

## **Re-Engineering Tax Processes**

**by**

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## Abstract

We are all familiar with the seemingly inexorable increase in economic inequality. The ‘wealth of nations’ increases, but the increases are ‘enclosed’ by an increasingly-wealthy elite. The wealthy elite have a lower marginal propensity to consume than those less fortunate. They have run out of things on which to spend their wealth, and simply get richer. The less fortunate are excluded and marginalised. The ‘trickle-down’ effect simply fails to materialise.

Taxation is (or ought to be) the primary mechanism for (re-)distribution of the ‘wealth of nations’. If communal spending is to be maintained by socially enlightened nations, communal income (i.e. tax revenue and charges) must be maintained in those nations. Even with full implementation of ecology and land-use charges, there would still be a need for substantial tax revenue from conventional sources.

This paper argues that, irrespective of the **administrative** alignment of current processes, **all** taxes are **already** levied in **economic** terms out of **gross enterprise profit**; the profit gap between the disutility of the labour input to enterprises (for which read net wages) and the consume value of the utility created/added/enclosed by enterprises (for which read gross prices). However, taxes can be categorised as one of two types:

1. Some taxes can be classified as **turnover taxes** (on profits). They are levied ‘up front’, in proportion to turnover, irrespective of the profitability of that turnover. Turnover taxes pre-empt propositions which cannot create/add/enclose enough utility to pay the turnover taxes on top of net wages, and impose a (relatively) penal rate of tax, and risk of loss, on high-employment enterprise.
2. Other taxes can be classified as **direct taxes** (on profits). Direct taxes are levied ‘after the event’, on de-facto profit-net-of-turnover-taxes. These taxes do not distort economic activity. Profitable activity remains profitable.

Unfortunately, direct taxes are often considered to be virtually optional because there are so many ways in which they can legally be avoided. We are all familiar with the way in which the already-wealthy treat such taxes as ‘only for the little people’. Without global cooperation, productive nations will have to continue to compete with tax havens for the divertable tax base (i.e. un-earned income and super-normal earned income), in a downward beggar-thy-neighbour spiral to the point where such income becomes virtually untaxable. In order to maintain tax revenue, socially enlightened nations will find themselves in a further downward spiral as they have to increase the punitive and destructive burden of turnover taxes on the value added by a shrinking working population.

With global cooperation on a minimum level of tax on un-earned income and super-normal earned income, and on pre-requisite measures to exclude tax havens, each nation could implement a radical but revenue-neutral reform of its tax base. The effects would include:

1. A radical but revenue-neutral switch away from turnover taxes and from the current (relatively) penal taxation of high-employment enterprise.
2. A resurgence of economic activity in general, and of profitable employment in particular.
3. A fairer distribution of the ‘wealth of nations’.

The nature of the potential reform of the tax base within each nation, and of the pre-requisite global cooperation on this issue, are the two prime subjects of this paper.

## Introduction

*'The composition of this book has been for the author a long struggle of escape, and so must the reading of it be for most readers if the author's assault upon them is to be successful, - **a struggle of escape from habitual modes of thought and expression**. The ideas which are here expressed so laboriously are extremely simple and should be obvious. **The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify . . . into every corner of our minds**'*

*John Maynard Keynes*

There is a general consensus at present that 'radical things must be done' with tax processes, but great controversy as to what those 'radical things' could or should be. Unfortunately, because of limited public attention spans when compared to the perceived complexity of the issues, propositions are typically presented using the current hotchpotch of administrative processes as the frame of reference, and it is often difficult to distinguish form from substance through the fog of terminology and inter-dependencies. How many of the general public really understand the underlying relationships between taxes on earned income, taxes on un-earned income, employer taxes, enterprise taxes, value-added taxes, consumer taxes, means-testing of benefits against income, and means-testing of benefits against wealth? How many of the general public really understand the underlying rationale behind the incoherent cobweb of allowances against such taxes and means-testing. How many economists, politicians and central bankers could genuinely claim to be able to articulate their understanding to the general public, or even to understand these relationships in the first place?

However, the **underlying concepts** themselves are **not** complex. The perception that they **are** complex arises mainly from the perverse and spurious complexity of many of the current administrative processes which most people, by default, use as the frame of reference for their understanding. Too many people are suffering from 'bureaucratic alienation'; give up trying to understand, and simply 'go with the flow'. They have to presume that the 'experts' know what they are doing, and have the community's best interests at heart, when all the evidence suggests that most 'experts' are renowned (and remunerated) not so much for their **fundamental insights and goodwill**, but for their expertise in the **use (and/or abuse) of the current administrative processes**. At best, the 'experts' have a conflict of interest in commenting on radical analysis and proposals for reform.

