

Progressive or reactionary taxation

Concepts at work in Australia

A paper summarised by Jim Staples at a meeting of the Association of Independent Scholars at the National Library, Canberra on 25 March 2004

It is said often enough that nothing is certain in life but death and taxes. Death may lie in the natural order of things, but there is nothing natural about taxation as we have made it. Our tax concepts are man-made without the ordination and intervention of the gods, and what man (and woman) has made, man and woman may put asunder. It will take both of them. all of us.

I wrote to a friend in France recently. She is a *soixante-huitarde*, a sixty-eightier, one who in her youth in 1968 had challenged on the streets of Paris the government of General de Gaulle. She had written lately in despair at the failure of a campaign to introduce the Tobin tax into French affairs. Taxation institutions trouble every Western community.

I sent her my sympathy with words that encapsulate my theme here:

"In my understanding of your history, the French Revolution was born of and provoked in the first instance by the partiality of your laws of taxation, by the unevenness, privileges and burdens the laws of public revenue imposed. Thereafter, other questions were put into issue across the social arrangements existing at that time, and led to great changes across France, across the whole of Europe, and in England and the United States, as well.

To bring about certain social changes in Australia, I think we would do well to start with our tax laws. I think that if you cannot solve all the problems of the world in one blow, you can certainly make a big difference to the working of society, to the cause of social justice by reforming the tax laws to shift the burden of taxation to the places where the wealth is plainly located.

What this means for social reform against economic liberalism is a question which will be answered reflecting differences in both countries. One thing is sure. Tax law is a vital influence on existing social arrangements in both countries. I reject the whole concept of wealth being the "private" property of its legal holder. Wealth is produced by social action. It is appropriated by private persons called tax-payers under the dispositions set by man-made laws but I hold the legal owners to be liable to us all for what they have and can contribute".

No matter what we do with outlays from the revenue stream to the budget, no matter how unevenly we distribute the outlays, let us start with an attempt at overall social and material equality in outcomes in getting in the taxes. We fall far short of that now. The tax laws are one of the abiding sources of inequality in our land. We should cease to start from the premiss that inequality is the gift of God and nature, that it has a place in private and public arrangements to which all must always give way, that private income is not sustained in law by overweening, interested political power set upon an amalgam of force and consensus.

Let us begin at the beginning. We are born into the world naked and equal but we live in it utterly unequally, and it cannot be said that we do this out of free choice. The inequality is imposed by a whole host of forces, most of which can be identified and many of which can be plainly controlled, if not overcome and obliterated.

We should endeavour to give to every long-term resident on our territory an equal amount of income and wealth, of food and shelter, education, health care, housing, and leisure. That is an impossible task, an unnecessary task, perhaps, an unimportant outcome, an unwanted outcome, but it gives one a satisfactory starting point to test the world about us, to test the policies we

pursue, to test claims, values and demands raised in the public arena, to test the ethics of public action. Perhaps, policy should be tested, as it were, by some kind of happiness index. Much of the ill-health, psychological stress, stunting and violence that one encounters in society seems to be connected to ill-distribution of wealth.

The claim for material and social equality gives one a ready and intelligible measure fit to be brought against all laws and arrangements in the public arena: do they tend to create political or material inequality? Or, do they tend to alleviate blatant discrepancies in society that appear to have no more rational, no fairer basis than a mindless or interested repetition of inequalities derived from a past time?.

History shows that a vast portion of whatever is created is appropriated by those who are already amply and securely provided for and does not pass easily to others. "Gain for pain," as Hawke used to promise, is a snare and a delusion for those at the bottom of the heap. Galbraith once said of the trickle-down theory: if you feed the horse good quality oats, there is bound to be something fall on the sidewalk for the sparrows.

A society that gives its only thought to maximising our wealth, and no thought about how we should distribute what we have today, will not find that nature will make good its neglect.

The matter, however, goes far beyond salving the circumstances of inequality in the land. It goes to democratising the control and the disposition of society's resources. Widely held savings set to occur in a widespread market place might well be attended by an inherent discernment about what would be sound for the investment of resources. Democracy in the market place would reinforce democracy in political life.

Our tax laws cannot be said to be in pursuit of material equality between citizens. Were it so, they are a failure. There can be no question but that taxation laws have an intimate connection with the level of material inequality in our society. Political activity that lacks concern to abate material inequality is not likely to generate greater degrees of material equality, nor promote the foundations of political equality.

Experience shows no exception to the greed and inequality, the wealth and hardship wrought by the malign hand of nature when it is left to distribute the wealth of society among the people. Redistribution does not happen naturally. Whatever happens naturally will not be fair. That is what history teaches us. Hawke's "gain for pain". assumed economic growth would cure all. But this denied the natural order of things. We all knew who were the suspects set to suffer the pain.

In any event, there is another policy to set within growth for itself as a social good. James Boswell records that he once asked Dr Johnson:

Sir, have you not noticed as you walk about London that there are far fewer beggars to be seen on the streets and that not as many persons seem to be sleeping in the doorways? Sir, what shall we do when everyone has enough to eat and his own bed to sleep in?

And Johnson replied

Sir, we shall entertain one another.

In what follows I shall seek to invade the conceptual framework of our tax laws, those to which we have become deeply acculturated. I am curious about the loyalty we sometimes give to ideas that don't work to achieve declared public values, about the widespread apparent reason that is seen in them by people beyond the ranks of those who have an interest in their outcomes...

The whole concept of "income" now in play for the measurement of a liability to the revenue is so elastic at the edges, so inadequate in truthful description, so flexible in its content as to have the significance and the substance of a mirage, if the goal is good law and fair dealing.

In 1935 the Commonwealth taxation statute was spread over some 35 pages. Now it is reposed in 11 000 pages of print. On top of all that labour in legislation we have a huge number of rulings from the Commissioner for Taxation and decades of precedents set by appeal tribunals and courts.

In not one of those 11 000 pages is to be found a statutory definition of "income". I repeat: there is no statutory definition of "income" in the legislation for the taxation of "income".

The task of defining what is income has been left to the judges. And in this they have proved to be not very good judges at all.

Consonantly with the rulings of the courts we see schemes, concepts, and ruses allowing wealth to be accumulated without income, income to be converted into capital, profits to be turned into wages, earnings to be turned into losses, and gifts and inheritances to be ignored as not income. The world has been stood firmly on its head. The poor have remained firmly pinned below.

There are too many opportunities for the lawyers and accountants to compound confusion in conventional thinking about taxation concepts. What is plain enough in common understanding, ideas of such simplicity as income, loss and profit, stock and capital, become an administrative and judicial nightmare when decisions of law have to be made within the handiwork of the technicians who build upon the conceptual foundations of the tax laws. Albert Einstein once said, "the hardest thing in the world to understand is the income tax". He was right!

