

AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT SCHOOLS

PRESS RELEASE 556#

TAXATION FOR PUBLIC EDUCATION

5 June 2014

Coalition politicians are mere puppets of wealthy plutocrats and multinational corporation. The wealthy and powerful have no wish to pay taxes for the public good of either our country or the less fortunate. They have never wished to pay for the education of other people's children. The wealthy have always cocooned their offspring in elitist institutions. After all, future aristocrats must be taught they are 'born to rule'.

Abbott, Pyne and Hockey have manufactured a 'financial crisis' and orchestrated calls for raising the GST (a regressive tax). But public school supporters should be questioning current welfare for corporate greed and demand

- Taxation of Multinational corporations like Apple and Google and others that specialise in taxation avoidance and tax havens.
- Clawing back of taxation expenditures such as exemptions for religious institutions and activities
- Inheritance taxes
- Bonus tax on huge bonuses paid to officials of financial institutions responsible for the current financial crisis.
- Financial transaction taxes on short term financial transactions
- Progressive tax on the top twenty per cent of income earners in Australia
- An increase in capital gains tax
- Diversion of scarce taxation resources into private religious schools.

The proper policing of such a system requires a well staffed Taxation Department and ASIC, not an attack on these essential public services.

American thinkers like the Nobel prize winner in economics and the former chief economist of the World bank, Joe Stiglitz are calling for taxation reform in America in a white paper at

<http://rooseveltinstitute.org/reforming-taxation-promote-growth-and-equity>

To listen to Joe Stiglitz go to

http://www.nextnewdeal.net/sites/default/files/audio/joseph_stiglitz_tax_audio_05.27.mp3

For Trevor Cobbold's analysis go to : <http://www.saveourschools.com.au/funding/taxation-reform-to-fund-growth-and-social-spending>

Cobbold has the following to say:

Taxation Reform to Fund Growth and Social Spending

Tuesday June 3, 2014

SOS does not normally write on taxation policy. However, in view of the failure of the National Commission of Audit report to consider the revenue side of the Budget and the abandonment of the Gonski funding plan by the Federal Government because it says it cannot be afforded, discussion of taxation policy is necessary if Australia is ever going to be able to address disadvantage in education (and other social issues). A good start for this discussion is a [White Paper on taxation reform published last week by Nobel prize winner in economics and former chief economist of the World Bank, Professor Joe Stiglitz](#). Although the context is the US tax system, it has several points of relevance for raising taxation revenue in Australia to fund education and social programs. The following is an edited summary of the paper.

The white paper outlines concrete policy measures that can restore equitable and sustainable economic growth in the United States, in the context of the country's recurring budgetary crises. It says that tax reform offers a path toward both resolving budgetary impasses and making the kinds of public investments that will strengthen the fundamentals of the economy. The most obvious reform is an increase in the top marginal income tax rates – this would both raise needed revenues and soften America's extreme and harmful inequality. But there are also other effective possible reforms related to corporate taxation, the estate and inheritance tax, and environmental taxes.

Our economy has been performing well below potential, and the reason for this dismal performance is lack of aggregate demand. Thus, we need to be particularly mindful of the effect of tax reform on aggregate demand in general and employment in particular. While in general taxes take money out of the system, and therefore have a deflationary bias, some taxes have a larger multiplier than others in that they lead to a greater reduction in aggregate demand per dollar of revenue raised. Taxes on the rich and super-rich, who save a large fraction of their income, have the least adverse effect on aggregate demand. Taxes on lower income individuals have the most adverse effect on aggregate demand. Thus, increasing the

progressivity of the tax system not only improves the distribution of income – reducing the inequality that has come to mark the country – but also stimulates the economy.

Reforming corporate taxation

Corporate income taxes have diminished as a major source of revenue, from 39.8 percent in 1943 to 9.9 percent in 2012. The reason is not that corporations have come to play a less important role in our economy, or that corporate profitability has diminished. Rather, it is that corporations have learned how to exploit loopholes in our tax system, have lobbied hard and successfully to increase those loopholes, and have especially taken advantage of globalization to move profits to jurisdictions where they are lightly taxed. Tax arbitrage has become a major and highly profitable activity for firms – an activity with no social returns but high social costs.