This paper presents an outline case for radical re-engineering of the tax processes. Process re-engineering differs from conventional systems-development:

1. Conventional systems-development reviews what is currently being **done** and seeks a better way of doing it. Over time, conventional systems-development results in a network of processes each accommodating incoherent inter-dependencies.
2. Process re-engineering seeks a deeper understanding of the nature of the issues under consideration, and attempts to address and resolve issues more directly 'at source'. Successful process re-engineering leads not only to a more rational, accurate, flexible and sophisticated resolution of the fundamental issues and requirements, but invariably also to much simpler and more transparent processes.

The requirement for simple transparent processes in a liberal democracy should not be underestimated. If liberal democracy is to survive and prosper, and if we citizens are to prosper in liberal democratic regimes, it is essential that social and economic justice is not only done, but is seen and **understood** to have been done. Without a solid base of coherent insight and understanding amongst the general population, the policy debate in a democracy will always be

limited to what a politician can get into a sound-bite. With coherently re-engineered processes, we can hope to dispel 'bureaucratic alienation', raise the integrity of proposals and debate, and build the sense of one-nation community essential to the success of democracy.

The ultimate objective of process re-engineering is of course to define propositions for implementation to improve transparency and administrative efficiency. However, a more immediate objective of this review is simply to define a clearer frame of reference from which economists and politicians can develop and argue their policies. By working from radical analysis through to definition of administrative processes more closely aligned to the fundamentals, process re-engineering techniques can introduce new insights into the economic and political debates, and thereby facilitate an escape from the policy and process inheritance, and from 'habitual modes of thought and expression'.

In doing so, we must be wary of current terminology, because that would tend to lock us into the 'habitual modes of thought and expression' from which we are trying to escape. For example, the expression 'income tax' would tend to lead us into a presumption that such taxes are taxes on income. They are undoubtedly **administered** as such, but radical analysis may well reveal a more subtle **economic** relationship to the income from which they are levied.

## Turnover Taxes and Direct Taxes (on Profit)

We are all familiar with the seemingly inexorable increase in economic inequality. The ‘wealth of nations’ increases, but the increases are ‘enclosed’ by an increasingly-wealthy elite. The wealthy elite have a lower marginal propensity to consume than those less fortunate. They have run out of things on which to spend their wealth, and simply get richer. The less fortunate are excluded and marginalised. The ‘trickle-down’ effect simply fails to materialise.

Taxation is (or ought to be) the primary mechanism for (re-)distribution of the ‘wealth of nations’. If communal spending is to be maintained by socially enlightened nations, communal income (i.e. tax revenue and charges) must be maintained in those nations. Even with full implementation of ecology and land-use charges, there would still be a need for substantial tax revenue from conventional sources.

This paper argues that, irrespective of the **administrative** alignment of current processes, **all** taxes are **already** levied in **economic** terms out of **gross enterprise profit**; the profit gap between the disutility of the labour input to enterprises (for which read net wages) and the consume value of the utility created/added/enclosed by enterprises (for which read gross prices). However, taxes can be categorised as one of two types:

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With global cooperation on a minimum level of tax on un-earned income and super-normal earned income, and on pre-requisite measures to exclude tax havens, each nation could implement a radical but revenue-neutral reform of its tax base. The effects would include:

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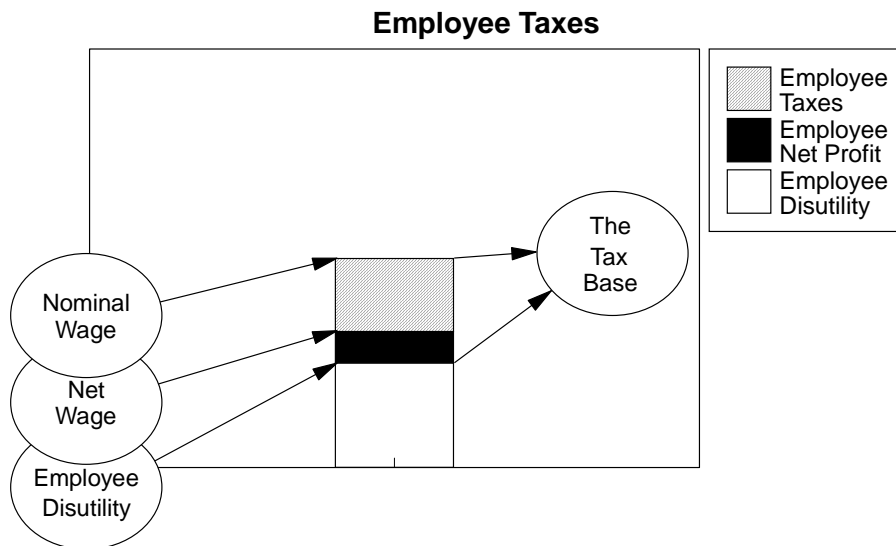
The nature of the potential reform of the tax base within each nation, and of the pre-requisite global cooperation on this issue, are the two prime subjects of this paper.

