Tax Working Group Public Submissions Information Release

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

An Interim Prescription

There is a long explanation, but a precis of the conclusion I reach needs to be here at the outset or the submission is apt to be misunderstood. I am available in Wellington and would be pleased to speak with the tax working group on this subject if that is requested. I have previously discussed housing with Dr Cullen in correspondence and am content to offer written responses to questions as well.

Within the terms of reference:

1. Employ a Land Tax and Capital Gains tax for revenue and to encourage local investment.
2. Reduce or remove GST to the extent possible. Differentiate between necessary and optional expenses. This has proven to work in other countries, we should not have to debate whether or not it will.
3. Use a system of Fee and Rebate to replace the Carbon Credits market system and make the cost of CO_2 an <u>inescapable</u> consequence of emissions. Use the border adjustment to encourage local production.
4. Allow the farmers who are working hard to mitigate their impact and planting trees on riverbanks to count those trees in consideration of their tax liabilities
5. Use tax policy to encourage desirable behaviour and discourage undesirable practices.
6. Look to the Scandinavian countries for examples, not to Great Britain and the USA.

Outside the terms of reference additional tax rates/tiers/brackets and a more progressive income tax arrangement are required to complete the removal of the GST. The arrangements we currently have are extremely flawed in this respect and people are attempting to lock in their advantages. Self-interest is a poor basis for any cohesive civilized society.

What follows is a reasoning of the basis of these recommendations. It is as short as I can make and still have it make sense.

I will happily respond to written questions as well.

The current externality, the long emergency

In the period between now and 2030 the single most important change in our economy will not be our economy (unless we foul up by the numbers) but the environment that supports it. Increasing climate instability will hit every nation on the planet and a significant price will be applied to the global emissions of CO_2. The probability of this approaches unity. At even $100 per tonne emitted this will cut our trade with the rest of the world in half.

This externality needs to be considered as we contemplate changes to encourage growth in different sectors and the financial future of this nation. The clear implication is that we as a nation need to guide investment in and development of, sectors that are NOT currently economical where trade is currently easy.

In addition our sources of computer chips, bearings, electric motors, disk drives, power supplies and the rest of the hardware and infrastructure supporting our current civilization, are in countries that are at risk of becoming failed states when the full effects of climate change (the full risk of this is considerable but impossible to quantify) arrive. Sea level rise is accelerating. Temperature changes may be accelerating. Emissions are still accelerating. Nearly every road we have hugs our coastline. Much of our infrastructure is at risk.

We cannot afford to build everything here, but we would be wise to arrange to have the ability to bootstrap anything here. Research facilities for Universities are suggested as a means to have abilities that are not commercially viable otherwise.

The current system rewards speculation in land, penalizes (relatively) investment in locally productive enterprises and encourages ever increasing wealth inequality. It is a pattern common in the English Speaking members of the OECD and it is particularly disadvantageous to New Zealand owing to our distance from other markets and any rational expectation of global reactions to the changed climate.

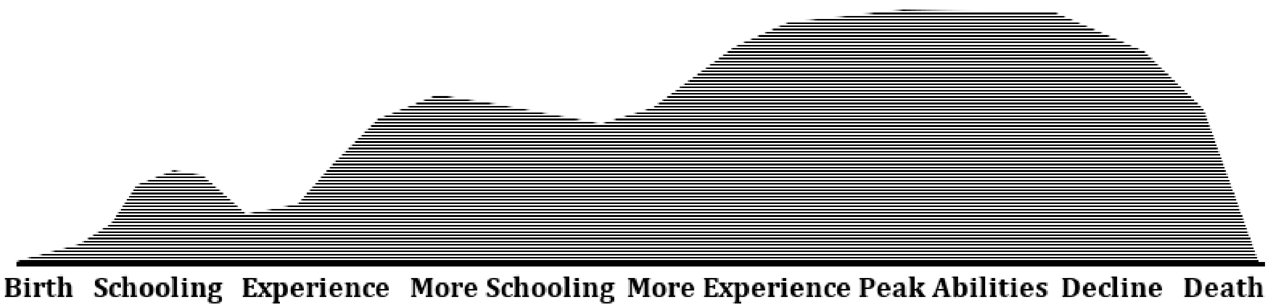
The section that follows this is background information that explains the underlying philosophy and understanding. I feel it useful to include it. Dr Cullen once asked me about details of it before it had been fully formed (a submission on some other issue), and I feel I owe him the more complete answer.