The system is utterly wasteful of the intellectual capital of the community. Tax evasion and tax avoidance is so profitable that we lure our best and most talented people into the gamesmanship of tax law. The accountancy profession absorbs 5% of the gross national product annually. Some of it is essential bookkeeping but much of the cost of accountancy is given to resisting the spirit and the letter of the laws. This disposition of resources is huge and is a waste on many accounts.

No tax system which is unstable in its impact, incomprehensible in its provisions, discriminatory and ineffectual on account of contrivance, and futile as a medium for an egalitarian polity is a good law, but that is our law of income tax.

We need a statutory definition of "income". We can be sure that there would be a great political struggle against any attempt to put a rational definition as an addendum into the Tax Act. It would be a valuable reform for the promotion of the public interest against private interest. I say this at the same time as I declare myself in favour of the full abolition of all "income" tax.

Notwithstanding my rejection of the "income" tax as we know it as a satisfactory device to raise revenue, certainly it would function better for its purpose if it were founded on a statutory definition of the phrase "income". I offer a draft definition for the Tax Act:

The income of an individual in the given financial year is the accretion of power to satisfy material needs. It embraces all receipts increasing command over society's scarce resources, that is to say, the net accretion of economic power in the individual during the financial year, irrespective of how much or how little of that command is actually exercised in consumption. It is the change in the value of property which matters, and not the process by which that change has been brought about.

Under this definition, so-called capital gains are seen for what they are: increments in an individual's power to satisfy material needs. They are seen to be purely and simply an accretion of income. Whether they should be taxed annually before they are realised, or only taxed when they are realised, may be a question, but capital gains are income, nevertheless, and do not deserve special relief.

Capital gains

In the days when the world was wide and the laws were few, when we taxed earnings from

personal exertion more lightly than income from other sources, when we had more numerous marginal rates of income tax than now, with the rates appearing to rise fairly smoothly with income, when we imposed a special levy on undistributed profits lying in companies, in those days our system was reputed to be "progressive", that is, the rate of tax imposed rose as income rose. And even if we were now to tax income to the end in that manner, as we do not do, progressiveness of the income tax itself is not the same as progressiveness of the system as a whole, as we shall see.

Our bland "progressive" laws of taxation fail now to operate to the protection and benefit under egalitarian intent of relatively poorly provided persons. This is illustrated in the outcome de facto of the common rule for the treatment of income derived from wages on the one hand and capital gains on the other. If you are a wage earner, all but the first few thousand dollars of your income is wholly liable to taxation. The same small quantum of exemption, no more and no less, falls to the benefit of high income earners. That commonality attaches also to taxation of capital gains, but if you have little property of market value, you are not a candidate in the ordinary course of your life for taxation deriving from capital gains, for capital gains derive from dealings in property.

To those who derive income from dealings in their property, we grant relief. Only 50% of that income is brought to account in assessing liability to the revenue, although the law recognises capital gains as income. Half the income on that account is not taxed, and tax rate for the other half is, at worst 47.5%, so the tax on the whole income runs at the marginal rate of 23.75%, and this even for persons on very high incomes, indeed. Compare that rate upon (unearned) income of the billionaire with the lot of the seamstress. The seamstress who earns \$25 000 per annum pays tax at the rate of 30 cents in the dollar on her last \$5 000. The billionaire pays 23.5 cents in the dollar on his or her "capital gains". The clever management, if it occurs, of property and trading in property may promote the efficient application of resources. It always provides great relief from menial work – and tax. It pays to be rich.

The Taxation Commission has reported, in respect of 1999-2000, when the 50% rule came into force, that \$5.3 bn of tax was payable by individuals, companies and funds. A large sum was plainly foregone. The proportion of taxpayers liable for tax on net capital gains increased as taxable income increased. In the taxed income range of \$27 700 - \$37 999, only 8% of individuals attracted tax on capital gains, but in the range \$500 000 - \$999 999, 38% of persons in the category attracted the tax – and the 50% exemption. In the two top categories of assessed income, firstly, up to \$5 millions, and secondly, beyond that amount, about 50% of taxpayers had the benefit of the exemption. Such persons fall within the category of income subject otherwise to the top marginal rate of 47.5%.

There were palpable differences in the quantum of untaxed residue left in the hands of those falling in the separate categories cited. Moreover, such progressiveness between tax and income as can be detected in our marginal rates ceases at 47.5%. There is, thus, a question whether the recent reduction in the capital gains tax rate was unconscionable, tested by the criterion of material equality in society and of "progressiveness" in the tax system to that end. The answer will depend on how you see the world, on where you come from to the question. And this is a political question. Politics settled the present arrangements.

"Fairness"

There are always alternative sources of revenue. Laws of taxation are the finished business of raw politics. They are the triumph of particular claims in revenue-raising over others claimed. The choices turn around the question: who shall be spared taxation. The laws imposing taxation and exemption from taxation of wealth are the formal expression of a political program, of a decision for particular choices.

Tax laws are never "fair". They are drafted to ensure that someone else pays. They prescribe what only some people should pay. Australia's tax laws have been formulated to reflect the demands of

landowners, farmers and graziers, manufacturers, shareholders, churches, mining companies, oil explorers, of investors foreign and domestic, bankers, borrowers, property owners, company directors and employers, the whole vast assembly, in a word, of the propertied classes.

It is principally, overwhelmingly, from such groups that the lobbyists have come who have persuaded the legislators that the laws should take the particular form that they do to-day. Tax laws are in essence fundamental tools for the promotion and protection of interest. They are at heart not tools for economic management. The first object of fiscal rules is not to promote political goals raised in the public arena such as "growth", "the economy", "investment", "budget surpluses", "the stability of the currency", "competitiveness" and other abstractions. Underlying the expression of such disinterestedness lies invariably the promotion of one material interest over others.

Rarely is any wealth taxed whenever and wherever it occurs according to a common measure. Some sources of wealth are not taxed at all. Some taxes are accompanied by exemptions, rebates, deferrals and deductions. Some taxes are imposed at different rates upon different persons and in different places. Substantial revenue, as we shall see, is foregone. Generally only transactions are taxed, if at all. Some transactions generating wealth are not brought under the authority of the tax collector at all, as is the case were there is no immediate cash measure of its worth.

Voluntary work provides a plain example. It has been estimated recently that the annual worth that women in Australia contribute to social wealth by way of unpaid work in child-minding, volunteer charitable work, housekeeping and the like is in the order of \$23.5 billion.

