

Dr Ken Henry
Chair
Inquiry into Australia's Future Tax System
Canberra ACT 2601

Dear Ken

I am pleased to make a submission to your Inquiry into Australia's Future Tax System.

This first appeared on my blog, [En Passant with John Passant](#).

It is called: ['Real tax reform: a love letter to Ken Henry'](#).

It is written from a socialist perspective, arguing that as labour creates all the wealth in society, the income and gains of workers should be taxed lightly, if at all, while capital should be taxed heavily.

(Please ignore my previous submissions which were variations on this theme.)

Kind regards

John Passant

John Passant
[removed for privacy reasons]

27 April 2009

Dear Ken

I am pleased to be able to make a submission to your Inquiry into Australia's Future Tax System.

We live in a society divided into classes.

The exploitative capital accumulation system means that our bosses expropriate the value we workers create and return a small amount to us in the form of wages.

The surplus value is divided up between the capitalist class and the state in the form of profits, rent, interest, dividends, royalties and Government revenue.

Most tax debate in our country reflects this basic class division, but from the point of view of the bourgeoisie.

Efficiency, equity and simplicity are merely competing and overlapping views among the capitalist class and those who support them about how to best fund the State and ensure the exploitative system still runs as smoothly as possible.

This is in reality the debate between neoliberalism and neoliberal Keynesianism.

It was a Minister in a feudal government in France who summed up the dilemma capitalism faces. As Jean Baptiste Colbert said: "The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing."

I prefer a different approach, one which will involve lots of hissing from the ruling clique.

Like Dennis Healy, former British Labour Chancellor in the 1970s, I would "squeeze the rich until the pips squeak".

Actually the more the state extracts from the surplus value we create but the ruling elite steal, the slower the process of capital accumulation becomes and thus the longer the boom and slump and then depressionary cycles take to impose themselves on the economy. (This is true if the spending goes into unproductive or waste areas like armaments.)

The permanent arms economy after the Second World War slowed down the capital accumulation process and ensured a boom of sorts across the developed world (in conjunction with the rebuilding of capital destroyed by the war) for the longest period in recorded capitalist history.

But I digress.

Current capitalist tax debates among the bourgeoisie and their academics are often framed in terms of capital import neutrality, capital export neutrality or national neutrality.

My memory is you favour national neutrality (and thus for example support or did support dividend imputation applying only to Australian sourced income and Australian resident share holders.)

But of course these concepts arise from the internationalisation of the Australian economy and reinforce the current class divisions on society. They are essentially debates over some of the rules of the game rather than the game itself.

Let's look at the whole question of taxation under the present system through the prism of class; not through the eyes of the ruling class but those of the working class.

I accept that socialist revolution - the democratic control of the means of production so that production occurs to satisfy human need, not to make a profit - is not about to sweep Australia.

Things can change rapidly but at the moment the wage slave system will continue into the foreseeable future.

Therefore my proposals relate to the tax system as it is, but from a perspective that recognises that within the exploitative relationship there is a need to understand and recognise that labour creates all the wealth of society in the productive sector.

For that reason taxation shall fall lightly on the labour of workers (if at all) and heavily on capital and the income of capital and their managers.

I also understand capitalism as a dynamic system, one in which taxing capital produces or is likely to produce certain responses. I have strategies for addressing that.

But by imposing taxes on capital we can help begin the revolutionary process that leads to a society free of classes where individual liberty and freedom can at last begin to flourish.

With that in mind I would suggest you look at the following.

Accepting that labour creates the wealth of the country, there should be a distinction between taxes on labour (earned income) and capital (unearned income.) Tax capital heavily and labour lightly.

A salary greater than double the average wage (\$1217 per week for the December 2008 quarter) would seem an approximation for all class divisions. Capital and those who are its managers are on one side and workers on the other.

Those with salary and wages below double the average wage are workers. Those with salary and wages greater than this are managers for capital. Tax salary and wages up to double the average wage lightly and **all** other income and gains heavily.

