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Response to TWG's interim report:

In the funding of NZ government public goods and services, tax is unnecessary

The myth

The interim report perpetuates, without recourse to evidential justification (as is the norm in imagined equiibrium economics), the myth that 'taxes provide revenue for Government to fund public goods and services' and enable 'redistribution [mainly] through the transfer system'. A fuzzy encapsulating framework of 'wellbeing' and 'living standards' and multiple 'capitals' that has nothing to do with tax, but everything to do with government expenditure, is draped around the outside, like the wrapping paper & ribbon around a parcel. Through it all there is an assumed implication that tax funds government expenditure.

The reality

The observable reality of 'exchanges' made with government in the provision of public goods and services is entirely different from that myth. All payments to IRD are banked - that is, IRD exchanges the currency from tax payments with its bank and receives an abstract right against that bank, and the bank has the currency which it uses for its lending business, and has an obligation to IRD in respect of the abstract right. The same is true for all other payments made to other branches of government - IRD is but one branch of government. So all government monetary wealth (in the form of currency) is held in abstract rights of the government against banks, including the central bank.

Credit (a payable obligation) is the essence of all exchanges, and currency (itself an obligation/asset) is <u>one</u> of the lawful tools of consideration by which much of the credit is satisfied in any exchange - goods, services and other abstract rights being the other lawful 'tools of consideration' used to discharge credit. Government spending is always financed by Government borrowing (obtaining credit and currency), either from its commercial bank, or from its own central bank. In either case, following the government expenditure, accounting adjustments are then made to reduce (ie credit) balances of liabilities owed by bank to government, if the government borrowing is to be paid off immediately by government (thus reducing the government's accumulated abstract rights against the bank), or to increase (ie, debit) balances of accumulated abstract rights owing to the commercial bank or the central bank by government.

The government can always refinance its borrowing from a commercial bank with currency it borrows from its central bank. As regards the government's debt to its central bank, that debt is matched by its ownership of the debt through owning and controlling the central bank: So,

government liability (-) + matching government asset = 0.

The central bank creates its own issued currency as a liability against itself, in the form of tokens (Reserve Bank notes and coins) it first holds as assets – it then exchanges its tokens for obligations or for assets from others, exchanging the credit tokens (IOUs) into circulation. Token holders use the currency tokens to discharge their own obligations with other citizens and with government, and can always redeem their currency tokens at the issuing central bank – where they will be given the same, or equivalent, face value tokens in exchange. Perfectly circular, symmetrical, and self-sustaining. Government has no need to rely on tax to fund government and public services, and does not in fact do so.

Tax received in currency (by one branch of government, IRD) brings the tokens of issuer obligation back into the hands of the in-substance currency issuer (the Reserve Bank, another branch of government) – eliminating the obligation and the asset as they are held and owed by the same person – the government.

Tax is, then, the primary tool in the economy for taking currency (tokens) that have previously been exchanged into circulation, out of circulation to restrict credit creation – by making currency (tokens) scarce in relation to credit, which credit the law requires be discharged with currency (tokens).[1] The removal of currency from circulation by tax creates currency scarcity, and is undertaken in the interests of limiting price increases and of giving an artificial permanent value to so called 'savings' balances of currency that are recorded as assets (of depositors) at banks. In fact the 'savings' are abstract rights of the savers against the borrowing banks, which borrowing banks use the currency tokens in their own lending businesses.

The myths of money creation that have been spun in macro economics text books since the 1800s and generally taken at face value and believed by the economics profession, by politicians, and by the general public (but not believed by those who understand in a technical legal sense what money is and how it really works) have recently been acknowledged as myths by the Bank of England itself – see the paper '*Money Creation in the Modern Economy*' in the Bank's Quarterly Bulletin (Q1) 2014 – available online.

The associated myth of tax (that it is necessary to fund public goods and services – which is the core on which the TWG's interim paper is based), then, is also a fictional and simplistic story arising from micro-economics that has been wrongly layered onto the macro-economic process by those either who do not understand, or who

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[1] The official cash rate and setting it high, along with reserve requirements for banks are other such tools of monetary policy taking currency out of circulation and restricting credit creation. A higher official cash rate increases interest rates being charged in NZ, and investors are keen to sell currency to banks in return for abstract rights that include high interest income: higher deposits with banks means higher reserves for banks, taking currency out of circulation, and in so doing restricts future credit creation.

deliberately misrepresent, the roles of credit and of currency in the processes of exchange. In either case those propagating the myth that tax funds government and public services are, I suspect, scared of and by the processes of exchange, and find the myth useful as a means of exercising control over the public – in the way religious myths are used to exercise control over the public. It is time for the myth of tax to be acknowledged as a myth as well – and the TWG should be undertaking that task of exposure, instead of reneging on its responsibility and perpetuating the myth of tax.

Unless the myth of tax is exposed, it will live on and things will continue as they have in the past.

The political conservatives will continue to improvise on the mythical theme by seeking to restrict government and eliminate public goods and public services allowing private enterprise to supply all goods and services for profit, and to keep taxes lowish. The more scarce currency becomes, the greater profits can be made from owning currency or getting a monopoly on securing it (including simply by charging interest). The political progressives will continue to improvise on the mythical theme by allowing a greater role for government in providing public goods and public services in competition to private enterprise so as to keep private enterprise pricing under control, while also looking to keep taxes lowish. The constant enemies of the progressives are those across the entire political spectrum, conservatives and progressives, who look to profit simply from interest on 'savings'. The political conservatives and the political progressives will continue to be united by their collective ignorance, or manipulation, of the roles of credit and of currency in exchanges – so the economy meanders and stagnates as credit is restricted by inadequate levels of currency – proper maintenance and replacement of infrastructure is not done, as currency scarcity is favoured to artificially maintain value of savings (out of past work and other past exchanges) over currency creation to remunerate properly all of those currently working and currently exchanging in the economy.