Men are said to contribute about \$15.1 billion in these tasks. Beyond these services, all manner of work at home, do-it-yourself work for the repair and maintenance of motor cars, household equipment, painting and fencing of dwellings and abodes, caring for gardens, the growing of vegetables, the disposal of rubbish and waste, assistance to friends and neighbours and so forth, by persons young or old, retired or in work, are other examples of wealth-making activity upon which taxation is foregone. You might think it would be reactionary of the law and utterly impractical in the real world to provide otherwise. I think you are right. But the work remains part of "the economy".

Taxation expenditure

The Treasury publishes a Taxation Expenditure Statement annually. This details the impact of this phenomenon on Commonwealth revenue raising.

The taxation system raises revenue to fund government activities. The tax system also provides government with opportunity to promote objectives other than revenue-raising. A government can achieve this by reducing taxes in selected areas to provide incentives for economic activities or to target assistance (in the form of lower taxes, rebates, deferrals and exemptions) to particular groups, individuals, businesses or activities. And this in turn permits governments to endeavour to pick winners, and to indulge friends and supporters.

A tax expenditure is a tax concession that provides a benefit to a specified activity or class of taxpayer. A tax expenditure can be delivered as a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability.

Direct expenditures could deliver to the taxpayer the benefit of most tax expenditure. Tax expenditures are substitutes for expenditure, delivered through the taxation system. They accordingly affect the budget position. Tax expenditures also redistribute the tax burden between taxpayers. Most tax expenditures result in less tax being collected from particular taxpayers for a given level of overall tax revenue. Thus, others must pay more.

They occur in many places – in income taxation, capital gains tax, interest and dividend withholding taxation, and taxation of fringe benefits, excise duties and departure taxes, and in

retirement and other employment termination tax concessions and elsewhere. Examples proliferate under headings such as depreciation, pensions, superannuation, social security (health, cultural and recreation pursuits, and elsewhere). They are presented as industry assistance and development. We see them in such areas as diesel fuel rebates, science research and development, housing and community amenities, labour and employment, exemption of pay and allowances for full and part-time service and for overseas service of persons in the defence forces and in the foreign trade and diplomatic service.

A tax expenditure tends to provide a higher benefit than a direct expenditure of the same magnitude. This is because direct expenditure is often taxable, whereas tax expenditures are not. Therefore a direct outlay will, in some circumstances, have a smaller net budgetary impact than a tax expenditure of equivalent value.

Items permitting deductions from gross taxable income on these and other accounts are vast in number. Even after many years of gathering information for the annual Statement the Treasury has expressed itself not confident that it has uncovered them all. They get into the tax laws, generally without sunset clauses, and thereafter are lost from view, no longer seen, for criticism and challenge.

The Treasury has quantified, for 2002-2003, taxation expenditure at \$30.021 billions, equal to 17.6% of actual expenditure. The proportion is consistent from year to year.

It does not follow that one can simply transfer that amount foregone to the other side of the ledger, but there can be no challenge to the general order of things. The revenue foregone is huge - and secreted.

It would be desirable in the extreme for the Parliament of the Commonwealth to outlaw all forms of taxation expenditure, banning them from our legislation. It is a category of financial management without intrinsic social merit, and much social demerit.

The trust

Trusts have a special utility by their nature for income-splitting, for obfuscation by private persons. A trust is a legal title in a person who is not the holder of the beneficial entitlement. The beneficiary can enforce his or her claim in equity against the legal holder. Trusts developed as a means of holding property over and above the rules of the common law. Equitable doctrines were developed in the Royal courts. They were intended not to be inconsistent with the common law for the holding of a common law title to land. They were recognised as an acceptable different means of directing the devolution of title to the benefits and use of land.

It had consequences, for persons otherwise obliged, of providing them with relief from the rules of feudal tenure and especially from the burdens of the military service and of the taxation frequently demanded by the King and other superior feudal authorities from the owner of the fee. Such persons stood one or more steps back under the rules of equity from the point of due service of the obligation for feudal obligations fell on the holder of the title recognised at common law.

Courts of Chancery in England, the Equity Divisions of the Supreme Courts of the Australian States are the courts that set the rules of property. Their creatures, the instruments most prized for the holding of property, the trust and the company, from the beginning have been allowed to stand apart from the state. The trust came to flourish from the beginning as a device to defeat the demands of the state. Henry VIII tried, and failed, to strike them down for their impact upon royal affairs. He merely complicated matters and they have complicated matters of state ever since.

Equity is the source of the fundamental rules for the administration of companies where the law is not set in the Corporation Law of the Commonwealth. The framework of the modern corporation in our law was finally set by the Companies Act of 1862 of the United Kingdom.

The deed of settlement produced to the court by parties in dispute and upon which Chancery set its rulings was replaced by the registered Memorandum and Articles of Association.

Trusts were especially convenient for entrepreneurs in the early days in the Australian colonies before the modern company format became available following the changes in English law after 1862.

In other countries, it is illegal to conduct a business under a trust, but not in Australia. Trusts got into business early on in Australia because of the ill-formed law system in place in the early days of the colonies of NSW and Victoria. The gold rushes in the mid-1850s, from London to Victoria especially, which followed upon the outbreak of squatting from about 1840 brought many adventurous and entrepreneurial young men from England in a time when trusts were favoured at home for the conduct of business and before the modern form of the company took clear statement in the United Kingdom in 1862. Many of the newcomers went quickly from disappointment in gold to trade in Bourke Street and pastoralism in Western Victoria. Those who got into sheep upon mere possessory title were concerned to defeat with dummies and trusts the laws against monopoly land holdings. Trusts were simple to create, private and secret to the trustee and beneficiary and tended to protect the accumulation of beneficial title to land.

Trusts became a traditional form for business in Victoria to the point where the greatest proportion of the trusts reporting income in 1999-2000 are still to be found in Victoria (31% compared to 22% in NSW of trusts reporting income). Trusts were and are a popular preference in a colony, now a State, whose businessmen have been great agitators for tariffs, a consumption tax highly placed in the moral scales of the propertied classes for putting the revenue burden on the poor.

The scandalous use of the trust as a means of tax avoidance is detailed in a Minute to the Treasurer from the Treasury obtained under the Freedom of Information Act (see 95/10177-1, 20 December 1995). Of the top 200 of Australia's wealthiest individuals, 80 returned incomes of \$20 000 or less in 1993.

