



TREASURER'S ECONOMIC NOTE

After spending most of last week in Canberra for Parliament, it was great to get back to my neck of the woods on Friday to talk to small and medium sized businesses from the Brisbane North Chamber of Commerce. There I discussed the fact that the proceeds from the Resource Super Profits Tax will go straight back into building a stronger, broader economy – by cutting business taxes especially for small business, boosting retirement savings, and investing in vital economic infrastructure.

Australian Economy

The [OECD's latest economic forecasts](#) are a timely reminder that our decisive action during the global recession has put our economy in a position of strength from which we can reform the tax system and boost competition in the mortgage market for the benefit of working families and small business. The OECD has revised up its growth forecasts for Australia and now expects GDP to grow by 3.2 per cent in 2010 and 3.6 per cent in 2011 – one of the strongest growth outlooks of all OECD economies and well above the growth forecast for the OECD area as a whole. On the employment front, the OECD expects Australia's unemployment rate to fall to 4.8 per cent by the end of 2011 – dramatically lower than the 8 per cent unemployment rate expected for the OECD area as a whole. The OECD also welcomed the Government's disciplined Budget, stating that "in view of the stronger economy and fiscal restraint, the Government now expects to balance its budget by 2012-13, three years earlier than previously anticipated."

On Wednesday we'll get the National Accounts for the March quarter. It was this same release last year that revealed Australia had avoided technical recession – one of only two advanced economies in the world to do so. This achievement sparked a revival in confidence which underpinned a recovery in private demand, which would see Australia go on to record growth of 1.4 per cent in 2009 in year-average terms and become the envy of the developed world.

Resource Super Profits Tax

Last week saw some of Australia's foremost economic authorities endorsing the Resource Super Profits Tax (RSPT) and destroying key planks of the scare campaign being run against this important reform. Twenty leading economists published an [open letter](#) endorsing the RSPT, describing it as "a more efficient and equitable system of sharing the value of [exploration and mining] rights." The 20 economists – who include former ACCC chief Professor Allan Fels – made it clear that "there is no reason to expect a net contraction in mining over the longer term as a result of replacing royalties with the proposed resource rent tax. This is because a tax on economic rent of non-renewable resources is a more efficient way of raising revenue than taxing mining production (royalties)."

Last week we also saw the myth that the RSPT would push up consumer prices thoroughly debunked. When asked about that particular part of the scare campaign, another of these 20 economists – Professor John Quiggin – said "I think that's about the least defensible. The reason that there are super profits to be taxed is because of high world prices for these minerals that are set on world markets. So there's no reason at all to think that the tax is going to affect the world price of these minerals, and therefore that that's going to feed in any way into Australian consumer prices." This was a point made by Treasury Secretary Dr Ken Henry at [Senate Estimates](#) last week when he said a profits-based tax will not impact on consumer prices, although cutting the company tax would have a beneficial impact for consumers.

Earlier in the week I delivered a [ministerial statement](#) to the Parliament discussing the truth behind some of the myths, how we'll invest the proceeds of the RSPT, and the posturing we've seen from some industry figures since the announcement of this vital economic reform. In today's note I want to address some further myths that have arisen in relation to the RSPT.

There has been much comment from mining companies in recent weeks about the supposed 'retrospectivity' of the RSPT. These claims are clearly misleading, as the RSPT will apply to mining profits from 1 July 2012. It does not apply to past profits. It does not even apply to current profits. It would help a more informed public debate if companies clearly distinguish between retrospective taxation – which this proposal is not – and taxation of existing projects, which is their actual complaint.

On this latter issue, I would make two points. The first is that complaints that the RSPT should not apply to existing projects are really an argument that governments should never change tax rates. That's not a sustainable proposition for any government at any time, but it is especially unsustainable when the tax share of mining profits has fallen – regardless of what measure you use – so dramatically in recent years. As Macquarie Bank economist Rory Robertson said last week, "only the most naïve investor could have imagined that the final prices the mining sector receives from world markets for publicly-owned resources could increase by multiples over a decade and yet governments effectively would keep selling those same resources to mining companies at the same old low prices".