**Profit as the Sole Tax Base**

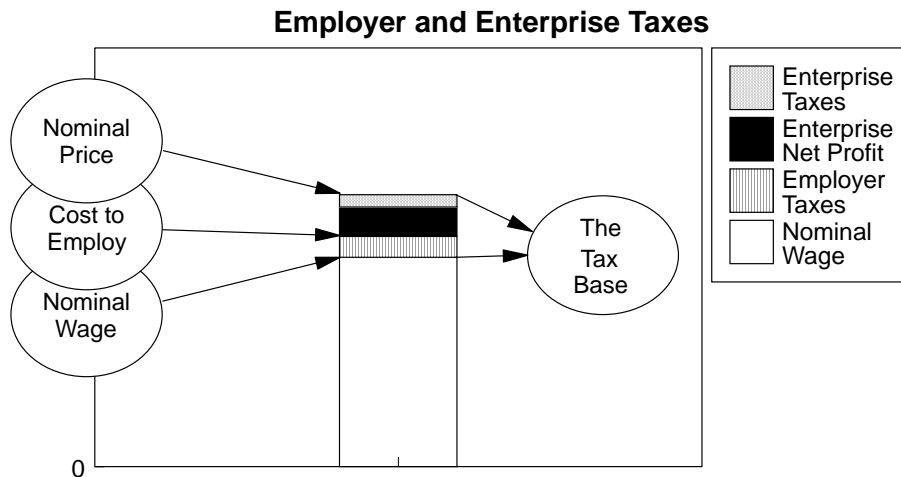
Irrespective of the **administrative** alignment of current processes, this paper argues that **all** taxes are **already** levied in **economic** terms out of **gross enterprise profit**; the profit gap between the disutility of the labour input to enterprises and the consume value of the utility created/added/enclosed by enterprises. Thus, the total value of all existing taxes should be included in the definition of gross enterprise profit.

As illustration of the validity of this proposed perspective, consider the following:

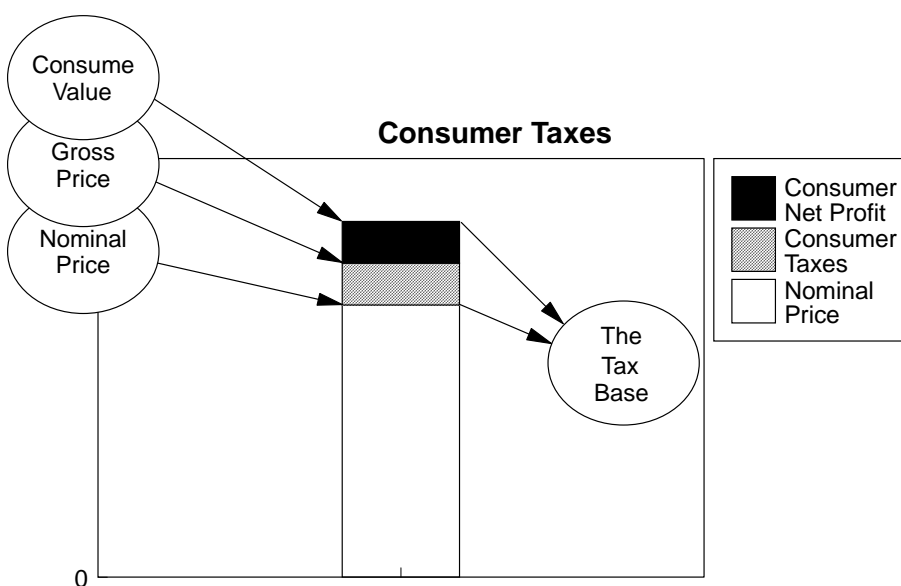
1. Employee Taxes (i.e. Income Tax on earned income, and employee National Insurance Contributions) are **administered** from the Nominal Wage, but are levied in **economic** terms from the profit gap between the Employee Disutility and the Nominal Wage. As an illustration of this claim, consider the fact that if Employee Taxes were increased to the point where the Net Wage was lower than the Employee Disutility, the employee would decline the employment.