There was a feeble attempt over several years by the Howard Government to cause trust income to be taxed in the same way as company income is taxed, but it was torpedoed by its back bench and the Nationals. Howard and Costello, Prime Minister and Treasurer, abandoned the company tax proposal in December 2002. It was a triumph for the lobbyists of a special property interest. Their representations were advanced under clouds of smoke and flashes of mirrors in the face of an idea of merit for the protection of the revenue. Taxed at the company rate in 1999-2000, trusts would have yielded \$4.13 bn of revenue. The small tax return is affected by the practice of setting up a chain of other trusts and companies interlinked and passing through various other tax havens.

I do not say that trusts do not have, or cannot have a purpose and function which is praiseworthy or acceptable within a family and within the community, but they should stand wholly within the reach in all respects of the Taxation Commissioner. He should not be required to recognise the equitable interests of beneficiaries, or go to them alone for tax.

Under our Torrens system of registered title to land, under the Real Property Acts of the States, the Registrars-General are prohibited from registering or acknowledging claims of a beneficial interest in land under the Acts. They will acknowledge a legal title or a conveyance of the same, but they will not recognise an equitable right. It is of no consequence for their purpose. So it should be for the Taxation Commissioner. The income of a trust should be imputed to the settlor who creates the trust.

The Commissioner should be free to hold the settlor, the beneficiary and the trustee jointly and severally liable to meet the tax on all income and property which he can trace to the settlor and bundle together for the passing purpose of tax collection. The settlor, the trustee and the beneficiaries should be free to indemnify one another according to their arrangements for the case.

Companies

Only recently in the last fifteen years has a stark identity, a unity, between the shareholder and his or her corporation been discovered. I speak of the rules for franking credits for dividend income. Side by side with this recognition we have seen the proliferation of private companies set to house the affairs of the individual. We have seen incorporation clone a twin for the taxpayer as never before. We are suffering from an epidemic of incorporation injected into the revenue stream directed to exploit the wide gap between the company rate of 30% and the top individual marginal rate of 47.5%, accentuated by the law after the Ralph Report of 1999. We have seen the revenue succumb.

Incorporation is a shield. Taxpayers use it commonly as a shield against the revenue. Traders use it as a shield against the revenue and against creditors. There is nothing God-given about the concept of incorporation.. We have scotched the age-old idea that we should pay our debts.

In 1999-2000 which was the year before the law after the Ralph Report recommending a 30% company tax rate in place of a 36% rate began to take full effect) individuals (10 135 834) comprised 85.5% of all taxpayers of any kind. Among them, wage and salary earners comprised 54% of all taxpayers. Companies, partnerships, trusts and funds, totalling 1 538 787 entities, comprised 14.5% of all taxpayers. There was one company, trust or partnership for every 3.6 wage and salary earners. It is highly likely that the ratio has shrunk significantly for the current financial year by reason of the recent growth of incorporation exploiting the gap between reduced company tax and the top marginal rate for individuals. This proportion of individuals to companies and trusts defies the observations and the arrangements of ordinary social life.

The idea of giving a separate legal personality to risk-taking ventures preceded the introduction of an income tax for companies in England. Such a tax came to be grafted onto the corporation out of the sheer appositeness and convenience of the matter. And it was soon realised by venturers that the corporation itself provided a perfect vehicle for escape from the income tax, or for its abatement. Corporations formed and shaped for tax avoidance (dare one call it, accurately, evasion?) spread through the business community in England like wildfire. The phenomenon of that remarkable contradiction in terms, the "one-man company", came to Australia in boats.

Companies are not made of flesh and blood like individual taxpayers. You cannot lick or love a company, smell, touch or feel it, share a joke or shed a tear with it. It is a pure figment of the imagination, never taking in our minds corporeal form as even the image of our Maker does in the eyes of the great religions of the world. The company came into the history of capitalism as a saviour and it remains in our presence as a thief. It moves in our midst like Hamlet's ghostly father as our King and we lose our minds before it.

The idea of the grant of an independent legal personality originated in the convenience of limiting the liability of persons engaging in activities in trade or in the administration of community affairs (for instance, canals, railways and the workhouses,) which were seen to be in the public interest. It was protection in law, administered in the Royal Courts, against creditors in the case of bona fide failure. The object was to prevent misfortune in the one venture washing into the whole of the debtor's affairs as in an ordinary case of insolvency.

One can hear the sounds of all hands clapping when the royal grant of a Charter and decisions of the Royal Court of Chancery saw entrepreneurs released from the common law of debt which was enforced in the Courts of King's Bench. Company law grew out of the idea of the trust, a creature born in Chancery where equity was done but debt was not recoverable.

In the mass, what is the role and function of the one-person, family company in Australia to-day? You purchase immunity from your trading debts by paying an annual fee to the Australian Securities and Investment Commission, but will it avail you in the workaday world? Not at all. No bank, and almost no one else will advance money to a trader who has not first proffered extra security over real estate and the like, and who has not tendered his or her guarantee and often

those of family for the company's obligation.

Not only financiers, but also potential creditors in the ordinary course of trade generally demand directors' written guarantees for debts to be incurred. The liability is unlimited under the guarantee, and the nominal purpose of incorporation of venturers is defeated.

There is an extraordinary inability in Australian companies to generate taxable profits. The ineffectualness of these companies to realise the ostensible purpose of their existence, trading for profit, is readily demonstrated by reference to the Taxation Statistics published annually by the Commissioner of Taxation. The explanation for the widespread incorporation of private companies can only be the opportunity to minimise taxability of the income of the trader operating under the company format.

In 1999-2000, of 596 934 companies 539 553 or 90.4% were private companies and companies across all industry accounted for only 5% of total taxpayers. However, this entity group accounted for 77% of total income, yet only 25% of net tax paid. By contrast, Individuals (85.5% of taxpayers) accounted for 72% of net tax. 55% of companies across all industries were non-taxable. 23% of non-taxable companies had trading profits but these had been met with offsets such as losses from previous years and foreign credits. Taking all companies, public, private and other, the Commissioner has reported that 55% proved not to be taxable, and that 78.2% were taxed on an income of less than \$10 000.

Why do persons enshroud themselves with all the grandeur of incorporation, and pay stiff fees annually to ASIC for limited liability? We may be sure that it is not for the benefit of limited liability. It cannot be for that. Whatever benefit they take from exculpation from debt, it brings them no fortune in the market place by way of either safety from creditors in the main or open profit for their endeavours.

How the gods do stand in the path of prosperity in our land!. 61% of trusts in trade, 53% of partnerships, 78% of companies had a taxable income of less than \$20 000. A majority of trading companies, trusts and partnerships cannot take the earnings of a junior in the garment industry, not even the minimum wage. These figures make the case as never before for middle-class welfare. The mind boggles at the poverty of the propertied classes.