Then in times where crisis is regarded as being important, particularly in financial crisis (where 'significant and important' debtors suddenly cannot get currency to meet their maturing debts) and in war, the timid artificial constraints on macro-economics are necessarily set aside as it is generally accepted the required expenditures giving rise to credit cannot be paid for from accumulated savings of currency and of transferrable currency balances. Credit expands exponentially and newly created currency is spent into circulation to discharge the credit, prices increase and past 'savings' decline in value. Such crises requiring credit and attendant currency will in the near future include adapting to climate change, the increasingly urgent need for new energy sources to replace oil, the need to replace crumbling infrastructure (roads, bridges, railways, airports, ports, aircrafts, ships, trains motorized vehicles) and the need for ever more food and water for large populations will soon require much more credit and accordingly so much more currency to discharge that credit than is currently in circulation. The suggestion (underpinning current imagined equilibrium economics thinking) that these things can be funded by past 'savings' from past work and other past exchanges is not only wrong and farcical, but is extremely dangerous.

'Fairness' in taxation depends on context

Fairness, in a 'myth-free' context of taxation, has a rather different appearance from the current fanciful view of fairness presented by 'bureaucracy officials' and the TWG which fanciful view derives from the myth:

- As tax is in fact unnecessary to fund government and public goods and public services, and is in fact a monetary policy tool for taking currency out of circulation so as to control inflation, is it fair that taxpayers must pay tax without receiving, in return for the tax being taken out of circulation, enforceable abstract rights against the government (say for pensions, for healthcare, for water and for access rights to infrastructure (roads etc))? I suggest not.

- As tax is in fact unnecessary to fund public goods and services, and is really just a tool to make currency scarce and make it more difficult for citizens to obtain, in the interests of keeping inflation of prices lowish, is it really fair to witch-hunt citizens who seek to minimize the taxes that they might otherwise pay to government (as they seek to minimize their other expenses payable to other creditors) so that they can pay other creditors, and so keep their businesses going and the economy turning over ? I suggest not.

- What is unfair about tax loss companies being sold so as to mitigate losses suffered by the company owners, when tax is only being collected to control inflation and is not needed to fund government spending ? There is nothing unfair in trading tax losses – it is making proper use of assets (abstract rights) that otherwise disappear.

- Should the government really have a priority in terms of tax owing over the credit obligations to private sector creditors, entitling IRD (which is responsible for instituting most bankruptcies in NZ) to bankrupt taxpayers over non-payment of tax when the consequences of taxpayer bankruptcy are really much more serious for private sector creditors than they are for the government that does not, in fact, need the tax money to fund its spending ? I suggest not – it is better for businesses to keep operating and employing.

- Is it fair to require as a matter of law that business owners not only work as unpaid tax collectors for government as regards their employees' incomes (while practically speaking those employees carry no such practical unpaid work obligations to government), and indeed to subject employers to crippling penalties for failure to withhold and return PAYE to IRD on very limited time deadlines, when tax is really just about controlling inflation ? I suggest not.

- Is it fair to require that tax payments be made in currency for tax liabilities arising in respect of unrealized (and therefore notional) income using deemed return methodology ? This is clearly a way of simply taking currency that is properly in circulation out of circulation.

- And who should get to play the 'fairness' card ? Currently it is the Commissioner (in court) and the government (in the public arena) who claim sole rights to deciding what 'fairness' means – doing so by wrongly claiming that public goods and services can only be provided by the government to citizens through levying taxes on citizens so as to be able to pay for providing such services, and bases their view of fairness on that wrongful claim. Fairness in terms of taking circulating currency out of circulation to control inflation is a much more complex concept.

- Who decides when it comes to 'fairness' regarding tax as between government and citizen. The dispute resolution process for tax disputes has been made unduly cumbersome and expensive for taxpayers. For the few cases that now

> get before an independent court, the supposedly independent courts have reneged their intellectual role in that regard, rubberstamping governmental claim to unfettered taxing power perpetuation of the myth that taxes are necessary for government to be able to provide public goods and services.

And in terms of the current 'bull at a gate' proposals of imagined equilibrium economists (and their followers in imagined equilibrium economics) to extend New Zealand's already extensive current tax provisions in the Income Tax Act that, in point of fact, carefully provide when <u>gain</u> from capital assets is properly regarded as <u>income</u> that is properly taxable, by simply ignoring those existing tax rules and pretending they are not there and that they do not apply, all on the basis of some kind of theoretically perceived universal 'unfairness' as between taxpayers, is short sighted. Those rules strike a balance that has long been considered to be fair for taking currency out of circulation, while leaving capital assets and capital growth in tact to allow businesses to make income profits. What is different now that makes those rules unfair as between taxpayers, or as between taxpayers and government ? Particularly when it is recognized that tax is not required to fund public goods and services, and is instead merely a means of taking currency out of circulation to control inflation and protect the value of past 'savings'.

Yours sincerely

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