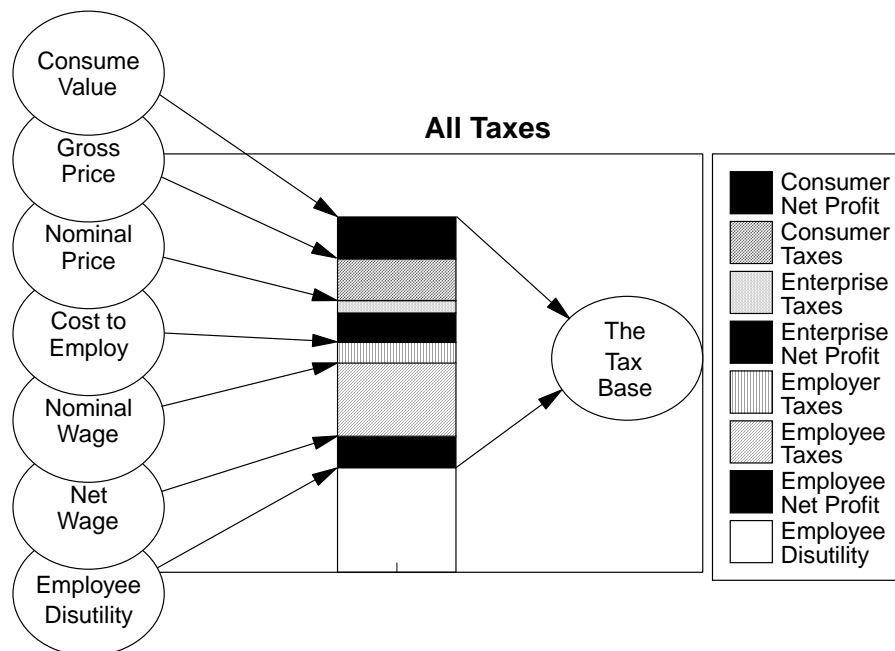
2. Employer Taxes (i.e. employer National Insurance Contributions) are **administered** on top of the Nominal Wage, but are levied in **economic** terms from the profit gap between the Nominal Wage and the Nominal Price (of the utility created/added/enclosed by the employment). As an illustration of this claim, consider the fact that if Employer Taxes were increased to the point where the Cost to Employ (including Employer Taxes) was higher than the Nominal Sales Price, the employer would decline to employ. In addition of course, Enterprise Taxes (i.e. Corporation Tax, and Income Tax on un-earned income) are levied directly out of the profit gap between the Cost to Employ (including Employer Taxes) and the Nominal Price.



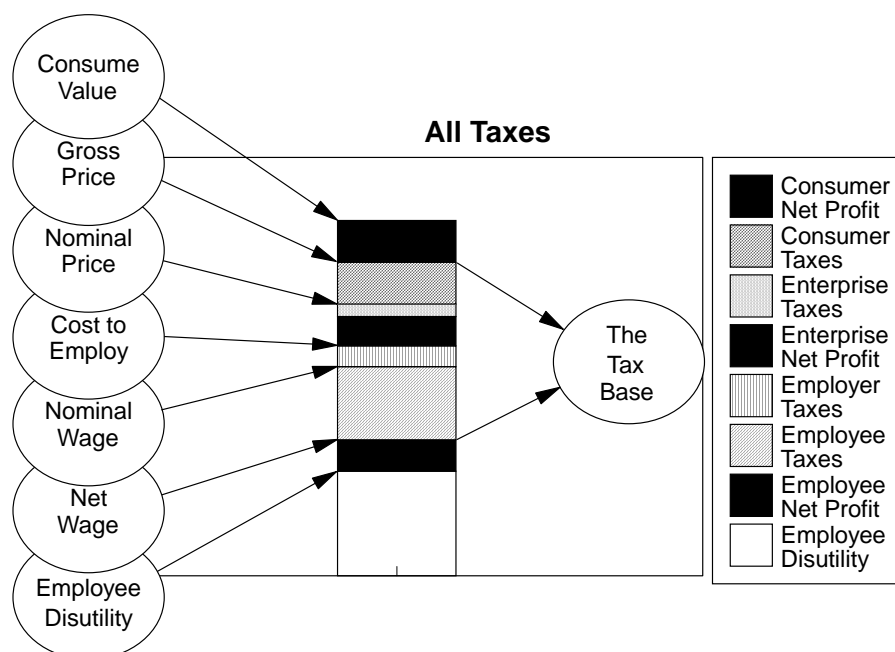
3. Consumer Taxes (i.e. Value-Added Tax and Duties) are **administered** on top of the Nominal Price, but are levied in **economic** terms from the profit gap between the Nominal Price and the Consume Value (of the utility concerned). As an illustration of this claim, consider the fact that if Consumer Taxes were increased to the point where the Gross Price was higher than the Consume Value, the customer would decline the purchase.