Real Money represents Work Done

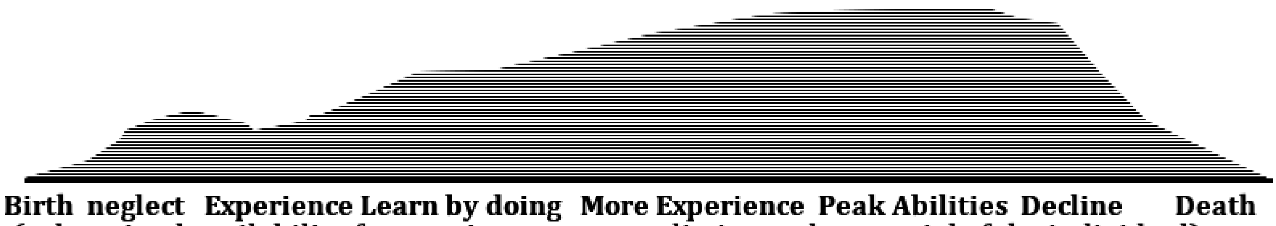
That’s a heading, a thesis and the topic of a book. It explains much, defines money for economists, cures physics envy by making economics a science and defines what taxes we ought to be paying on what and to whom. If taken on <u>fully</u>, the only reason to have taxes would be to discourage bad behaviour, but as the man advised - “well if I wanted to be going there I wouldn’t be starting from here”. Mainstream economists and in particular those of the Chicago school, will be appalled. Economists like Steve Keen will (one hopes) be delighted.

Why is Real Money related to Physics

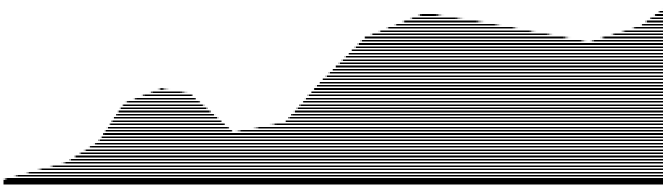
Every human is born with a <u>potential</u> for work that is defined by every single chance and choice made being optimal for them alone. This is diminished throughout life as sub-optimal choices are made and chances are taken. It never increases. If you are hungry at 3 you suffer that diminished potential. The work that we ourselves do is the fundamental source of our individual understanding of value.



(a possible version of a potential at birth - in each aspect maximized)



(sub optimal availability from society or parents limits work potential of the individual)



- or a drug overdose or assassination may limit that work potential. The maximum is something you are born with. It is all you will ever be able to do. It can be reduced but it never increases.

You are the only one who can decide the value of doing work, and you are the only one directly affected by the weariness, hunger and fatigue that ensues. This is the work that underlies the concept of money, and “Real Money” represents it. It is real work done and the laws of physics are brought to bear.

A Fisherman and a Baker meet. They exchange goods directly, five loaves and two fish. How did they know it was 2 fish, not 3 or 1 and how did they determine it was 5 loaves, not 4 or 6? There is neither a market nor societal money ("coin of the realm") involved here.

Barter is the most fundamental form of trade and it underlies all trade. They evaluated what things were worth to them without either the market or the money. The loaves and fish are products of "Work Done". When they trade directly because of a coincidence of wants, they are in the very purest sense exchanging their work for someone else's work. The subjective value of the fish and the loaves, is understood in terms of their own real work. This is the underlying form that "Real Money" must represent.

This work that we as humans have in only limited and ever diminishing supply as individuals, is the basis of real money.