These tax avoidance activities have become a concern in countries all over the world. Apple has become the prime example of how a clever firm can use its ingenuity to avoid paying its fair share of taxes by attributing profits to corporations that are essentially stateless, existing only in cyberspace, and which pay taxes to no jurisdiction. What makes these actions by our tech companies so galling is that these companies' profits exist, in no small part, because of basic investments by government, for instance in developing the Internet and the browser.

These companies have shown a willingness to take from what the public has provided, but not to give back commensurately. We should emphasize that this tax avoidance does not involve a few rogue companies, the black sheep of the corporate world, but is rather a hallmark of America's corporate icons – GE, Apple, Google, and a host of others.

One proposal is to raise corporate income tax rates while providing incentives for investments and job creation in the US. The implicit assumptions of the advocates of lower corporate tax rates are that low rates induce more investment and that high corporate tax rates disincentivize investment. Both theory and evidence indicate that low corporate tax rates fail to induce investment, but that one can design a corporate income tax that will promote investment and employment creation in the U.S. Such a tax system will require higher tax rates on corporations that do not invest, accompanied by lower taxes on those that do. It is the difference in taxation between those who do and those who do not invest and create jobs.

Another proposal is to reduce corporate welfare payments. In the U.S., we give large amounts of money to rich corporations that can hardly be viewed as needy. Such payments – mainly hidden in our corporate tax system – have come to be called corporate welfare. The losses in government revenue arising from these special provisions are referred to as “tax expenditures.” Corporate welfare consists of the billions – over a decade, tens and perhaps hundreds of billions – of dollars to enrich the coffers of corporations, sometimes to protect them from adverse situations as in the massive bailout of the banking system

There are good reasons that there should be a special set of taxes imposed on the financial sector. One is that the recession caused by the misdeeds of the financial sector is a major cause of the current high level of national indebtedness. In spite of the evidence that it has imposed large costs on the rest of the economy, the financial sector has been particularly successful in escaping taxation. We suggest a number of financial sector taxes that would actually increase the likelihood that the financial sector more efficiently performs the key social functions that it should perform.

In the wake of the financial crisis of 2008, there was probably nothing that did more to provoke the sense of injustice than the huge bonuses paid out to those responsible for the crisis, even as the banks that these individuals managed were being bailed out by taxpayers who bore the brunt of the costs of the banks' misdeeds. The pre-crisis justification for the bonuses was bankers' supposedly outstanding performance, but this rationale was undermined when they were still paid even as banks experienced massive losses. Huge payments by the banks to their officials also are one of the sources of growing inequality in our society. Moreover, the structure of the bonuses contributes to short-sighted behaviour and excessive risk taking.

A well-designed bonus tax could thus encourage incentive structures that align behaviour of those in the financial sector with the long-term interests of society (thereby increasing overall efficiency), contribute to a broader sense of societal fairness, and simultaneously contribute to deficit reduction. Indeed, the U.S. is one of the few countries that rescued its banks without attempting to address these issues.

For a quarter century, it has been recognized that short-term financial transactions may contribute to economic volatility without enhancing long-term economic performance. They were at the centre of the global financial crisis at the end of the last century. In recent years, partly because of that crisis and partly because of the current Great Recession, this notion has received widespread support, within academia and within civil society.

With the acceptance of that perspective has come increasing support for a financial transaction tax. Such a tax, even at an extremely low rate, would raise considerable revenue, and there is little evidence that it would have any adverse effect on long-term productivity – on the contrary, it is likely to enhance it.

A key reform is to reduce tax avoidance by corporations by ensuring that multinationals pay their fair share of taxes. One scheme is a minimum tax on global corporate income of 15 or 20 percent, with a credit, of course, given for taxes paid in other jurisdictions. This would reduce, if not eliminate, the incentive to move to low tax jurisdictions.

Reforming individual taxation

The paper proposes an increase in the progressivity of the taxation system to draw increased revenue from those who have done so well by the U.S. in the last quarter century, the top 1 percent, who now garner for themselves 20 percent or more of the total national pie. A small increase in the tax rate on them – 5 percent of their income – would generate, over 10 years, revenues equal to between \$1 and \$1.5 trillion. Currently, most of these individuals pay effective tax rates that are far below the “official” rates, because of their ability to take advantage of tax preferences and loopholes. Eliminating these tax preferences and loopholes would go a long way towards achieving announced goals of reducing the deficit.

