THE INVISIBLE TAXES

"Don't ever put up income tax, mate. Take it off them anyhow you please, but don't call it a tax - they'll rip your f...king guts out."
Paul Keating's advice to Tony Blair. The Australian Cut & Paste 9/9/10

Taxes are generally well defined and, with the help of both the Taxation legislation and regulations, are easily identified by the man in the street. Because governments, at all levels, are sensitive to the unpopularity of such taxes, they often play word games to hide the fact that they are taxing their citizens. Hence, you may be told that excises, levies, surcharges, duties etc. are not really taxes – and pedantically this is probably correct. However, the man in the street is not interested in such semantics, and will generally realise that, whatever the name, the government is removing money from his pocket.

To overcome such games, a tax could be redefined to be any additional expense that you incur through any action (generally legislation, regulation etc.) by any level of government that you would not have had to pay in the absence of such government action. If you accept this broader definition of a tax, you will find that there are many more taxes that you have been unaware of paying.

This handout will discuss these 'invisible taxes' in the context of global warming for two reasons. First, so you can identify these taxes and secondly, to identify the amount of this tax so you can judge for yourself whether the advertised benefits of the tax are worth the loss in your disposable income. Rarely are these taxes mentioned by governments when they discuss the costs of combating global warming. The following two examples will show you how fast these invisible taxes will rise in the global warming environment.

Green Light Bulbs

Recently, a small initiative of the federal Australian Government to combat global warming was to ban the sale of incandescent light bulbs with the aim of replacing them with 'Green' light bulbs. 'Green' light bulbs cost approximately $5 more than the old bulbs. Since that time, the price has increased to $7 more than the old bulbs. Using our broader definition of a tax, we can now see that being forced to buy more expensive light bulbs is a new tax, but most would not recognise it as such – it is an invisible tax.

Most politicians and taxpayers who were aware of the ban considered this initiative as trivial. However, it is surprising how large the cost of this tax is to all Australians. Australia has a population of approximately 23 million people. If we assume that the average private dwelling houses 2.3 people, then there are 10 million private dwellings in Australia. If each of these dwellings had to replace 42 [1] incandescent bulbs with 'Green' bulbs, then the total cost of this invisible tax on the

Australian community over time would be **2.1 billion dollars** (10 million times 42 times $5).

The billion dollar figure is a rough conservative figure, with many elements of the calculation both under over stated (e.g. there are many more dwellings in Australia and the extra $5 cost is rising), but it may surprise most readers how large such 'trivial' taxes can become. By forcing us to buy more expensive light bulbs, the Government is hoping that this may have a ***small*** impact on global warming, thus producing some benefits. What was never identified was the total cost to the taxpayer, and whether this initiative was the most effective way of spending money to combat global warming, if indeed global warming ever becomes a real problem.

Compulsory Alternative Power Targets

Another example might help you realise how large these invisible taxes may become in combating global warming. The government is considering legislation to force power companies in Australia to provide twenty per cent of their power from 'alternative' (i.e. Green) sources. Recently, a friend of mine in Canberra was encouraged by the local power company to place solar panels on the roof of his house to produce electricity that would be put back into the town's power grid. This power would help the local power company meet its 'alternative' energy target. The power company offered to pay him fifty cents per kWH of power for this electricity, while at the same time they would charge him 13 cents per kWH for any electricity he consumed that was produced by conventional means.

This example first shows us how expensive alternative energy sources are, and then shows us the likely invisible taxation cost that we will incur if the Government mandates power companies to meet a twenty per cent 'alternative' energy target. If we assume the cost of providing conventional energy to my friend is 12.5 cents per kWH (right now they are selling it him for 13 per kWH), then the cost of alternative energy is four times more expensive (i.e. 50/12.5 = 4). Although mandating a twenty percent target may sound like a small imposition, in reality, it is significant. Because the cost of alternative energy is four times more than conventional power, each household's total electricity costs will rise by 60%.

If we only look at the private 10 million dwellings in Australia, as in the last example, and assume for mathematical purposes in this example that their annual electricity bill is $1670 a year, then this new invisible tax will cost Australians approximately **ten billion dollars a year** (10 million times $1670 times 0.6). Obviously, when all other types of dwellings, and other large users of electricity are included, this invisible tax will increase to $16.905 billion [2]. Once again, what initially appears as a trivial initiative to have Australians buy **only** twenty percent of their power from very inefficient sources quickly becomes a very large annual invisible tax.

