

CHANNEY ON RESOURCE INDUSTRIESRevised
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The first rule of political speech making is, discover your audience's prejudices. The second is, bravely advocate policies which reinforce their existing opinion. The third is, stay with sweeping generality. The fourth is, do it with style. In campaigns to win public opinion, politicians are often no more than good looking camp followers. (We all know a profession of camp followers).

Senator Chaney has been breaking the rules. He broke the second rule by telling those churchmen who wrote "Changing Australia" why their collectivist and elitist approach to solving problems, that he also saw as serious, would not work. He has now broken the third rule by making a specific, logical and prescriptive speech on resources sector policy, to the oil and gas industry. A man for all seasons and that rare animal, a politician who will stick his neck out - in short, one who will sometimes lead opinion.

Even though the first occasion may well, in the long run, prove the more important, it is the second which purports to commit a future Liberal Government.

The speech is not only internally consistent, but it is consistent with the broad liberal free enterprise path spelt out by the Valder report. It is an approach to government that a genuinely free enterprise party could live with. The following quotation captures the tenor of the speech and is completely at odds with the ~~Country Party~~ pork-barrel politics that dominated the last government: - "It is our belief that the resources sector needs little by way of special assistance, provided it is not carrying special burdens, and that it needs a good deal less hindrance."

The real political difficulty facing Senator Chaney is that of relieving what is the most efficient sector of the Australian economy of even some of the special burdens they carry now.

He starts by setting the Liberal Party's face against a resource rental tax (RRT) on the ground that while defining and understanding economic rent is easy, measuring it is not. Sheer inability to quantify "rent" will mean that in practice an RRT is arbitrary.

Economic Rent is that sum earned which is over and above that which is necessary to attract and hold the capital and labour employed by an enterprise. I think we may safely assume that the government has no intention of extending the rental tax to mining employees who extract additional wages from particularly profitable mines, but that also is rent. It is impossible to know precisely what wages and conditions would have been if the employer had not been in possession of a potential bonanza, or if there had been no union monopoly, so it is impossible to measure the rent.

Income tax will capture some of this, but it will not distinguish between rent and the earnings of particularly skilled or willing employees, or the earnings necessary to attract employees to particularly arduous or badly located employment.

So it is with the earnings of capital: company tax or any new tax on earnings will capture some of any rent, but it will be unable to distinguish between rent and the earnings due to particularly good management or which compensates for particularly risky future prospects.

It seems that the ALP intend to assess RRT on a project by project basis. If so, then companies will want all the financial and head office overheads allocated to profitable ventures and the tax office will want them spread over all projects. What is a project? Government revenue will be maximised by defining projects as narrowly as possible. The truth is that the base line from which RRT will be assessed will never be clear, throwing politicians and company managers in the way of a lot of temptation to strike mutually beneficial deals. Deals which whatever they do to mining will be very bad for government.

There is in fact a much bigger problem with Senator Walsh's RRT. It is this. If rent is assessed project by project, or even company by company, rather than industry by industry, then the earnings needed to hold the factors of production are less than those needed to attract the resources in the first place. All entrepreneurs must have the prospect of sometimes getting high rewards to compensate them for the duds. Any additional tax on winners means that fewer people will run the risk of losing. The certainty that any really profitable ventures will have those profits taxed by an uncertain scale may be an even greater disincentive than the established record of taxing profitable ventures ad hoc with well-head levies and the like. Taxes imposed after the discovery and

development stage, which are in a sense retrospective, have the dubious virtue of having got the suckers to dig. They may also have the virtue from a miner's point of view of being imposed at a lower rate, just because they are retrospective. ESSO/BHP might not agree. 58

None of these criticisms of RRT make the tax any worse than the mish-mash of levies and excess rail freights which at present tax resources other than oil for the State Governments, but until the States agree to hand over the taxing of these industries to the Commonwealth that can remain another story. For the time being Senator Walsh's RRT relates to oil.

To its credit, during the first six years in office, the Fraser Government did reduce the Commonwealth deficit. It did so by raising additional revenue, much of it from oil. That source of revenue is drying up as "new oil" takes over from old taxed oil. The RRT is primarily a means of bringing these new wells into the oil taxing system.

Senator Chaney has denied a future Liberal Government this source of revenue. Several Liberals have stated categorically that while sales taxes should substitute for some of our very high income taxes, sales tax is to be seen as alternative and not additional to present income tax. There are many people who hold that if governments are denied revenues they will reduce expenditures. However the record is poor; instead most governments have borrowed even more.

Senator Chaney is locking future Liberals into reducing government outlays. With commendable consistency he spoke of the need to control inflation and in order to do that to control government spending. His one difficulty in being convincing is a sense of deja vu reminiscent of 1975 that must affect all his listeners old enough to remember. The truth is that, within the last cabinet, Chaney was, on the whole, on the side of expenditure restraint, but few believe it because of the portfolios he held.

With reference to the ALP, ^{he} twice asserted that ideology counts. Indeed it does. An ideology is, at its best, an internally consistent body of thought adopted by political parties for its value in guiding politicians in the day to day business of government. If Fred Chaney can remain as true to his liberal ideology as his speech was, then there is hope for free enterprise, but he is going to upset a lot of vested interests.