Perhaps those who see morality in the company, the partnership and the trust in tax law, in the morality of dividend imputation and who seek relief from capital gains taxes, will also see morality in the imputation of a rent as income in those persons who own their own dwellings. Poor as shareholders are in the mass, often enough their houses would do well on the rental market.

Insolvency or liquidation of a company – amending the law

There is another matter that calls for a better response in the law to the behaviour of companies - indebtedness to employees, especially.. We have noted how the grant of security over a private asset and a guarantee is often demanded in advance by creditors. But what of those do not have such avenues of recourse - the people who in an insolvency and liquidation of an incorporated employer, lose wages, salary, holiday, long service leave entitlements, superannuation, rights of action, workers' compensation, award entitlements, sub-contractors' entitlements?

This is not uncommon and several attempts to develop protection for individuals, especially former employees, against companies, insolvent and sent into liquidation, have been proposed - with little or no success or aptness. It is pleaded by the lawmakers that it is too difficult to write laws that can cope with the implications of the company format to meet insolvents' defaults. I do not think that this is so. I would amend the Corporation Law of the Commonwealth to provide as follows:

1. Subject to clauses (2) and (3), and notwithstanding any other law, persons constituting

themselves as a company shall have unlimited liability for any debt or obligation incurred at law or in equity by, for or on behalf of the company, unless

- a. it is a company created and authorised to trade under the Corporations Law;
 - b. it is a company of not less than twenty natural persons not related at law or in equity;
 - c. it has a paid-capital in money or money's worth at the time that the obligation crystallised of not less than \$500 000 which sum may be increased from time to time by the Governor-General in Council;
 - d. the company has been accepted by the Australian Stock Exchange (or its successor or any comparable share market) as fit under the rules in force when the obligation crystallised to have shares in its capital traded by persons authorised to trade in that market, in which case the debt or obligation of a shareholder shall be limited to the capital he, she or it subscribed or promised to subscribe, provided always that the debt or obligation does not derive from a law of revenue or from a tort or from a breach of a statutory duty, or that it is not due to a person who renders or did render personal service at the material time and that it arose in the ordinary course of trade in good faith for reward.
2. It may be agreed between a company and another party in respect of any transaction made in the ordinary course of trade in good faith for reward that the liability of the company to the creditor shall be limited in a manner specified in the agreement, but no agreement shall be of force or effect to which a person is party who renders personal service as an employee or contractor or otherwise and which affects him or her prejudicially in respect of any right vested or contingent which may otherwise obtain at law or in equity.
 3. The owners and beneficial owners of a share of the capital of a company shall be liable jointly and severally to discharge any obligation due from the company arising under a law of revenue or to a person rendering personal service as an employee or contractor or otherwise to the company or to any subsidiary or related company or person and, in respect of an obligation to the Commonwealth of Australia or any other company or person arising in a subsidiary or related company or person, a corporation and its members, jointly and severally, shall be deemed to have guaranteed the same and the liability of the holding company comes into being and continues notwithstanding that the subsidiary or related company has, by any law or act, ceased to exist.

Double taxation treaties

Australia has signed a multiplicity of double taxation agreements. The time has come to re-negotiate these to the extent that there is a lack of de facto mutuality of benefit in the actual and measured flow of funds between the signatories and/or where abuse to the revenue is occurring. Treaties should stand upon facts not aspirations. The indulgence of foreigners under these treaties runs beside record foreign indebtedness and chronic deficits in the current account. There is a huge loss of revenue through the failure to tax at source wealth earned or produced in Australia and remitted abroad in the form of royalties, interest payments and dividends. If a payment of this kind is made here other than to a foreigner, it is taxed here at one rate, but if it is to be sent abroad, it is taxed if at all at a lower rate. We should tax payments of royalties, dividends and interest to be sent abroad at source in Australia at domestic rates. It costs Australia resources to create the payments due to foreigners.

Equally, we should not favour income received from abroad. The recipients here of foreign money enjoy our roads, our schools, our police, our hospitals, our courts, in a word all manner of public goods while waiting for their ship to come in. They should be equally liable with the rest of us to contribute to their establishment and maintenance, just as it should be for the foreign investor to contribute in full who draws off payments remitted abroad. On the whole, It costs just as much to service them as it does to service the rest of us with infrastructure and public services. Moreover, local persons frequently remit huge sums of money abroad to exploit, for tax minimisation, the benefits in double-tax agreements for the treatment of money leaving and entering our shores.

Non-deductibility of interest payments

I would not allow a deduction for interest payments made by taxpayers either under our present income laws or under a cash flow tax. Loans are capital and interest should be taxed at first instance in the hands of the borrower as part of the distributable surplus. We should not allow deductions of outlays for interest, royalties, rent and licences. They are too vulnerable to abuse.

The deductibility of interest is a special disease of the income tax system. Borrowers of money are no different from film makers. If you want to get people into film making, you give them tax relief. If you want to get people into borrowing, you give them tax relief.

What the lender advances is part of the capital of the enterprise but it is blessed with certain priorities and privileges. It fetches a form of preference to a partner in the property of the enterprise. Non-business persons, persons with a home mortgage, for example, are not permitted to deduct interest payments. Interest on home mortgages is (or was) deductible in the United States.

Capital tendered as a "loan" to an enterprise is part of the capital of the enterprise. Four competent entrepreneurs gather together to make potato chips for which they need a capital of \$100 but for which they can contribute themselves only \$80. They invite a fifth partner to join them.

If that person joins on condition that the contribution is to be called a "loan" and not a "share", and is to be serviced with an reward to be called "interest" , which is to be paid before any division of the profits of the enterprise is paid, if at all, to the other four equal contributors to the project, do these names make the contribution any less part of the capital of the undertaking and the amount tendered to the fifth contributor any less part of the profit?

Why do we allow these rewards for so-called "loans" to escape inclusion by the tax collector in the taxable profits of the enterprise? How many banks in the ordinary course of trade actually claim their "loan" back? They pride themselves upon their association with prominent traders and take advertisements notifying their association with new ventures. They declare themselves in for the long haul and, almost without exception, so they are. Why do we pretend that lenders are mere usurers?

It pleases mightily those with funds to "lend " to see official encouragement and incentive given to the trade in funds. .The clamour to borrow money when "interest" is deductible from the "borrowers'" funds is matched by the enthusiasm of the "lender" to advance it in such a happy business climate. Deductibility of so-called "interest" pushes up the price of such investment funds, which are, moreover, raised outside the laws of prospectuses and disclosure.