Thus, irrespective of the **administrative** alignment of current processes, **all** taxes are **already** levied in **economic** terms out of **gross enterprise profit**; the profit gap between the disutility of the labour input to enterprises and the consume value of the utility created/added/enclosed by enterprises.



In practice of course, the employee's net profit and the consumer's net profit are not accessible to taxation (who would volunteer that they would have been willing to work for less, or that they would have been willing to pay more?). Thus, the realistic tax base is the profit gap between **Net Wages** and **Gross Prices**.





This raises the question of who's profit is it that is being taxed? For instance:

1. Employee Taxes are levied from the profit gap between the Employee Disutility and the Nominal Wage. However, that profit gap is created/added/enclosed not by the employee per-se, nor by the act of employment per-se, but by the productive deployment of capital and that labour within the context of the employing enterprise. Thus, the profit which is being taxed is created/added/enclosed by enterprises, and the 'real' wage is the 'take-it-or-leave-it' Net Wage.
2. Consumer Taxes are levied from the profit gap between the Nominal Price and the Consume Value (of the utility concerned). However, that profit gap is created/added/enclosed not by the consumer per-se, nor by the final sale per-se, but by the productive deployment of capital and labour within the context of the enterprises which created/added/enclosed the value. Thus again, the profit which is being taxed is created/added/enclosed by enterprises, and the 'real' price is the 'take-it-or-leave-it' Gross Price.

Thus, irrespective of the **administrative** alignment of current processes, **all** taxes are **already** levied in **economic** terms out of **gross enterprise profit**; the profit gap between the disutility of the labour input to enterprises (for which read net wages) and the consume value of the utility created/added/enclosed by enterprises (for which read gross prices). Thus, in turn, the total value of all taxes should be included in the definition of gross enterprise profit.

This insight suggest that, in order to align the administrative processes more accurately to the underlying fundamentals, and to improve transparency, each nation should 'invert' all Taxes into the enterprises which create/add/enclose the gross profit from which those Taxes are levied.

### **Inverting the Tax Base**

In order to align the administrative processes more accurately to the underlying fundamentals, and to improve transparency, each nation should 'invert' turnover Taxes into the enterprises which create/add/enclose the gross profit from which all associated Taxes are levied. This 'inversion' would encompass Income Tax on earned income, employer and employee National Insurance Contributions, Value-Added Tax and Duties. This 'inversion' would leave **net** wages as the frame of reference for employment (i.e. wages net of Income Tax and employee National Insurance Contributions), and **gross** prices as the frame of reference for trade (i.e. prices including Value-Added Tax and Duties). All Taxes would be rationalised into an **Employer Tax** (levied on top of **net** wages, as the sole turnover tax), and an **Enterprise Tax** (levied out of profit-net-of-payroll-costs, as the sole direct tax).

The tables overleaf use the UK in the Tax year 2003-2004 as an illustrative example:

1. Employee Income Tax, employee 'contracted out' National Insurance Contributions, employer 'contracted out' National Insurance Contributions, Value Added Tax and Corporation Tax would all be discontinued.
2. A **Payroll Index** would be introduced (initially at 68.60%, but later used to moderate inflation - see a separate paper by the same author). Nominal Pay would be multiplied by this Payroll Index, leaving **Indexed Pay** as the frame of reference for further calculations.
3. An **Employer Tax** would be introduced, levied on top of Indexed Pay (initially at 87.21%).
4. An **Enterprise Tax** would be introduced, levied from profit-net-of-payroll-costs (initially at 40.43%).

**Note the economic neutrality of these administrative changes:**

1. The gross price of each output would remain unchanged.
2. The net wage of each employee would remain unchanged.
3. The net profit of each enterprise would remain unchanged.
4. Tax revenue would remain unchanged.

The virtue of these administrative changes is that they would highlight the nature of the tax base (i.e. gross enterprise profit), and the potential to 'rotate' the tax burden from Employer Tax to Enterprise Tax, to bear more directly on that gross enterprise profit - see the next section.