There are some further suggestions which would assist in implementing such a major shift in taxation.

First, think about some sort of Haig-Simons base for taxing income . This would treat all gains as income.

The tax value method was a half way house to that and could be re-examined despite the objections of big business and the parasites who feed off them like large accountancy and law firms and peak bodies.

Second, abolish all tax expenditures.

Your own department estimates that these cost at a minimum about \$73 billion year. Let all such expenditures (if justified) be delivered as direct grants and subject to the usual scrutiny of such programs.

Tax expenditures include benefits of about \$30 billion a year to superannuation funds and superannuants (future and present) in various guises.

Capping those benefits so they remove the rich from the equation would save billions. In reality the rich are likely to invest in their retirement in any event, irrespective of whether tax concessions exist or not.

Other tax benefits to go could include the outrageous capital gains concession which provides billions in benefits to the holders of capital, in the main those who are very very well off.

I'd also suggest abolishing the CGT exemption on houses worth more than a set figure, such a figure being determined by the value the rich have in their houses (for example over \$1 million.)

I am sure Treasury could easily do the modelling (and probably already has).

The Goods and Services Tax transfers wealth from the working class to the ruling class and so should be abolished.

Inheritance taxes on estates worth more than say \$2m in aggregate would partly replace the \$30 billion or so of GST revenue lost as a consequence. as would a restructured income tax system.

In addition we now need to consider a tax response to global warming.

I am not familiar with the literature here but suggest a carbon tax plus price controls over coal extraction, electricity generation and supply and petrol - if not nationalisation of the coal, oil and electricity industries -to achieve socially useful outcomes.

After all, as both you and I know, market imposed solutions for market created problems (i.e. the pathetic ETS as a response to one of the greatest challenges of all time to humanity) is bound to fail.

The market is the problem, not the solution.

In terms of international aspects of our taxation system, I'd go back to the original model for our attribution regimes and attribute all foreign income to the trustee or investor or controller in Australia irrespective of the country in which that foreign investment arises and the nature of the activity (active or passive) underpinning it.

Prime Minister Kevin Rudd assures us that the problem is a lack of demand in the economy. My proposals would increase aggregate demand. We could couple these suggestions with real wage increases for workers to also boost aggregate demand.

As I am sure your are aware, the amount of the national income going to labour is at its lowest in over 40 years and that going to capital at its highest ever.

Arguably the explosion in consumer debt has been a working class response to claw back the wages share lost over the last 26 years since Hawke and Keating began the neo-liberal experiment.

That might be one cause of our current economic problems, might it not, Ken?

I think the real problem is low profit rates, not aggregate demand, but I am trying to adopt Kevin's logic and apply it rationally and thoroughly, rather than piecemeal and episodically.

In summary, all gains are income and should be taxed accordingly.

All tax expenditures and benefits will be paid not through the tax system but through a separate grant agency with rigorous scrutiny of the proposal and then the money given out to see if it meets its objectives.

There would be a light tax (or no tax) on salary and wages up to double the average wage.

All other gains would be taxed at higher rates such as a mild 50 percent to start off with.

Couple that with an inheritance tax and some environmental tax (such as an excise on carbon) and I am sure you can begin to see the shape of a new society based on satisfying human need, not human greed.

Please don't give me nonsense about capital creating wealth, Ken.

That just won't do. How does a machine produce wealth?

Adam Smith and David Ricardo struggled with this, only to have Marx fill in the dots. Labour produces wealth, Ken, not capital.

If the imposition of increased rates of tax on capital starts to produce a capital strike and the flight of capital, then our Labor Government should respond by nationalising industry under workers' control and freezing capital flows out of the country.

Then we can begin the process of abolishing the madness of capital accumulation and begin producing to satisfy human need.

I look forward to further developing my ideas with you, Ken. My consultancy fees are quite reasonable.