Societal money (the "coin of the realm") when it is done correctly, is an abstraction of real work done that is not dependent on who does the work. It is based on a trust that it can always be exchanged for the real work of individuals. It is an abstraction of work that has to follow the same laws of physics that all work must follow.

Debt backed money is an abstraction of a promise of real work done (with interest). Promises are not limited by the same rules that apply to work, and not bound to the laws of physics. The debt backed money is almost right, but in the words of Henry Ward Beecher

"Whatever is almost true is quite false and among the most dangerous of errors, because being so near truth, it is more likely to lead astray"

Every dollar in every wallet in every pocket of every person in every city in every country on the planet represents debt. That debt attracts interest, which is money that can only be created as additional debt, borrowed to fund additional consumption.

The global economy is now roughly Two Hundred Fifty TRILLION dollars astray, and a the inequality in wealth is such that fewer than a hundred individuals possess the same amount of wealth than the lesser half of all of humanity, while the promises are made to be broken and the environmental damage of unlimited consumption it theoretically creates is a debt our children cannot default on.

To say that this is broken is almost unnecessary but I will say it. This is broken. Some folks think it is OK of course, they would be the ones who have control of that money right now.

A revolting situation which explains why so many people are revolting (Trump, Brexit).

Where does Societal money need to come from and what it needs to do and be

It comes from the society of course.

It is Fiat currency and there's not a blessed thing wrong with that if it is made to represent real money and the rules of physics are made to apply.

For a society the work done by the society in every form that work is done or collected, is a target for the amount of money to be kept in circulation for the society to function. More yields inflation, less yields deflation. We can ask engineers to come up with an appropriate number. Do not ask mainstream economists. It has to be issued into circulation in some manner. Some would be Universal Basic Income, the rest would be loans at no interest. This alters the way business is done and investments are made immensely.

As a side note: In respect to Cryptocurrency this entails a limitation, that the government may define and use a form of currency resembling Bitcoin but it can never actually accept an international unit as part of its currency system. It is a store of value in the same way a block of gold or sack of diamonds can be a store of value but its availability is unrelated to work done.

If it comes from the society and it is not debt backed it still may or may not be redeemable. A redeemable currency enhances trust but redeemable in what? I suggest that the KwH is an appropriate commodity if only because it provides us with many tools for analysis and understanding directly and because it is, literally, a physical definition of work and something anyone can produce.

However, if one imagines the KwH in place of money there are a couple of interesting issues that have to be obvious to the engineers. 10 KwH won't produce an eleventh KwH. Not ever. The implication of this reaches very deep into our economics. We do not make money by owning things. We cannot make money from money. The money we create has to reduce in value over time, rather than attracting interest. The laws and taxes that we implement, have to all work together to discourage making money from ownership.

Making money by having money may be "the way the world works", but it is quite recent in our evolution, and it ignores the theft from future generations that is inherent in the process. You can't actually break the laws of physics, all you can do is break everything else.

What will happen if you try to store that 100 KwH is interesting too. You will never get back the 100, you may get 99.9 or 99, or 90 but you never, ever, break even, over a long time you may simply get back nothing at all.

Finally, money has a very definite amount that can be supported. If it comes from private banks a very different scheme is necessary, as the bank's current use of interest is impossible and unsupportable.

So our basic form of development changes from private borrowing that profits the bankers, to an interest free loan system that allows the maintenance and improvement of infrastructure. The government (society) has to have control over how much money is in circulation (and in this a block-chain currency might well prove useful, but it would be New Zealand's own and the technology to do THAT hasn't been developed).

Summary:

- Money representing physical work done and subject to the laws of physics.
- Money issuance controlled by government.
- Money quantity controlled by government according to work done in/by New Zealand.
- Zero interest loans as part of the issuing scheme.

- Universal Basic Income as part of the issuing scheme
- Banks unable to print money on demand.
- No requirement for tax. Government spending is taken out before the issuance of money in loans or UBI.
- An argument for a nationally based block-chain currency.
- Limitations on the ability to make money from owning things.

That's a bit too much in one bite for any government to do.