The abolition of the deductibility of interest would undoubtedly force down interest rates, and would tend to direct some of the funds thus affected into investment on an equity basis. It would as well remove one of the incentives to use real and fictional debt as a tax dodge. Not only would this be desirable for domestic risk investment but it would tend to reduce foreign borrowings. Moreover, it would not be inimical to material equality in society.

By reason of the choices for our law in this matter, in the year 1999-2000, \$28.424 bn of revenue was foregone as tax at source. That figure results from applying the company tax rate for that year of 36% to the interest payments allowed of \$78.955 bn. The amount foregone on the spot was 18.4% of the Budget's outlay for the year of \$154.481 bn. It is true that a deal of this money finds its way back into the revenue stream by reason of taxation of the recipients, but only after the watering down of the income of the recipients in the usual ways. The loss is real and substantial, to say nothing of the misallocation of social resources involved in the double-handling, and the attendant opportunities for manipulation down the line of tax liabilities through companies, trusts and other tax shelters here and abroad. Lost from the hand at first instance, it is hard to find again.

Losses

A company is entitled to carry forward losses incurred in one income year for deduction against its assessable income in subsequent years, subject to certain limitations not here relevant. Losses and may be carried forward indefinitely until absorbed. A loss is incurred in any income year if the allowable deductions - other than any unrecouped losses brought forward from an earlier year - exceed the assessable income and any exempt income. The amount of the loss is the amount of the excess.

Losses in trading in 1999-2000 by 183 067 companies totalled \$65.4 bn and amounts carried forward on account of capital losses by 24 282 companies totalled \$30.9 bn, giving an aggregate sum on account of losses to be set against future income of \$91.25 bn. In subsequent years, those companies, trading with assessable income, would be entitled to withhold some \$27.4 bn from tax otherwise due, at the new rate of 30%.

These figures are typical of the situation that obtains from year to year - a premiss readily established by inspection of the annual taxation statistics. They are of the general order of things, subject to variations in the figures due to inflation, economic growth and the general level of trade from year to year. They reveal the loss to the revenue stream arising from the recognition of the "loss" as a taxation concept. Direct budget expenditure in that year was \$154 481 bn. In 2002-2003 direct outlays rose to \$166 bn against which the nominal \$27.4 bn, adjusted, can be set for a view of the order of revenue foregone for losses allowed to be deducted for that year.

Companies, partnerships, trusts and individuals in trade obtain an exemption from tax and a restoration of capital in part or whole under the recognition accorded to losses. Why should this be so? What obligation exists in other taxpayers, in individuals, in wage and salary earners, in the community at large to put a trader back in his or her means? We even allow losses to be sold for the use and benefit of other persons to gain relief from taxation otherwise due. The loss may be due to indolence, speculation, incompetence, negligence, inefficiency, waste or squandering. Loathe as I am to give voice to the thought, the taxpayer may, indeed, have engineered the accounts. Yet the law puts a duty in the Commissioner to restore him or her more or less in his or her former perceived circumstances. If it is to collect tax that one is about - and not social engineering, why is this so?

If the loss has reduced accumulated reserves, it is no different. We make the loss good in the year or years succeeding when there are profits to tax. And yet in the term of the losses, in the hour of misfortune, we continued to provide to the loss maker the protection of our quarantine services, of our roads, our police force, schools and hospitals. Our soldiers stood ready to defend her. We did not ask the taxpayer to contribute in the year of misfortune, nor in the next years when his or her fortunes have turned. No wage or salary earner returning from a year or a month's unemployment to renewed toil has offsets like this to invoke in the days of prosperity. Those who protest against welfare payments have yet to put this boon for property income upon the block.

Averaging

We grace primary producers and others specified whose fortunes fluctuate from year to year with the boon of averaging of assessed income over a term of five years. We do not index past assessed income to movements in the price index, adjusting it for intervening inflation to determine in current prices the average of the assessment for the term in issue. Over five years, under a course of inflation, this lowers the assessed income for the tax year substantially, and lowers the tax to be paid. This is only one of the innumerable subsidies we give to private and corporate farmers and to the foreigners who consume our primary produce.

Land taxation

Land "ownership", the fee simple of land, is a privilege of possession accorded to individuals by the state granted along with a promise of ouster of intruders and trespassers. It is a function of law, and is only as stable and as enduring as is the law set for the case.

Land values, the value of land in the market place, whether for residential or productive use, tend over time to reflect the resources of the purchaser relative to other persons. They are thus a suitable measure for taxation proportioned to means.

It is of the nature of things that the Commissioner of Taxation's assessed taxable incomes tabulated according to postcodes correlate positively with the determinations of the Valuer-Generals of land values in related areas. Income and wealth are ultimately secreted in land titles, and find expression in market prices paid for land for residential or productive use.

Land tax is an income tax. A land tax is a tax levied upon a base other than the income for the term that could be reported by the taxpayer. It is an income tax levied upon a base set apart from the income that can be reported by the owner of the fee. It is levied upon the unimproved capital value of land held by the taxpayer, without account given for improvements, objectively determined by the state and unsullied by the hands of lawyers and accountants. That valuation is the base for assessing the tax due from the taxpayer. The valuation is determined according to relevant market values. There is a huge experience gathered over a century in the art and science of the valuation of land in this manner Experienced administrations exist in all the States directed to the determination of unimproved capital values of land within the jurisdiction. Appeals to courts lie against disputed valuations.

Valuations of the unimproved capital value of land are objective, rational measures of the market worth of the holding of the land itself. A tax assessed on this criterion is just about impossible to corrupt or evade. Throughout Australia an administrative apparatus is already in place and functioning in respect of valuations, stamp duty imposts, local government taxation and State land tax collections. In cases of hardship, levies upon this basis are often accompanied by credits, deferrals, charges and rebates due in the case, with a charge put upon the title and the tax recovered on death or conveyance.

For Commonwealth revenue purposes, all owners of legal title to land without any exceptions whatsoever should be taxed at not less than the bond rate and at an equal rate of levy in every case of a land holding having market worth under the community's grant and protection of the privilege of exclusive possession.

Taxation of income, not upon the reported income, but upon the worth of land held in title by the taxpayer, is rational, comprehensible, proportioned and more or less impervious to avoidance, evasion and corruption. One rule should be paramount. Every landowner must pay. We should keep the floodgates tightly shut. There should be no exceptions anywhere on any ground for any purpose or for any person. Let one escape and you have the makings of renewed taxation expenditure, of a new abuse. A Commonwealth land tax was in force between 1910 and 1952.

