A WEEKLY COMMENTARY

ON TARGET

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The price of Freedom is eternal vigilance –

Print Post Publication Number 381667 00258

Vol.39, No.40 October 17th, 2003

THOUGHT FOR THE WEEK: *"The English had a genius for voluntary co-operation... Inside such self-chosen associations the English, normally so suspicious of authority, showed themselves astonishingly amenable... What was remarkable was the national pride of the poor, their instinctive belief in the superiority of their country and its ways of life... At farm feast or in village alehouse the artless chorus would rise, a warning to foreign tyrants who put their trust in lawless strength.*

"'The race is not always got/ By them wot strive and for it run/ Nor the battle to them people/ Wot's got the longest gun.'"

– ***"The Age of Elegance: 1812-1822"*** by Sir Arthur Bryant, 1950

TAXATION – CORPORATE GOVERNMENT FEUDALISM by Jeremy Lee:

Two items hit the Press in the last fortnight. Commenting on the fact that the Income Tax Assessment Act is now 7,000 pages long, Mark Davis (***Australian Financial Review***, 3/10/03) commented:

"It's already Australia's longest, most convoluted and single most unpopular piece of legislation. But the Productivity Commission has a sobering message for taxpayers, businesses, accountants and others who love to hate the federal Income Tax Assessment Act.

"In a speech on the economics of regulation yesterday, commission chairman Gary Banks pointed out that at almost 7,000 pages, the Act was now nearly 60 times longer than the 120-page version that did the job when it was first introduced in 1936.

"If the Parliament kept adding to the act at this rate, future generations of taxpayers would have to struggle with a piece of legislation of unimaginable complexity.

"'To take a fanciful turn, were this rate of growth to continue unabated, I am informed that by the end of this century the paper version of the Tax Act would amount to 830 billion pages," Mr Banks said. "It would take over 3 million years of continuous reading to assimilate and weigh the equivalent of around 30 aircraft carriers'....."

Mr. Banks, the article continued, said it was increasingly realized that government regulation generated significant costs, as well as benefits. Despite promises, the sheer volume of red tape and regulation had not slowed.:

" ....At the federal level, government agencies with explicit regulatory functions alone employed about 30,000 staff and spent some $4.5 billion in 2001-02," he said.

Estimates by the Attorney-General's Department suggested there were more than 1,800 Commonwealth Acts currently in force. About 170 new Acts were promulgated last year ...."

As though to reinforce the point came this news (***AFR***, 3/10/03):

"An average small business of 10-15 employees in NSW is spending as much as 200 hours a year on tax paperwork, according to the Red Tape Register released by the State Chamber of Commerce yesterday. The most time-consuming tax for small businesses was the quarterly GST return and BAS Statement – a third of businesses spend up to 60 hours a year on GST compliance ...."

Perhaps we've got the wrong end of the stick in doubting the common sense of this massive array of red tape. Perhaps we haven't grasped that we should be thankful to the powers-that-be for "job creation". The more work that can be put on the backs of the population, the better the unemployment figures will look!

But Mr. Costello should at least come clean! He told us his plan was to simplify taxation. Obviously, that wasn't the plan at all. It was to keep more and more people happily employed filling in bits of paper.

BRACKET CREEP COMPLICATES THINGS FURTHER: Bracket creep is, in essence, straight from Marx's *Communist Manifesto*, which advocated as one of ten points for communizing a nation a heavy, graduated income tax.

Inflation makes this a game of snakes and ladders. Lower-taxed income earners are progressively lifted into a higher level of tax through the progress of time. An election 'tax-cut' is quickly recouped by bracket creep, without the need for any new legislation. Prime Minister Howard and Treasurer Costello are going to give us a tax-cut to be timed nicely to coincide with the next election. Bracket creep will bring it back again over the next three years. The Coalition is helped considerably by the fact that Labor has no genuine alternative and, in fact, believes taxes should be even higher.

A REGULATION AND MEANS TEST FREE TAX SYSTEM: Once we grasp that current tax arrangements are designed as a means of control and a way of keeping tens of thousands of people working extra hours, we can understand why the Debit Tax proposals were not even considered as a way of tax reform.

Under the Debit Tax proposals, a levy of less than one percent would be applied each 24 hours on the total turnover of financial transactions through the banking system. Every transaction in Australia (other than cash) goes through a Central Clearing House, where totals between banks are sorted out and re-allocated into individual accounts. A less-than-one-percent levy on this final total would replace every tax, whether direct or indirect, in Australia. The Tax Department as we know it would cease to exist. No individual or company would ever again have to fill in a tax return. Tens of thousands of accountants could be released from their desks to make for the Golf course. No business, large or small, would have to agonise over "Business Activity Statements" for the Goods-and-Services Tax.

Petrol would be half the price. No foreign corporation could avoid tax by 'transfer pricing'. The paper war would be over.

What is more, each person would pay, through the levy, an amount in keeping with his or her income. A pensioner on $300 a week would pay less than three dollars a week. Pensioners would save more than that when GST was removed from food and clothing. A corporation with a turnover of $300 million would pay less than $3 million. No department screening 'tax-deductions' would be necessary.

Could it be done? Of course! But no politician would dream of making life so easy! It would take most of the fun out of being a politician – granting favours to pressure groups in the electorate; watching the Treasurer deliver the "rewards-and-punishment" Budget speech, etc.