It surely cannot happen without substantial changes to the information environment of a population where the Overton window has been purposely and maliciously dragged over to the vacant lot to the right of our real home.

The implication for tax

Since we bit off a very very big bite we are going to have to chew ferociously if we are to gain traction for the current questions. It is not after all, in the terms of reference to change the entire economic system of the planet.

The purpose of taxes is to support the Society. The purpose of Society is properly to enable the people to do collectively what they cannot do as individuals. The Society itself decides those goals and I submit here that the model of minimizing the State while supporting free-market based self-interested competition for everything, is an error for any Society.

We humans are social animals. We do not survive best in groups of one. We in fact have evolved for millions of years as cooperative groups and that is how we best manage ourselves as we politically and socially exceed the limitations of Dunbar's number to form larger (a survival positive consideration) social groups.

The cooperative model (Swedish) rather than the competitive model (American) leads to the happiest outcomes in human societies. The confused model (New Zealanders aping American mistakes), is not something we should be continuing. A tax system that does not overtly incentivise good behaviour, tacitly supports misbehaviour.

Our tax system should in fact support more and better services for our citizens and be a larger percentage of our Gross Distorted Product. When people feel that they are getting value for money, they do not mind a fair tax.   The current system provides extreme levels of tax advantage to ownership of capital and land rather than actual labour.

In this respect and in consideration of the externalities, we need both a government and a tax system that encourages local investments in an independent, long-term-sustainable, and technologically competent society.

THIS government needs to work to prepare the nation for a very ominous worst case climate disruption, and a tripling of the effective distance to foreign markets. New Zealand cannot afford to be dependent on single product exports OR on imports, a fact that has been demonstrated numerous times in our history. It will soon be necessary to again have an independent economy (or permit nuclear powered ships to dock here). The emphasis on "free trade" as the answer our problems is an error. Ricardo, with his implicit assumption that a wine press could become a textile mill simply by changing its name made it first. Reaganomics and Rogernomics merely repeated it. There is no "free". The costs become debts paid by future generations, effectively an immoral (Jefferson) obligation to force on them. Normal debts can be defaulted, but the environmental debts resulting from our current behaviour are governed by the implacable laws of physics.

Our supermarkets stock Applesauce from Holland and Denmark and China but not from NZ? Our tax system enables this tacitly by not heavily taxing CO_2, including imports. We are not prepared.

Our tax system must be part of the larger process by which government addresses all these issues. As shown earlier, if money is properly defined only the behaviour modifying taxes remain and they should form no part of the government revenue stream. We haven't fixed the monetary system though, so our taxes need to reflect the same requirements and values as closely as we can manage.

Land Tax and Capital Gains

To reduce the advantages of ownership, we should aim to discourage investment/speculation in property and encourage investment and development of supporting industrial capability here in NZ. This is a familiar story for both the Greens and NZ First. Both Land and Capital Gains taxes help to encourage local production.

Local production!

This leads to the specific recommendation that we adopt a Land Tax. Both Land Tax and Capital Gains taxes are welcome but the Land Value Tax is preferred.

We may have to exclude the "family home" to be make it palatable, but it was recommended by the LAST tax commission and ignored by government then. If this examination also recommends it we may, finally, obtain some relief from Real Estate lobbyists and the addiction to this mal-investment.

Detailed discussions of how a Land Tax can be fairly implemented and the impact on the nation's "retiree landlords" mitigated are not part of this presentation. There are many sources of such information from Adam Smith, David Ricardo and Henry George through to the present day and I expect that the details are better left to people who spend their lives on this sort of thing. According to Wiki there are forms of LVT in Denmark, Estonia, Lithuania, Russia, Hong Kong, Singapore and Taiwan.

My personal view is that the notion of MY owning something that existed a million years before my birth and which will consume my mortal remains and digest them unnoticed over the next million, is a nonsense. I am at best a steward of this place while I am here. It is all any of us really are, and on current form we are failing miserably at that job.

Put another way, the Society owns the land, and while I may obtain a lifetime lease I still have to pay the rent myself and I have to keep it in good condition for the next tenant.