**Re-Engineer All Taxes on Profit Aligned to Employment**

**UK Tax Year 2003-2004**

	Current		Proposed	
	Rate	Amount	Rate	Amount
<b>Gross Price (of the Value-Added)</b>		<b>128.43</b>		<b>128.43</b>
Value-Added Tax (on the CTE)	17.50%	19.13		
Cost to Employ (CTE)		109.30		128.43
Employer Tax			87.21%	59.83
Employer Contracted-Out NICS	9.30%	9.30		
<b>Nominal Wage</b>		<b>100.00</b>		<b>100.00</b>
<b>Payroll Index &amp; Indexed Wage</b>			<b>68.60%</b>	<b>68.60</b>
Employee Income Tax	22.00%	22.00		
Employee Contracted-Out NICS	9.40%	9.40		
<b>Net Wage</b>		<b>68.60</b>		<b>68.60</b>
<b>Gross Price (of the Value-Added)</b>		<b>128.43</b>		<b>128.43</b>
<b>Total Tax Revenue</b>		<b>59.83</b>		<b>59.83</b>
<b>Net Wage</b>		<b>68.60</b>		<b>68.60</b>

Re-Engineer All Taxes on Profit-Net-of-Payroll-Costs

UK Tax Year 2003-2004

	Current		Proposed	
	Rate	Amount	Rate	Amount
<b>Gross Price (of the Value-Added)</b>		<b>117.50</b>		<b>117.50</b>
Value-Added Tax	17.50%	17.50		
<b>Profit Net of Payroll Costs</b>		<b>100.00</b>		<b>117.50</b>
Corporation Tax	30.00%	30.00		
Enterprise Tax			40.43%	47.50
<b>Net Enterprise Profit</b>		<b>70.00</b>		<b>70.00</b>
<b>Gross Price (of the Value-Added)</b>		<b>117.50</b>		<b>117.50</b>
<b>Total Tax Revenue</b>		<b>47.50</b>		<b>47.50</b>
<b>Net Enterprise Profit</b>		<b>70.00</b>		<b>70.00</b>

### Rotating the Tax Base

The previous section described how, in order to align the administrative processes more accurately to the underlying fundamentals, and to improve transparency, each nation should 'invert' their turnover taxes into the enterprises which create/add/enclose the gross profit from which all taxes are levied. This 'inversion' would leave **net** wages as the frame of reference for employment (i.e. wages net of Income Tax and employee National Insurance Contributions), and **gross** prices as the frame of reference for trade (i.e. prices including Value-Added Tax and Duties). All Taxes would be rationalised into an **Employer Tax** (levied on top of **net** wages, as the sole turnover tax) and an **Enterprise Tax** (levied out of profit-net-of-payroll-costs, as the sole direct tax).

Each such nation could then 'rotate' the tax burden from Employer Tax to Enterprise Tax, to bear more directly on the gross enterprise profit from which all taxes are levied:

1. The rate of Employer Tax could be reduced (thereby reducing the Cost to Employ, and increasing the level of aggregate profit-net-of-payroll-costs).
2. The rate of Enterprise Tax (on the increased level of aggregate profit-net-of-payroll-costs) could be increased in order to increase aggregate tax revenue back to the current level, and to reduce aggregate net profits back to the current level).

The higher rate of Enterprise Tax would be extended to Capital Gains Tax, Inheritance Tax, Capital Transfer Tax, Income Tax on un-earned income, and Income Tax on super-normal earned income.

The result would be:

1. A radical but revenue-neutral switch away from turnover taxes and from the current (relatively) penal taxation of high-employment enterprise.
2. A resurgence of economic activity in general, and of profitable employment in particular.
3. A fairer distribution of the 'wealth of nations'.

Of course, enterprises and people creating/adding/enclosing super-normal profit would have to carry a greater (and fairer) share of the unchanged total tax burden. This would require global cooperation to prevent diversion of the divertable tax base (i.e. un-earned income and super-normal earned income). The global cooperation would have to include measures to achieve the following:

1. Rules for profit-allocation for multinational economic activity.
2. Rules for exclusion of tax exemptions.
3. Rules for exclusion of opportunities for tax avoidance (and evasion!).
4. A sequence of rises in a global minimum rate of tax on un-earned income and super-normal earned income.

These measures would effectively exclude tax havens.

This pre-requisite global cooperation is the second of the two prime subjects of this paper, and is discussed in the two final sections.

But first, we must confirm the 'moral' justification for taxing enterprise profit, un-earned income and super-normal earned income in this way.

### Tax Revenue as a Social Dividend

Previous sections described how, irrespective of the **administrative** alignment of current tax processes, all taxes are **already** levied in **economic** terms out of gross enterprise profit, and that the total value of all existing taxes should be included in the definition of gross enterprise profit. This might lead many to the view that all existing taxes are a form of 'immoral theft'. If an enterprise can make a profit in competition with other enterprises, surely that profit belongs morally to the entrepreneurs concerned.