The second is that the report of the tax review recommended existing projects be included, and for very good public policy reasons. To exclude existing projects would of course create significant distortion of investment, as prospective projects and existing projects would be on an uneven tax playing field.

Mining companies have also made the argument that the RSPT should be differentiated by commodity. They argue that different commodities have different revenue, cost and therefore profit profiles. Some require more investment to extract, and some less.

Mining companies have used this to argue that the RSPT should apply at different rates for different commodities. But this analysis fails to grasp perhaps the most important design element of the RSPT. The fact is that, by design, an RSPT already differentiates by commodity. As a profits-based tax, the RSPT already takes account of the different revenue, cost and profit profiles of different commodities. It also contains very generous treatment of investment. It therefore takes account of the different investment levels needed to develop different commodities.

This is why I have consistently asked companies to engage in the consultation process – to fully understand the design of the tax and its implications for their different businesses.

Cutting the Company Tax Rate

The Government is using the proceeds of the RSPT to provide a much-needed cut in the company tax rate from 30 per cent to 28 per cent for all Australian companies, with a head start for small business. This is a really important economic reform for Australia because it will help us stay competitive at a time when company tax rates are falling in other countries, particularly in our region.

It will also help boost growth and real wages over the long run. Independent modelling shows that together with the RSPT, the cut in the company rate will boost GDP by 0.7 per cent and lift investment by 2.1 per cent. By contrast, an alternative plan to lift the company tax rate by 1.7 per cent on taxable company incomes over \$5 million a year will actually reduce GDP by 0.2 per cent and cut investment by 0.55 per cent, according to the Treasury.

Support for Small Business and Home Lending

Talking with small businesses over the last month, I know how much they're looking forward to receiving a head start in the cut to the company tax rate and an instant write-off for assets worth up to \$5,000. The Government understands the massive contribution that small businesses make to our economy and jobs and is always looking for ways we can provide further support. That's why I specified the additional objective of

supporting small businesses when I announced our second \$8 billion investment in the RMBS market at the end of 2009.

So it was great to receive a letter last week from the CEO of smaller lender RESIMAC, Warren McLeland, telling me that our support for the RMBS market has “been vital to permitting a continual flow of finance to the small business community.” Mr McLeland told me that “without such support, there would be literally thousands of Australian small business owners who would have been deprived access to finance.” He said this included a range of small businesses like those in plumbing, paving, dry cleaning and restaurants.

It was also great to catch up with financial expert Mark Bouris last week to have a chat about what we have been doing to bring more competition back to the home loan market after the global financial crisis, including the important role credit unions and building societies can play in putting more competitive pressure on the big banks.

Coming Up

This coming week, I take off for the G20 Finance Ministers’ meeting in Busan, Korea. This meeting comes at a time of some renewed turbulence in financial markets stemming from the difficulties in Greece and Europe more broadly.

At a time like this, our thoughts turn back to the recent global financial crisis. For me, it is an occasion to reflect on Australia’s strong performance during that period and the policies that supported that performance – both monetary and fiscal stimulus, but also key economic reforms in recent decades such as our establishment of superannuation in the 1990s, which gave us a strong pool of national savings to keep investment dollars flowing. It also reminds me of the pitched parliamentary battle at the time of stimulus, and even more intense policy battles at the time of superannuation when large sections of business said our reforms would ruin the economy.

In this time of renewed turbulence, this country needs more reform, not less, to strengthen our economy so we can face the future with confidence. It needs our reforms to grow investment and employment, to cut the company rate so we compete strongly, to strengthen our infrastructure and remove capacity constraints to growth, to strengthen small businesses, and to build our pool of national savings still further against future contingencies.

In short, I will be proud to take our tax reforms to the G20 this week and discuss them with my fellow Finance Ministers. They will be another great example of Australia’s pace-setting reforms, and a confirmation that our future is indeed bright in the global economy.

Wayne Swan

Treasurer of Australia

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www.economicstimulusplan.gov.au

www.futuretax.gov.au