The preferential treatment afforded to dividends and capital gains is another example of tax provisions where the official rationale has little to do with the actual effects. The argument has been put forward that the U.S. should encourage savings. But the savings of most Americans already receive preferential treatment. When taxes on capital gains and dividends were lowered, the benefits were extended to investments made prior to the enactment. These tax benefits were simply windfall gains. Tax revenues were reduced, without any concomitant increases in investment.

The preferential tax treatment of capital gains and dividends is perhaps the single most regressive distortion in the individual income tax system. As the Congressional Budget Office observed, “the preferential tax rates on dividends and capital gains provide almost no benefits to households in the bottom four quintiles but provide notable benefits to households in the top quintile – amounting to 1.7 percent of after-tax income in 2013.” Even more striking is the fact that 68 percent of the benefits of this preferential treatment go to the top 1 percent of the population.

Another reason why the rich pay so little taxes is that they can avail themselves of a variety of loopholes in the tax law. Rich taxpayers don’t keep their money in the Cayman Islands because the sunshine there leads to higher returns. Quite the opposite: the money is there to be kept in the shadows. They are willing to bear the slight cost and inconvenience of having their money parked off shore for the opportunities of tax avoidance, opportunities that the jurisdiction’s lack of transparency enhances.

The offshore tax havens were deliberately created to enhance the opportunities for tax avoidance and “regulatory arbitrage.” They are a privilege accessible only to the rich, who can afford the tax lawyers who know how to avail their clients of these tax avoidance opportunities. We could stop these tax havens overnight – just as we stopped the use of secretive banking centers to curtail their use in funneling money to terrorists.

Inheritance taxes

It has increasingly been noted that America is becoming a plutocracy – not the land of opportunity that it perhaps once was, and that it likes to think of itself as still being. There is a very high level of inequality in the U.S. and it has one of the lowest levels of equality of opportunity among the advanced countries. Tax policy, in particular inheritance and estate taxes, can be used to help prevent (or reduce the extent of) the perpetuation of inequality.

Today is a particularly opportune time to impose such taxes. Not only do inheritance and estate taxes reduce inequality and its perpetuation, they may actually induce more consumption and stimulate the economy. Rich individuals who would have saved to pass on their wealth to future generations – helping to create a new American plutocracy – may be induced to consume at least some of this wealth.

Conclusion

The agenda that we have put forward could significantly increase revenue, reduce inequalities, promote growth and economic efficiency – contrary to some of the reforms that are being proposed by others, which would do just the opposite.

To see a conservative rough order of magnitude of the revenues that could be raised by even a few of these reforms, assume a 40 percent comprehensive tax on those with the highest 25 percent of our nation’s income (roughly the top 1 percent), a 20 percent tax on the next 25 percent of our nation’s income, and a 5 percent VAT, levied on the 80 percent of national income that is not investment. These taxes would raise revenues equal to 19 percent of national income.

Corporate profits are roughly 11 percent of national income, so a combination of tax rates and investment incentives that imposed a tax of 15 percent on that income (less than half of the current “official” tax rate) would raise 1.6 percent of national income.

Finally, it is estimated that if we imposed a carbon tax or auctioned carbon emission rights reflecting even a conservative estimate of the social costs of carbon emissions, we would raise revenues that are in excess of 5 percent of national income. Putting these numbers together, this program alone could raise about 26 percent of national income – at the same time that it stimulated output today and improved growth, efficiency, and equity.

Deficit reduction is not an end in itself. It is supposed to be a means to an end, to more sustainable, equitable growth, in which the interests of future generations are fully taken into account. If, to achieve deficit reduction, we sacrifice current investment, we may actually be undermining future generations.

Mindless “deficit fetishism” is likely to be counterproductive. It will weaken the economy and prove counterproductive to raising revenues because the main reason that we are in our current fiscal position is the weak economy. The weak economy caused the deficit, not the other way around.

An increase in government spending today matched by an increase in taxes will stimulate the economy, and especially so if the taxes and spending are appropriately designed, i.e. where the tax increase is associated with a low (or negative) multiplier and the expenditure increase is associated with a high multiplier. For instance, the multiplier associated with the estate tax is, as noted above, probably negative. The multiplier associated with an increase in capital gains taxes on the rich is probably small. The multiplier associated with an increase in domestic spending on education or technology is very high, especially in a period of high and persistent unemployment such as today.

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