However, this section argues that the 'moral' justification for 'society' to claim partial ownership of profit through taxation derives from the fact that, to a very large extent, current enterprises are benefiting from the advanced economic infrastructure established by earlier communal and commercial enterprise. Microsoft prospered in a world with advanced microcomputers already developed, with skilled engineers already trained up to develop the Microsoft products, with advanced trading and transportation infrastructures, with advanced capital markets to raise the working capital, with advanced management and marketing expertise already developed, and with wealthy businesses and consumers able to pay for its products. Above all, it succeeded so spectacularly only by establishing a virtual monopoly on the supply of products into its niche markets. This does not mean that such monopolies are necessarily wrong. In so many fields of endeavour, the benefits of advanced economies come from standardisation and massive economies of massive scale. The world and its citizens are genuinely better off 'in aggregate' with most of these standards and monopolies in place. However, that does not mean that the 'winner-takes-all' monopolist is entitled to (or should be allowed to) keep all of those super-normal profits. Microsoft is perhaps 'morally' entitled only to the share of its profits represented by the degree to which its products were **better** than the alternatives when 'society' granted it leave to wipe that competition out. Perhaps some of the super-normal profits should be passed back to IBM, Apple and Lotus etc., in order to encourage others to compete in new fields of endeavour. However, the vast majority of those super-normal profits should accrue to 'society' which granted and continues to tolerate the monopoly.

The logic of this argument was first highlighted by Henry George, the 19th century American philosopher and economist. In his day, the only real concentrations of this type of opportunity for monopolistic exploitation were trade and land. He concentrated his arguments on land (trade should be 'free'), and argued that although monopolistic exploitation of land was in many cases economically beneficial in aggregate, the super-normal profits accruing from each such opportunity (i.e. the capital appreciation and rent accruing to land in 'privileged' positions) should be shared by all through some form of taxation or rental charges. In particular, he argued that society must remain on its guard against 'robber barons' who might seek to 'enclose' such opportunities by stealth and/or force. The value of opportunities for monopolistic exploitation of trade and land has risen by many orders of magnitude since Henry George's time (in spite of GATT, WTO and other measures). However, even that value is now dwarfed by the effective value of the ability of massive multinationals to wipe out 'normal-scale' enterprises, and by the effective value of the ability of those who have 'enclosed' the banking profession, the accountancy profession, the legal profession, the 'fat-cat' hegemony and users of tax havens to divert to their own advantage such a massive proportion of the profit which is achievable in advanced economies.

Thus, this section argues for a radical re-casting of the nature and role of tax and welfare processes:

1. All tax revenue should be re-cast as a **Gross Social Dividend**; society's share of the massive gross profit which is achievable in an advanced economy.
2. The basic array of tax allowances, cash benefits and benefits in kind which characterise all advanced economies should in turn be re-cast as **Personal Social Dividends**; individual citizens' share of the Gross Social Dividend.

In effect, the right to tax revenue should be seen as a social inheritance held in trust by the state on behalf of the citizens of the state:

1. Just as citizens, individually or collectively, can own personal wealth, are entitled to receive the rent, dividends and interest distributed from the gross profit created/added/enclosed by that wealth (net of income taxes), and are entitled to transfer ownership of that wealth to their heirs (subject to inheritance and capital-transfer taxes).
2. So, citizens collectively own 'social' wealth; the right to the tax revenue levied from the gross profit which is achievable in an advanced economy. The state manages the capital equivalent of that tax revenue, and the tax revenue itself, in trust on behalf of the current and future citizens of the state.

In Henry George's time, a tax on monopolistic exploitation of land could perhaps be seen as a complete solution to the whole of the then-known opportunity for monopolistic exploitation. As we move into the 21st century, we need a more coherent approach to address the vastly increased scope for super-normal profit, and to restore to the commonwealth all profit created/added by nature, communal enterprise and/or communal co-operation.

The super-normal profits arising from monopolistic exploitation of land and other geographically-based resources could be restored to the commonwealth through local and/or national charges or taxes. However, without global co-operation, the far greater super-normal profits arising from monopolistic exploitation of legal, accounting, banking, and global-scale business and trading opportunities can easily be diverted to tax havens. Tax competition in the global economy means that national governments are finding it decreasingly possible to tax un-earned income and super-normal earned income at any kind of reasonable level.

