

## **Submission to the Senate Inquiry into the Development and Operation of the (Australian) Minerals Resource Rent Tax by Neville R. Norman:**

I write as a concerned Australian, with the experience of being a senior Government adviser, Head of the Economics of Taxation at University of Melbourne, Immediate Past President of the Economic Society of Australia, currently Associate Professor of Economics at The University of Melbourne and other positions in my CV (attached). I advise companies including mining companies, and other groups.

Optimal economic policy requires consistency with goals and information, a point pressed in my Presidential address at Aust Econ Papers, 2007, pp.1-16. In relation to mining resource taxation, the goals include wealth transfers to register the use by mining companies of the land of the people, incentives to avoid over-exploitation of natural resources, raising revenue and the collective taxation goals. In addition, effecting policy change without undue transition costs should be in the objective function and this is where recent policy attempts have been avoidable damaging.

It needs first to be realised that there are adverse economic consequences from delays, indecision and apparently faulty policy design, that are quite separate from the conventional economic effects of the policy measure themselves when implemented. I modelled and proved this point in my Cambridge PhD about tariff policy. The sequence of events that led to the Henry RSPR recommendation in private and failing apparently to discuss them with any significant members of the mining or environmental movement (preferable in confidence) was a major design fault in 2009/2010 and the process fared little better with the design of the MRRT.

While I have great respect for the main economic policy arms of the Federal Government, then do not have all the information about the mechanics of mining sector cost structures and likely tax claims, or strategies that mining companies might deploy. Recommendation 1 is thus: Pursue any and all resource taxation initiatives or reviews with all relevant parties, preferable under confidential arrangements, to learn the likely responses and design the policy measures in a fully-informed setting.

My second reflection and recommendation comes from the specifics of the tax base. Deductions or subtractions such as the starting allowance should be designed with full knowledge of the likely sums being claimed. There should be boundary conditions, including a lower bound of zero on the tax, thus preventing tax credits or rebates arising. This is an elementary point in tax design that seems to have been forgotten.

I shall leave my submission with these points as (a) other points a responsible economist should make have been advanced by John Freebairn, Henry and others, and (b) the points I have made here do not seem to be found in the usual economics literature to which groups like The Treasury seem to rely.

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