

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 374-375

Topic: The Role of Sovereign Wealth Funds in Managing Resource Booms

Hansard Page: Written

Senator WATERS asked:

A recent paper by Treasury's David Gruen and Phil Garton compares the approaches adopted by Australia and Norway to a terms of trade boom, in particular Norway's use of a sovereign wealth fund.¹ Norway's exchange rate has not appreciated as has occurred in Australia. Has this meant that the non-mining sector in Norway, such as manufacturing and tourism, has fared better than here? The paper doubts that Australia could replicate Norway's experience with its sovereign wealth fund because of Australia's "much lower rates of taxation of resource rents".

374. Does this imply that were we to have a resources rent tax with a rate like Norway's 50 per cent, we may be able to replicate their good experience?
375. How should mining's contribution to national well-being be assessed, given that as Dr Parkinson put it, "sustainable wellbeing requires that at least the current level of wellbeing be maintained for future generations...running down the stock of capital in aggregate diminishes the opportunities for future generations"² and the ABS recognises minerals as part of natural capital?
- a) Would it make a difference if a substantial proportion of the revenue from mining was accruing as assets in a sovereign wealth fund?

¹ 'The role of sovereign wealth funds in managing resource booms: a comparison of Australia and Norway', 23 February 2012, available on Treasury website.

² Shann memorial lecture, August 2011.

Answer:

374. As noted by Garton and Gruen (2012), Australia has achieved favourable outcomes during the current boom, both in terms of saving a significant share of the increased national incomes associated with the boom, and in maintaining macroeconomic stability.

The paper by Garton and Gruen highlights why it is important to recognise the different economic circumstances being faced by Australia and Norway and the implications this has for policy.

375. Mining's contribution to national well-being arises from the real income generated (whether in the form of wages, profits or resource and other tax revenues) improving living standards generally and making available increased resources to improve the quality of life in other respects.

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Mineral resources are but one element of the overall stock of productive assets, which should also be seen as including the skills and capabilities of Australians, physical and financial assets that we own, and increases in knowledge and know-how.

The ABS's "Measures of Australia's Progress" presents a broad measure of Australia's productive stock called real net national worth per capita. This measure, along with the component measuring the real value of sub-soil assets per capita, has risen over time.

The merits of sovereign wealth funds are discussed in 2012-13 Budget Paper No. 1, Budget Statement 4.