Unfortunately, direct taxes are often considered to be virtually optional because there are so many ways in which they can legally be avoided. We are all familiar with the way in which the already-wealthy treat such taxes as 'only for the little people'. Without global cooperation, productive nations will have to continue to compete with tax havens for the divertable tax base (i.e. un-earned income and super-normal earned income), in a downward beggar-thy-neighbour spiral to the point where such income becomes virtually untaxable. In order to maintain tax revenue, socially enlightened nations will find themselves in a further downward spiral as they have to increase the punitive and destructive burden of turnover taxes on the value added by a shrinking working population.

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The nature of the potential reform of the tax base within each nation has already been discussed.

The nature of the pre-requisite global cooperation on this issue is discussed in the two final sections.



### **The Proposition for Global Co-Operation**

In order to establish a global minimum rate of tax on un-earned income and super-normal earned income, it is first necessary to exclude tax havens and tax competition. The following sequence of initiatives is presented as a high-level blueprint for global cooperation on this issue:

1. Complying nations would agree through ‘enlightened self-interest’ to the following simultaneous reforms:
  - a. Rules for profit-allocation for multinational economic activity.
  - b. Rules for exclusion of tax exemptions.
  - c. Rules for exclusion of opportunities for tax avoidance (and evasion!).
  - d. A sequence of rises in a global minimum rate of tax on un-earned income and super-normal earned income.
2. The rules would be enforced by means of double-taxation of the following financial flows:
  - a. All financial flows **leaving** a complying nation **to** a non-complying nation should be taxed at the global minimum rate by the complying nation.
  - b. All financial flows **entering** a complying nation **from** a non-complying nation should be taxed at the global minimum rate by the complying nation.

There is reason to believe that the powerful nations would find this proposition attractive through ‘enlightened self-interest’. After all, it is the powerful nations which are currently hurting the most! If the powerful nations acted together, non-complying nations would find themselves in an untenable position, and would be forced to comply in turn through their own ‘enlightened self-interest’. Thus, these measures would effectively exclude tax havens.

3. Complying nations (i.e. **all** nations, willing and ‘compelled’) would then be free to implement the radical revenue-neutral reform of the tax base described earlier.

## Real Politics and the Scope for Global Co-Operation

Many people are sceptical about the potential for the kind of global co-operation required to implement a proposition such as the one which is the subject of this paper. However, we should distinguish clearly between two types of proposition for global co-operation:

1. Co-operation on most environmental and/or social propositions (for example) is almost impossible to achieve (whatever politicians say in public), because:
  - a. Such propositions almost invariably allow the bad guys (who don't join in) to gain at the expense of the good guys (who do join in). Thus, selfish interests will always compromise the will to co-operate.
  - b. Such propositions almost invariably require the **powerful** nations to concede ground to the weaker nations. Thus, in particular, selfish interests will always compromise the will of the powerful nations to co-operate.

Thus, whilst many environmental and social propositions are worth pursuing in themselves, they are doomed to long drawn out and dispiriting campaigns against political in-fighting and real politics. Many 'rogue' nations will prevaricate about signing up. Many more will sign up, and then flout the agreements.

2. Co-operation on the proposition which is the subject of this paper ought to be much easier to promote, because:
  - a. This proposition would allow the good guys (who do join in) to gain at the expense of the bad guys (who don't join in).
  - b. This proposition would allow the **powerful** nations to occupy the 'moral high ground' in promoting a proposition which was manifestly beneficial to weaker nations and mankind in general, whilst enforcing co-operation which appealed to their own selfish interests.
  - c. The radical revenue-neutral reform of the tax base which would be enabled by this proposition would include a sequence of revenue-neutral reductions in the rates of highly-visible turnover taxes (a proposition with great appeal to politicians!).
  - d. This proposition, by serendipity, would highlight the weakest link in the money laundering process (for the ill-gotten gains of drug and general crime, for untraceable funding of political influence, and for the funding of terrorism). No legitimate concern would willingly concede double taxation on legitimate financial flows. Therefore, it would be reasonable for the authorities to assume that the very small residual volume of financial flows through non-complying nations were suspect, and could concentrate their resources on those flows.

Thus, we should not allow difficulties in achieving co-operation on 'traditional' environmental and/or social propositions to discourage attempts to secure co-operation on the second type of proposition (including the subject of this paper). Indeed, early success with a few of the second type of proposition may well establish more sympathy for the first type.

Of course, many politicians are currently benefiting directly from the abuses and distortions which we are seeking to exclude, and/or are backed by interests which are currently doing so. Thus, we must remain alert to the self-interests of such politicians.