However, the costs do not stop there – there is a multiplying effect. Part of the business cost base of every goods and service provider in Australia is what they pay for electricity. This cost is very different for each business – aluminium producers use very large amounts of electricity compared to a service provider who only needs power for lighting, heating and cooling, and to operate the office equipment. All these businesses will eventually pass on these rising costs to the consumer – an additional invisible tax. At the risk of sounding like a Demtel advertisement, I have to say – "But there is more!" As all these prices rise, each increase will incur a 10% GST tax. This is a real tax; not an invisible tax, but there goes more money.

Similar to the previous example, the total cost is rarely discussed, and the taxpayers are rarely asked if this very large expense is a sensible way of combating a problem that may not be as large as some think, and might not even be a problem.

Our Other Priorities

The importance of recognising these invisible taxes, identifying the total cost of each initiative, and more importantly the benefits we will receive, becomes obvious when we are ranking our priorities for government spending. After five years, we would have spent at least 100 billion dollars on just these two minor initiatives that the Green's will confirm will only have a trivial impact on global warming. Now let us put you, the reader, in control of these funds and have you decide whether these funds have been well spent.

Most taxpayers believe their governments have a bottomless pit of money and cannot understand why more funding cannot be given to their 'pet' projects to solve all those 'obvious' problems that anyone other than politicians can see. These 'pet' projects could be in; health, age care, social security, law and order, education, public transport, infrastructure etc. The government has now run out of money, and you are now in control of the last 100 billion dollars to be spent over the next five years.

I want you to spend it on your 'pet' project and tell me about the benefits that will flow from your initiatives in the next five years. Now compare the benefits you will produce with the benefits we are receiving from spending the 100 million dollars on our two global warming initiatives and then tell me which initiatives will bring the best benefits for our community. If you say the benefits from your 'pet' project are better than the two global warming initiatives, then we should not be spending the money on the global warming initiatives. On the other hand, if you consider that the global warming benefits are better, then I suggest you quit complaining about your 'pet' project, as you have just agreed there are better things to spend the last 100 million dollars on that do not include your 'pet' project.

To focus your attention on this issue further, let us now look at what has happened in Europe in the past ten years. During this period, the European socialist

governments, attempting to satisfy the insatiable demands of their taxpayers for more and more government services, have built up a mountain of government debt. Interest payments on this debt are close to the total revenue of some of these governments. The time to 'pay the devil' has arrived and most of these governments and their people will suffer considerably as they climb out of this morass of debt over the next twenty years.

Not causing, but contributing, to this massive problem has been the funds wasted on the Kyoto protocol. In the past ten years, European countries have hobbled their economies and have spent, not millions, not billions, but trillions of dollars on combating global warming [3] What were the expected gains? An estimated 0.03^0F reduction in a climbing temperature. The expected benefits were trivial.

At the end of this period, in total, no emission targets were met and, more often than not, emissions have increased significantly. If Europe was to retain any benefits gained in the first ten years, this level of expenditure must continue for one hundred years, totalling well over a 100 trillion dollars for trivial benefits. In hindsight, these funds should not have been spent on global warming to achieve so few benefits and, for instance, would have produced far more benefits if used to reduce government debt.

Why did this happen? Like us right now, no one undertook a sensible and rigorous cost benefit analysis of these Green initiatives and ranked them with our other community priorities. Instead, influenced by fear and emotion, the Europeans foolishly accepted Green over estimations of the benefits and under estimations of the total costs (including explicit, invisible, and flow on costs to the whole community, not just government expenditure) on such initiatives. To put it bluntly, the Kyoto protocol was a fiasco for Europe, and it could not have occurred at a worst time.

The same Greens now want the whole world to repeat this mess on a much grander scale, totally ignoring the social costs of such action!

Conclusion

As more and more initiatives are introduced to combat global warming, taxpayers need to keep track of all these invisible taxes and their total cost. Few people are doing this, and already the lack of benefits we receive from spending such large sums of money should tell us these initiatives are ill conceived. To continue down this path is foolish.

Notes:

1. During a campaign to replace every incandescent bulb in Canberra residential buildings with Green bulbs, the average number replaced was 42 bulbs.
2. See Website "Our Reaction page 4" for the calculation

3. Lomborg Bjorn, *Cool It,* Alfred A. Knopf, New York, 2007, pp.32-34. Full Kyoto Protocol, Europe only, $1.5 trillion, Kyoto Protocol with the US participating (but not China, India, or Russia) is $5 trillion dollars. If all countries participate $15 trillion dollars. The benefit achieved for this expense is a 0.3^0F temperature reduction in an increasing temperature. If temperatures are to be stabilised at 2.7^0F rise (an ambitious EU target), the cost rises to $84 trillion. Total costs out to the year 2100.