The historical worth of land in Australia has tended to run at a higher level than the bond rate, indeed, somewhere in the order of 8.5 % per annum. The tax should be set at a rate commensurate with history, but not at less than the bond rate, which now stands around 5%.

Some argue that land tax ought to be the sole measure of obligation to the revenue, adjusted up or down to suit current revenue requirements. I say nothing upon the point. There is also a case for lots of taxes set at low rates to fall upon all manner of transactions and situations, to minimise losses through evasion and avoidance of other taxes. About that, too, I say nothing.

A 'progressive' tax system

The repeal of a law of tax does not of itself and need not abolish the wealth generated in the term, the income for the term of the community. The wealth and income remain in place to be taxed in new ways, seeking expression for new values, seeking success for the essential task of revenue collection and reason upon humanist premisses in its pursuit.

Were we to add the quantum of taxation expenditure or tax foregone at \$28.584 billions for

1999-2000 to the sums foregone at first instance for company interest (\$28.4) and loss deductions (\$27.4 bn), and for trusts (\$4.1 bn) we would have increased the sum available for expenditure in that year from \$154.481 bn of actual expenditure by \$88,5 bn or 55%, and that from taxpayers who appear to be well able to pay, taken in the whole.

I emphasise that life is not nearly as simple as that, but those figures point to the substantial truth of the matter. An increase in the revenue flow of that order would be free up decision making for tax rates and outlays remarkably. There is a huge amount of money drawn from production for any year that is simply escaping taxation under our man-made rules and it is not the poor, it is not the mass of the people who are reaping the harvest of this bounty.

A new framework of primary taxes

The income tax in all its forms as we know it to-day should be consigned to the dustbin of history. At the very least we should have a statutory definition of "income" consonant with the draft, supra. Landowners should be taxed on unimproved market values. I would give a credit against land tax for any payments made under a cash flow tax. We should dispense with company tax as we know it altogether.

Trading businesses of all kinds should be taxed under the rules of a linear cash flow tax. In that tax we will concede every related bona fide outgoing for capital or current expenditure made in the ordinary course of trade in good faith for reward, interest, rent, royalties and licences apart, so that only the balance is taxed. The land tax would be the primary obligation. We should ignore losses and refuse to bring them into account. I would put in place our very own Tobin tax, a levy on all movements from and into Australia of funds. I would not wait for international reciprocity. No privileges would attach to money entering or leaving our shores. I would re-introduce financial turnover taxes.

We could re-introduce death duties and gift taxes, and prohibit income splitting. An inheritance is income. Income splitting by traders is generally a ruse. We could impute a rental income to those who own their own dwellings. Settlers should be answerable to the Taxation Commissioner for all the capital, turnover and income arising in their trusts. Certainly, we should abolish base charges for car registration, telephones, gas, water and electricity. We should tax the consumption of energy pro rata to consumption. The rich use more energy than the poor in the main. High rates of tax on energy consumption has many attractions on many grounds.

We should ban taxation expenditure. We should devise a repeal in a way that is hard to repeal.

There is a case for a wealth tax. The taxpayer estimates his or her market worth, and is taxed on the income that this wealth would fetch if it were invested in bonds. The tax collector would be entitled to seize property in dispute as to worth at the taxpayer's price plus an increment of the taxpayer's estimate of (say) 20%.

These provisions would make for a progressive taxation system. Further progress could be achieved through the outlay side of the budget. If all this showed double counting, we may have created an institution for justice, a redressing of an historical imbalance in the distribution in the community of access to social resources.

I have not spoken of the marginal tax rates applied at present to the income of individuals. They are hairs on the hide of the beast, and will disappear with its demise.

A linear cash flow tax

In the place of an "income" tax we should impose on non-employment income-earners a cash flow tax. This is a tax on the difference between all cash income and all cash outgoings of a trader whose income derives from trade, from property, dividends, interest, rent, royalties, licences, capital gains and other non-employee income.

All of what you spend out of what you take to acquire the cash flow is, in principle, deductible. Such a tax gives full deduction for all capital expenditure, for all depreciation made good in the term, for all new investment made, for all other related outgoings made in good faith in the ordinary course of trade for reward, items, that is to say, of expenditure of a capital nature and also outlays for wages, advertising, vehicles and so on, but not including payments in respect of rent, royalties, licences and interest. Taxation on these costs should be collected at first instance. Taxed further down the line, there is often loss and always waste and these items readily generate evasion and avoidance.

If nothing is actually spent, nothing may be deducted. The tax is collected on the balance. If there is no surplus, there is nothing to tax, but there may be a lot to tax in the hands of the firms down the line where funds received were expended for the needs of the first taxpayer, and if not there, then further down the line we will find a balance to tax. The lawyers and the accountants will be supplanted by mere bookkeepers.

A different way

Suppose you actually like a class or caste society and you were seeking to further entrench the advantages of the 'haves' against the 'have-nots'. What would you do?

You would definitely get rid of death and gift duties. You would seek to reduce company taxes and taxes on dividends, and capital gains. You would reduce rates of tax imposed on high earners.

You would introduce consumption taxes and retain tariffs at a high rate. The poorer segments of society would bear the primary burden for paying tariffs and consumption taxes, by reason of their numbers. (Those at the bottom of the heap do not always understand the partiality of consumption taxes, and this although they spend a larger proportion of their income on basic goods than do the wealthy. Some have been persuaded - by arguments of the arithmetical simplicity of the concept - actually to support a goods and services tax.)

You would cut back on welfare spending and on hospitals and health care, and on expenditure on public education, primary, secondary and tertiary, leaving it for people to buy their way into these facilities. Retirement incomes would be funded by forced savings rather than allocations from current revenue.

You would break the power of the unions, promote individual employment bargaining and agreements, you would contract out government business, and privatise government functions, as we did with the Commonwealth Employment Service. You would turn job-finding over to charities and churches.

Private affluence and public squalor

Two of the notable political economists of the twentieth century have put into the record thoughts which are rightly invoked here. I refer to John Maynard Keynes and to John Kenneth Galbraith. I take Keynes' thinking as it is recorded by his biographer Robert Skidelsky, whose text is mildly abbreviated here.

"On 12 April 1933 Keynes arrived in Dublin to deliver a lecture at University College. He chose as his subject "National Self-Sufficiency". He had trailed it in a broadcast talk at the end of 1932: national self-sufficiency promised a 'well-balanced' or 'complete' national life.

"I wish to see the blast furnaces of the north-east coast roar again and ships of British steel said out of the Clyde; another type of Englishman 'needs as his pursuit in life the care and breeding of domestic animals and contact with the changing seasons and the soil'. If all this cost a little more, so be it. 'To say that the country cannot afford agriculture is to delude oneself about the meaning of the word 'afford'. A country

which cannot afford art or agriculture, invention or tradition is a country in which one cannot afford to live'.