And think of the poor Commissioner for Taxation, now lording it over a Department bigger than Australia's armed forces! He'd become "plain Mr. Carmody" again, instead of the most powerful bureaucrat in the land! He could go back to stamp-collecting, or growing his own vegetables!

And, finally, what would happen to the "Income Tax Assessment Act"? Its 7,000 pages would be deposited in the National Library, as a monument to the folly of a bygone age, when citizens were harried unmercifully by a feudal tax lord, whose only justification for the tyranny he exercised was to "create work". Future generations would shake their heads in wonder at the indignities foisted on their mothers and fathers in the "bad old days".

TWO GIANT SHADOWS: Car production in the world now has a 30 percent over-capacity. Every car-producing nation is staring down the barrel of stiffer competition and stagnant markets. Australia now exports about 30 per cent of local car production. There is not really such a thing as an exclusively Australian car manufacturer. Every well-known brand coming off a production line in Australia belongs to a multinational, which repatriates part of the profits. Labor forces are Australian. Fifty percent of car content is made locally, the other 50 percent is imported components.. If there is an advantage for Australia it is that we sit on top of some of the best iron ore and coking coal deposits in the world, and the infrastructure for exploiting these is in place. But we dissipate this advantage in giving away at rock-bottom prices huge quantities of these assets to nations now manufacturing consumer goods which threaten our own industries.

Both China and India are now competing to become the biggest and fastest-growing economies in the world, swamping the industrial west with low cost consumer goods with which we have no hope of competing..

China this year will produce about 2.7 million vehicles, of which 1.8 million will be sold on the Chinese domestic market. This leaves 900,000 for export..

What brands are sold in China? They're familiar names, of which Volkswagen has the largest share. General Motors are next. As world oversupply increases, competition for markets will intensify.

It was Australia, along with other industrialized nations, that welcomed China into the world of free trade via the World Trade Organisation. We are going to reap the whirlwind with a vengeance. The idea that small-capacity nations like Australia, with highly-taxed, highly paid labour forces, will be able to compete with Chinese output that is rising at an astounding rate, quite capable of flooding the world market at prices no one can compete with, is an exercise in wishful thinking.. Multinationals have poured $22 billion into 600 car manufacturing ventures in China since the 1980s. Volkswagen has just committed a further $A10 billion into further expansion over the next five years. China's over-capacity in producing cars will continue to grow.. There will be no compunction in exporting the surplus at a price which finally displaces our own car industry.

India's expansion is scarcely less dazzling. Its predominance in communications technology is surpassing the legendary Silicon Valley. Multinationals are pouring investments, which once went into western economies, into India. Some estimate that India may even outpace China within five years. India's largest car manufacturer, Marun Udyog, is now turning out 600,000 units annually. India is also grabbing an ever-increasing share of the pharmaceuticals industry.

What should a country like Australia do, faced with such a challenge? Firstly, we've got to re-think the "growth-and-exports' merry-go-round, which is, traced back to basics, an attempt to catch up with a debt-based financial system. Why don't we aim to produce fewer cars, of a much higher quality? Why don't we take a lead in developing pollution-free vehicles? The technology is available. Mexico City runs its buses and taxis on compressed air engines. The use of hydrogen stations running compressors, which gave every motorist an inter-changeable compressed air tank instead of gasoline, would shock the world. New, high-quality technology and innovation is what we're best at.

Why don't we open up possibilities for the thriving, largely self-sufficient towns and villages that once abounded in rural Australia? And work out a way in which young Australians can get into their own homes debt-free? Do we want young, happy and enthusiastic Australians who raise families in an environment of contentment? We could do it. Visions do not come on time-payment. Perhaps they come when everyone has had enough of what Douglas Reed called "Insanity Fair".

IRAQ'S 'HARSH REALITY' HARD TO HIDE by Bill Berkowitz, Workingforchange: "The harsh reality for ordinary Iraqis is hard to hide," Professor Cole, the author of *Sacred Space And Holy War: The Politics, Culture and History of Shi'ite Islam* and the operator of a highly intelligent Web site called Informed Comment (http://www.juancole.com/), noted:

"There is still 60% unemployment and extensive poverty, electricity is chancy, hurting many businesses, no land telephone lines are functioning in Baghdad, and no 911 emergency services are available for those who fall ill. There is a massive crime wave, with assassinations, car-jackings, burglaries and kidnappings, in Baghdad and Basra, the major cities. Few trust the banks. Women who are in any way public figures are subject to harassment, even assassination."

Prof. Cole also questioned the veracity of the so-called success stories. "Although the universities are 'open', Basra University was completely looted and lacks basic facilities, including a proper university library (burned) or computers (stolen). I guess they are back to clay tablets.

"And while it is technically true that the hospitals are open, and that large-scale looting of their medicines seems to have been halted, most of them are not operating at an acceptable level, as a number of press accounts have pointed out."

As anyone who watches the cable news channels can attest to, for the past week and a half, the networks are now running with 'good news' stories, but it's too early to know whether the administration's propaganda blitz will bear fruit with the public. The Progressive's Matthew Rothschild hopes the media will not be cowed by (negative) statements... and instead focus on the major issues: "If the big story is that there's a guerrilla war wreaking havoc every day in Iraq, then that's the story the media should be telling, regardless of how many happy story campaigns the administration launches."

"ON TARGET" is printed and published by The Australian League of Rights, 145 Russell St., Melbourne.
Postal Address: GPO Box 1052, Melbourne, 3001. Telephone: (03) 9650 9749, Fax: (03) 9650 9368.
Subscription $40.00 p.a.