THE BURDEN OF TAXATION

Paper Read by John Fry at the Conference of the Georgist Council, Adelaide, January 1991

I am concerned at the inability of people, to grasp the reality of the Australian taxation system. The theory is so simple that even the uneducated should grasp it if they (as Henry George would say) "would but think for themselves".

In his speech at the opening of the Perth headquarters of this society in 1989 Clyde Cameron said (quoted in part from pages 2 and 3 of the printed copy) "How can any fair-minded person justify a system of taxation which compels a working man . . . to pay tax of 24 cents in every dollar . . . ; and up to 45 cents in the dollar as his income reaches higher levels".

That statement indicates to me that even Clyde Cameron has not thought the taxation problem through to the bottom line.

In the first paragraph of page three he goes on to say: "The ordinary taxpayer who sells his mental or manual labour . . . "

Let us put emphasis on the word *sells.*

All through the fifties when I was working with Clyde for the A.W.U. and on through the sixties and seventies it was a common thing to hear trade union officials and rank and file unionists declare "All a worker has to *sell*, is his labour", The word *sell* is coupled to the word labour, establishing that labour is a saleable commodity.

A tax on a saleable commodity is listed in the Dictionary of Economics as an excise or sales tax and as such is an indirect or a consumption tax paid by the consumer.

P.A.Y.E. tax is not income tax, it is a consumption tax paid by the employer in the first instance and in most cases passed on to the consumer. It is *not* paid by the wage earner.

The cash the worker gets in his or her hand then is the full wage as decided by Parliament or the Treasurer and heavy are the penalties for the employer who fails to pay the tax.

The cost of labour to the employer today is at least 70% taxation and still rising, all paid up front, that is, before the producer is paid for the product by the consumer. That is why we can never be competitive at home or abroad.

RECYCLED TAXATION

I will now demonstrate what happens to consumption taxes after they have been paid the first time and I refer not only to P.A.Y.E. tax, but to all taxes in common use in this country today. This is an argument skirted around by the Liberal opposition when they attack the Government for raising taxes, but when they advocate greater use of consumption taxes themselves, they look the other way.

I will use BHP Steel as my example because I know the processes involved, but all manufacturing industry is affected in the same way.

Taxation for the steel industry begins in the Iron Knob ore quarries and the Hunter Valley coal mines and at the very beginning the tax equals seventy per cent of the total production cost and that proportion holds good all the way through the transportation and refining process of the raw material through the smelter and rolling mill to the very gates of the consumer.

One of the best customers of the steel industry is the motor vehicle manufacturing industry. GMH and others add a half a dozen wheels and another batch of taxes on the same 70/30 ratio to each tonne of steel and pass the finished product out to the dealer.

The dealer pays about the same amount of taxes on his commission as he gets as commission on the taxes he has to collect from the customer on behalf of the Tax Commissioner.

It so happens that one of the best customers of the MV industry is BHP Steel. BHP Steel buys thousands of vehicles a year and the price of those vehicles contains not only the taxes borne by the MV builders but also the very taxes BHP added to the raw steel in the first place.

As part of the cost of production, the cost of those vehicles is then added to the price of steel including all the taxes, some for a second or even a third run around.

When a motor vehicle comes to the end of its working life, it either goes to the local dump or it may be pressed into a briquette half the size of a banana crate and fed into a steel furnace.

At that point the vehicle and the tax are finally separated.

The taxes go on, suspended in the economy passing from consumer to consumer, invisible, but as real as ever, long after the vehicle is gone and forgotten. In fact they stay suspended until they fall on a primary producer. As a primary producer cannot pass taxes on to the consumer, that then, is the end of the road for those taxes that came into being at Iron Knob and the Hunter Valley.

ADDENDUM

Query No. 1

How can the tax on a motor vehicle carry on after the vehicle has been scrapped?

Using BHP Steel again; The steel manufacturing machine consists mostly of steel and cement, and bricks and mortar.

All those materials are affected by the 70/30 tax/wage ratio including the taxes on the motor vehicles used by the manufacturers of those materials.

The taxes capitalised in the steel works construction will affect the price of steel throughout the life of the plant. Likewise the taxation included in the cost of those multi-storey multi-million dollar office towers that have been erected in Adelaide recently will be reflected in the rent for floor space and on into the cost of the service provided by the tenants, virtually forever.

Query No. 2

Why does the tax stay with the primary producer?

Everything the primary producer buys carries that tax component. There is no such thing as an indirect tax or consumption tax to a primary producer. It can fairly be said that *all* taxes are *direct* where they are concerned.

As everybody else can pass their taxes on through indexation it also can fairly be said that consumption taxes will hover in the economy seeking out a primary producer like a mosquito seeking a victim.