Why reduce or modify GST

There is always some fool who will assert that GST is not regressive. This is offensive in the extreme to those of us who pay it on every cent we earn because we have to spend every cent we earn, while we watch as others bank and invest their surplus to obtain even more dosh without working at all (see the discussion of the applicability of the laws of thermodynamics above). It is not enough to force a revolution, but it is definitely enough to cause revulsion.

With our 15% flat rate we have a higher tax on books and food and culture than Sweden, which applies 25% on other things but drops it to the lower rates on things that are necessary to its people. It is thus already quite high but it is even higher when the tax MIX is considered. Sweden has an actually progressive income tax system. The top income tax rate is effectively over 56% so the GST as a percentage of the overall take is smaller. Their Tax-to-GDP ratio is 44% while ours is 32% and falling. We are still heading in the direction of being "Mexicans with Cellphones" with deteriorating infrastructure while systems in Sweden actually work and people like the result.

Here we've attempted to follow the US model, to cut both taxes and government, "starve the beast" and follow the societally suicidal neoliberal prescriptions of the 1980's.

The result of that is a deteriorating and inadequate infrastructure, poorly supported education and health systems, desperately inadequate provisions of services for the poorest among us and ever widening social division. The breakup of the state into smaller units is still a distant future, but for us "Wealth transfer" is "bad" and in some significant subset of the population "Greed is good" and that breakup is inevitable if we continue to follow the US model that says "Greed is Good".

It isn't. It is still one of the seven deadly sins and the USA is about ready now, to demonstrate just how bad it is. Another decade, not more than two, for the unthinkable.

Carbon Taxes

Rather than continuing and struggling to understand the carbon credits and the market built around them which permits companies to attempt to offset their emissions by purchasing credits and by the way giving the people running the markets to punch the tickets and collect fees, the simpler and more direct imposition of a CO2 emission tax which is directly rebated to the residents and citizens of New Zealand. Note too how this works into the local consumption and production needs.

We should not have any government revenue be dependent on the CO2 tax as it is intentionally expected to be a diminishing amount over time. We want it to go to zero.

Because New Zealand must count up the CO2 absorbed by its agricultural sector, the planting of trees and maintenance of forests is work we have to be willing to pay for. The current arrangement of Carbon Credits and counting does not correctly appreciate the work done by farmers. Direct payment for long term sequestration of Carbon is an alternative which could be developed.

The proposals of the Citizen's Climate Lobby with respect to this type of taxation is recommended.

https://citizensclimatelobby.org/basics-carbon-fee-dividend/

1. Place a steadily rising fee on fossil fuels

To account for the cost of burning fossil fuels, we propose an initial fee of $15/ton on the CO_2equivalent emissions of fossil fuels, escalating $10/ton/year, imposed upstream at the mine, well or port of entry.

Accounting for the true cost of fossil fuel emissions not only creates a level-playing field for all sources of energy, but also informs consumers of the true cost comparison of various fuels when making purchase decisions.

2. Give 100% of the fees minus administrative costs back to households each month.

100% of the net fees from the carbon fee are held in a Carbon Fees Trust fund and returned directly to households as a monthly dividend.

About two-thirds of households will break even or receive more than they would pay in higher prices. This feature will inject billions into the economy, protect family budgets, free households to make independent choices about their energy usage, spur innovation and build aggregate demand for low-carbon products at the consumer level.

3. Use a border adjustment to stop business relocation.

Import fees on products imported from countries without a carbon fee, along with rebates to NZ industries exporting to those countries, will discourage businesses from relocating where they can emit more CO_2 and motivate other countries to adopt similar carbon pricing policies. Building upon existing tax and trade systems will avoid complex new institutional arrangements.

Firms seeking to escape higher energy costs will be discouraged from relocating to non-compliant nations ("leakage"), as their products will be subject to import fees.

Conclusion

Within the terms of reference:

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2. Reduce or remove GST to the extent possible. Differentiate between necessary and optional expenses. This has proven to work in other countries, we should not have to debate whether or not it will.
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