Australian Government

A tax plan for our future
Stronger • Fairer • Simpler

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STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

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STATEMENT OF PRIORITIES

1. **Infrastructure investment and capital appreciation**.

Australia requires major infrastructure investments due to its economic expansion and population growth, notwithstanding the billions of dollars currently earmarked for such activity. These however are largely associated with the current boom sectors of the Australian economy- mining, oil, gas and energy generally.

There is a need to ensure that private capital and investment in these sectors is matched by public investment in infrastructure to meet community needs and expectations. The provision of public infrastructure will create major funding challenges for State and Federal governments operating in a capital constrained environment.

The funding deficit is particularly pronounced for public transport infrastructure, an area requiring major investment in all capital cities. There is a case to introduce a spatial component to capital gains taxation associated with such public expenditure. This could occur through capturing an element of the capital gains of property adjacent to major public transport infrastructure. Such an approach enabled high speed rail to be built in China.

Professor Jonathan Pincus has advanced a model that sets out capturing capital appreciation associated with public transport infrastructure.

Alternatively appropriately developed Public Private Partnerships that effectively ensure risk is mitigated may offer a solution. Tax incentives to ensure the attractiveness of this method of financing infrastructure in particular should be available.

2. Sovereign Wealth Fund

Why – to offset the temporary but totally disrupting effects of the commodities boom.

What the commodities boom means

- WA exports totally dominating, by value, exports from every other state, except QLD,

- Causes strong appreciation in the Terms of Trade, which causes a strong appreciation of the AUD

Higher income for exports allows consumption to run ahead of supply. Adds to demand pressures in the economy

Here is the conundrum – the commodities boom is an export boom, but since the commodities boom began in 2004, net exports (exports minus imports, measured in real terms) have deteriorated to their worst performance in history.

Except for the GFC, net exports have detracted from GDP growth since the commodities boom began – whereas historically net exports have, on average, positively contributed to GDP growth

In fact, average GDP growth since 2004 is lower than the previous decade.

The reason being the strong TOT brings on the Dutch Disease.

Impact on strong AUD on the international tourism industry – turning it from a strong export industry into a strong import industry

Leading to the "two-speed" economy prior to the GFC, more like a patchwork economy post GFC, as QLD yet to recovery

Also one of the reasons for poor productivity growth since 2004.

But, how long will the "boom" last. I think there is a very large component of lack of supply in driving higher commodity prices.

Bottom line: Why allow a probably temporary, but currently persistent, increase in TOT and AUD cause massive disruption to the Australian economy, when it will be reversed at some point.

Solution:

- A resource rent tax, appropriately executed
- Eases domestic demand pressures
- Funds deposited in a SWF
- Funds invested offshore during the period of the boom, to reverse capital flows and take the pressure off the AUD, thereby mitigating the Dutch Disease
- Funds repatriated when boom fades.

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.