SUBMISSION TO THE FINANIAL SYSTEM INQUIRY

BASIC DEFECTS IN THE FINANCIAL SYSTEM

AFFECTING THE AUSTRALIAN ECONOMY

The measureable Australian Economy in Aust. Bureau of Statistics (ABS) terminology, is a dichotomy of ;

1. The Financial System and

2. The Goods & Services (G&S) System.

The ABS in its "Aust. System of National Accounts" (cat.5204.0) depicts the Financial System, the subject of this Inquiry, as operating via exchanges of Financial Assets(FA)/Liabilities(L).

Each FA refers to a "claim" which has a corresponding and equally valuable L (assuming valuations are consistent) so that for residents in aggregate, FA - L = 0.

This Inquiry is concerned that these financial exchanges/transactions occur to "meet Australia's evolving needs and support Australia's economic growth" by promoting competition, stability and productivity[Terms of Ref.4.1], efficient allocation of capital and resources[4.2,4.5], innovation[4.4] and appropriate taxation of financial arrangements impinging on these allocations[6.].

By contrast with the Financial system, the G&S system in ABS usage, comprises transactions for the direct production of G&S for consumption and investment purposes.

The Aust. economy at (latest) 30 June 2013 from National Accounts comprised about $10,000B value of G&S, less about $1,000 net liabilities to non-residents, ie $9,000 Net Worth (assuming net FA/L for residents = zero, as mentioned).

The zero net FA/L for residents is completely un-indicative of the relative size of the (gross) financial /G&S transactions of the Aust. economy and therefore of their relative significance for impinging upon competition, stability, productivity, employment, profits, efficient allocations and innovations, ie the concerns of this Financial System Inquiry.

Although the ABS has itself published only incomplete irregular statistics of (gross) transactions of the Financial and G&S systems, annual estimates are available from private bodies like the Aust. Financial Markets Assoc.(AFMA) and economic researchers like myself. These statistics evidence the overwhelming predominance in volume of the Financial System.

In 2012-13 Financial transactions made up the major proportion, $435,000B, ie 98% of total transactions making up the Aust. economy, leaving only $8,000B, ie 2% for G&S transactions, being for GDP and capital and other non-GDP transactions.

I pointed out in my earlier Submission of 29.3.2014 to the Inquiry, this predominance of Financial transactions in the Aust. economy.

This predominance of the Financial system/transactions in the Aust. economy is mainly due and is exacerbated by the imbalance in the taxation -revenue structure.

Growth in G&S is retarded by the fact that almost all tax , 95%, was levied in 2012-13 on the G&S system (this includes incomes), leaving only a bare 5% of total tax to be derived from the massive Financial system (the Cwlth's 2014-15 Budget worsened the trend).

CONSEQUENCES OF THE BASIC DEFECTS OF THE FINANCIAL SYSTEM

1.Distort the allocation of capital/resources away from heavily taxed G&S, to favour the largely tax-free Financial system, thus retarding GDP, economic growth & productivity;

2. Inhibit innovation and new enterprises, reflecting in high youth unemployment being at least double the adult rate (comparable with the US economy with its zero- interest policy still needing to cope with the GFC effects);

3. Raise COL and costs generally;

4. Promote social inequity, disharmony and political/business uncertainty;

5. Cause Govt. Budget crises by inducing spending cuts to the disadvantage of the weakest politically and economically,whilst continuing to leave abundant revenue source s with tax-free status.

The national interest would therefore require a low-rate, broad-based transaction tax of only a few cents %, in part, being to substitute for the most oppressive G&S taxes (including debt and other levies, co-payments, GST etc). Additional advantages would be :

1. It could assist in the detection of money-laundering, tax-evasion, profit-shifting, illicit drug vending and similar national security or dubious activities;

2. Mindful of the origins of the recent GFC in USA, the tax could provide a brake to the already sharp growth of highly risky transactions of financial institutions in Australia .

3. It is not very long since the 23-year period when the Cwlth. Govt. and/or States were imposing taxes on transactions passing through financial institutions in Australia.

4. By arranging, as in Italy and elsewhere, for the tax to be levied according to the 'residence' of the taxpayer rather than on a settlement basis, there would be little or no disadvantage from the tax not being levied globally.

5. Some of the States are highly critical of the State-wise distribution of the GST. The re-introduction of a transaction tax could be coincident with a less costly and more amicable tax arrangement in Federal Financial Relations.

6. The present situation is historically untenable, with results potentially catastrophic.

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