imagine we have been asked to develop strategies to ensure an unsustainable future. How can we achieve this goal?"

Our Growth Fetish (<http://books.google.com.au/books?id=fNGPRyEJT9wC>) can be somewhat mitigated by adopting Ecological Economics (http://en.wikipedia.org/wiki/Ecological_economics), which may be a good first step, but ultimately the only sustainable solution is to reduce demand and reduce consumption, such as described in Steady State Economics (<http://www.steadystate.org/CASSEFAQs.html>).

I think we are fast approaching a very difficult decision, and Australia will need to lead the world in this: to change society from its focus on an economy based on endless growth (which is completely unsustainable), to a society based on other "well-being" factors (ref: "Well-being Index" -- <http://www.australianunity.com.au/wellbeingindex/> and http://acqol.deakin.edu.au/index_wellbeing/index.htm).

In my case, I love our wasteful, high-consumption standard of living, and will find it difficult to change my behaviour, especially when our family lives within a society that also embraces consumption. The populace will not make the required changes voluntarily -- historically, people do not change their behaviour unless they feel pain. With climate change, the effects are too complex and too gradual for people to acknowledge the pain. In general, people are too busy making ends meet to lift their sights and look at what is best globally. So the government must facilitate and encourage behavioural change, through a "carrot and stick" approach. First, dangle a "carrot" by providing significant incentives for achieving target levels of emissions. Secondly, wave the "stick" by enforcing significant penalties for failing to meet minimum targets.

I propose that we:

- a) Identify the limits that the planet can sustain (eg. refer to the "OECD Key Environmental Indicators" http://www.oecd.org/statisticsdata/0,3381,en_2649_34283_1_119656_1_1_1,00.html).
- b) Implement a mechanism for rationing within an allocated quota, as used in wartime, or in other times when resources are scarce.
- c) Offer incentives and enforce penalties for exceptional behaviour.
- d) Lead and educate the world in alternatives to the current economic model.
- e) Implement the roadmaps described in books such as:

- "Plan B 3.0: Mobilizing to Save Civilization", Lester R. Brown (2008), Earth Policy Institute <http://www.earth-policy.org/Books/PB3/Contents.htm>

- "Winning the Oil Endgame", Amory B. Lovins, E. Kyle Datta, Odd-Even Bustnes, Jonathan G. Koomey, and Nathan J. Glasgow, Rocky Mountain Institute (2005) <http://nc.rmi.org/NETCOMMUNITY/Page.aspx?pid=269&srcid=269>
- "Natural Capitalism: Creating the Next Industrial Revolution", Paul Hawken, Amory B. Lovins, and L. Hunter Lovins (1999), <http://www.natcap.org/sitepages/pid20.php>
- "Climate Protection Manuals", Natural Capitalism Solution, <http://www.natcapsolutions.org/ClimateProtectionManual.htm>
- "Handbook of Environmental Economics" (2006), Karl-Göran Mäler, Jeffrey R Vincent, Inc NetLibrary ISBN:0444511466 <http://books.google.com/books?hl=en&lr=&id=QoWNLsBi9YgC>
- "The Natural Advantage of Nations: business opportunities, innovation and Governance in the 21st Century", Karlson Hargroves, Michael H. Smith (2005), Earthscan <http://www.naturaledgeproject.net/NAON.aspx>
- "A Big Fix", Ian Lowe (2004), Black Inc, <http://books.google.com.au/books?id=wGNOccFLGXcC>

Problem 6: There is no focus on selected industries.

For Australia to thrive in a global economy, we need to follow the example of Chindia, and identify what role we wish to play in the global economy, then actively pursue that goal by whatever means necessary. Otherwise, we risk being pushed into taking whatever the rest of the world does not want. Australia has some obvious strengths and weaknesses, such as our small population but excellent education, which will help short-list the industries in which we can be competitive. At the moment, Australia's priorities are conflicting and fractured, to a point where we try to please everybody and end up pleasing no-one. Meanwhile, the rest of the world surges ahead. Look at the opportunity lost in becoming the world leaders in renewable energy research and production. Sweden, Iceland, New Zealand and especially Germany are way ahead of Australia. They don't have better resources than us, they don't have better researchers, they just have leaders looking 20 years ahead.

In my case, I am confused and frustrated in how to help my daughter choose a path through the education system, so end up suggesting that she chooses something generic that presents the most opportunities. At the moment, there does not seem to be any connection between what the community needs, the remuneration of needed careers, and the opportunities to be trained in those careers. Australia could be world leaders in various science, but scientists are paid so poorly, and their funding so insecure, that they leave the country or leave the industry in droves.

I propose that:

- a) We identify a short list of "critical careers" that Australia wishes to pursue and become leaders in the world economy, long term;
- b) We aggressively support the chosen industries, calling in support from government, business, industry and community leaders.

I hope that the presented ideas help to improve Australia's policies into the future. As mentioned earlier, I would appreciate feedback on whether my concerns have been considered, and have not just ended up in a black hole or been fobbed off in unfalsifiable rhetoric, as has happened in the past.

Yours faithfully,

Gary Ellett,

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