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 coleltiv3e taxation goals. In addition, effecting policy change without undue transition costs should be I n the objective function and this is where recent policy attempts have been avoidable damaging.

It needs first to be realised that there re adverse economic consequences from delays, indecision and apparently faulty policy design, that are quiet 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 received the Henry RSPT recommendation in private and failing apparently toi discuss them with any significant members of the mining or environmental movement (preferable in confidence) was amjao0r 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 like responses and design the policy measures in a fully-informed setting.

My second reflections and recommendation comes from the specific 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 economists 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.

Neville R. Norman

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