"Here was Keynes the paternalist protesting against the economic juggernaut which rooted up people from their homes and associations in the interest of cheapness; Keynes the artist seeking perfection in harmony and proportion. He, the son of a registrar of the University and mayor of the town, paraded his local roots: he praised Cambridge as a place where one could spend an afternoon strolling round 'talking to one's lifelong friends' and shopping 'in shops which are really shops and not merely a branch of the multiplication table.

"He gave these musings a more solid rationale. He was 'not persuaded that the economic advantages of the international division of labour to to-day are at all comparable with what they were...Over an increasingly wide range of industrial products, and perhaps in agricultural products also, I become doubtful whether the economic cost of national self-sufficiency is great enough to outweigh the other advantages of gradually bringing the producer and consumer within the ambit of the same national, economic and financial organization. Experience accumulates to prove that most modern production processes can be performed in most countries and climates with almost equal efficiency... Moreover, as wealth increases, both primary and manufactured products play a smaller relative part in the national economy compared with houses, personal services and local amenities which are not the subject of international exchange...

"Secondly, Keynes stated bluntly that free trade, combined with international mobility of capital, was more likely to provoke war than keep peace. In times of stress, particularly, the ownership of national assets was likely to set up 'strains and enmities' which, he implied, has led to war in 1914. So: 'I sympathise ... with those who would minimise rather than those who would maximise economic entanglement between nations. Ideas. Knowledge, art, hospitality, travel – these are the things which be of their nature international. But let goods be homespun whenever it is reasonably and conveniently possible; above all, let finance be primarily national.

"He urged the case for politico-economic experiment: 'we each have our own fancy. No believing we are saved already, we each would like to have a try at working out our salvation. We do not wish, therefore, to be at the mercy of world forces working out, or trying to work out, some uniform equilibrium according to the ideal principles of laissez-fair capitalism. The system of economic calculation which made 'the whole conduct of life ... into a parody of an accountant's nightmare is seen to have failed in its own terms'.

"We have to remain poor because it does not 'pay' to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot 'afford' them ... We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend. London is one of the richest cities in the history of civilisation, but it cannot 'afford' the highest achievement of which its own living citizens are capable because it does not 'pay'.

"If I had power to-day I should surely set out to endow our capital cities with all the appurtenances of art and civilisation on the highest standards ... convinced that what I could create, I could afford – and believing that money thus spent would not only be than the dole, but would make unnecessary any dole. For with what we have spent on the dole in England since the War we could have made our cities the greatest works of man in the world.

"We have until recently conceived it a moral duty to ruin the tillers of the soil and destroy the age-long human traditions attendant on husbandry if we could get a loaf of

bread thereby thereby a tenth of a penny cheaper. There was nothing which it was not our duty to sacrifice to this Moloch and Mammon in one; for we faithfully believed that the worship of these monsters would overcome the evil of poverty and lead to the next generation safely and comfortably, on the back of compound interest, into economic peace.

"Today we suffer disillusion, not because we are poorer ... but because other values seem to have been sacrificed ... and sacrificed unnecessarily. For our economic system is not, in fact, enabling us to exploit to the utmost the possibilities for economic wealth afforded by the progress of our technique ... leading us to feel we might as well have used up the margin in more satisfying ways.

"But once we allow ourselves to be disobedient to the test of an accountant's profit, we have begun to change our civilisation". (Robert Skidelsky, John Maynard Keynes, the Economist as Saviour 1920-1937, vol.2, 476-8, Macmillan, London, 1992)

Keynes was speaking in the middle of the Great Depression, seventy years ago. It could have been yesterday.

John Kenneth Galbraith warned Americans years ago, soon after the Second World War, that they faced the prospect of private affluence and public squalor if matters of taxation and public spending were not recast.

In an interview with the Sydney Morning Herald (3 October 1998) he repeated his concerns and was reported in these terms:

Galbraith, now 90 years of age, looks down upon a world where once again the solutions are known and resisted. The essential need – a good minimum income for all Americans – is simply not possible without transferring income from the rich to the poor. He said:

"There are no novel answers. There are three courses of actions – firstly, to keep a strongly progressive taxation system in place; secondly, to have a strong public welfare safety net so that you don't have people plunged into poverty in a rich country... and the other thing is to bring public investment in education, the arts and public works fully abreast of our supply of private goods. The epitome of the modern economy, particularly the United States, is the rich supply of private goods and the meagre supply of public goods. We have lovely houses and filthy streets and expensive television and lousy schools and that contrast is pervasive.

The income gap is greater than ever and is increasing steadily. A handful of the richest Americans have more money than several millions of the poor. And no one wants to shift gear. As countries develop an affluent class, they also develop a psychology which, in effect, holds that anybody can make it – therefore you look after yourself and not after others."

Galbraith emphasises three allied co-policies: income re-distribution, social support for those in hardship and investment in public facilities to be generally available to the populace at large.

We must learn to see taxation in the context of history, of what has passed before, of what is with us now, of how we were formed and how our institutions were shaped under the input of the United Kingdom, in particular, whose Inland Revenue has reported that the top 1 per cent of wealth holders there have 23% of the nation's assets, the top 5% have 43% of the assets, and the bottom 50% hold 5% of the same. We were set upon our path early on. From the turn of the twentieth century things came to be done a little differently until the unravelling began towards its end. It will be remembered that Hawke vetoed a proposal for an enquiry into the distribution of wealth in Australia put to him when he came into office in 1983. We have seen much to be

lamented since that time. Some of it is detailed here. Most of it is, in any event, latent in the very concepts we have embraced to raise public revenue. So deeply embedded in our thinking, in our value systems, are these concepts that some kind of cultural change has to be effected. The introduction of the GST shows, however, that great, costly and disruptive changes, can be visited upon affairs under energetic and committed political leadership. One would hope to see such qualities put to better use in the future than in that case.

The changes proposed here, if there is reason in them, will not come about naturally in the ordinary course of the passing day. Substantial change will require a measure of clamour.

"Reform" (a word much abused in meaning in tax talk) put forward by those who prosper and rejoice in things as they stand can only be window-dressing, a mere suggestion of public virtue and not a little removed from the life of the people in the mass. Having marginal rates of "income" tax, and fiddling with them, does not give us much of a "progressive tax system" – a virtue honoured in denial., honoured in unevenness, honoured in privilege, avoidance and confusion.

Far from abating inequality, taken in the whole our tax system concretises and promotes inequality between citizens.

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