

The Rudd Mining Grab

A windfall profits tax won't make the economy any 'fairer.'

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Australia is the only developed country that didn't have a technical recession after the global financial crisis, mostly because its mining sector kept feeding China's economic boom. Now, the Labor Party government has decided all that wealth creation was a bad thing, and it's time to levy a 40% "super-profits" tax on these companies and redistribute the money.

The news was delivered Sunday in Canberra by Prime Minister Kevin Rudd and Treasurer Wayne Swan as the centerpiece of a proposed tax-reform package two years in the making. They argued that mining companies did so well that they sucked labor and capital out of other parts of the country, creating a "two-tier" economy. Mr. Swan says he wants companies to be "growing together," and would use the tax take to build infrastructure, help low-income workers with their pensions and "fund" a tiny, across-the-board corporate tax cut.

This economic thinking runs counter to everything that made Australia rich over the last three decades: namely, the embrace of competition and capitalism, which rewards high risk with high returns. Setting up a mining company is not akin to opening a restaurant. Companies invest billions of dollars in exploration, build infrastructure to bring their products to a port, and then have to compete in a global marketplace and deal with volatile prices for their goods. As Rio Tinto recently discovered, the political risks of selling to countries like China are high, too.

Now the Rudd government wants to impose an arbitrary diktat on one of the country's most globally competitive industries in the name of "fairness." The government claims it settled on the 40% rate by following the lead of other trend-setters, like the U.S. state of Nevada. But why not 50%? or 60%?

The truth is that all windfall taxes, however they are dressed up and sold by politicians, are arbitrary and economically damaging. BHP Billiton estimates the "super-profits" tax would raise its total effective tax rate to about 57% from 43%, making Australia one of the most burdensome places to mine in the world. The increased tax burden would reduce profitability, discourage future investment and restrict companies' ability to return cash to shareholders through dividends.

That money, instead, will be redirected to the Rudd government, which estimates it will reap 3 billion Australian dollars (\$2.8 billion) alone in 2012, the first year the tax would

go into effect. The Minerals Council of Australia estimates mining companies already contributed about 16% of all corporate income tax revenue last year. BHP alone paid A\$6.3 billion in Australian company, state and other taxes over the same period.

What Messrs. Rudd and Swan didn't say Sunday is that this bonanza helped fund the Labor government's unprecedented spending spree, which sent the country from a A\$19.7 billion surplus into an A\$32.1 billion deficit in a single year. Lately Australians have been treated to a raft of revelations about how the Rudd government and the bureaucracy mismanaged billions of dollars of this spending.

Given that record, it's hard to have faith that Sunday's announcement is about "fairness" as much as it's about plugging fiscal holes that the government itself created. It doesn't hurt to whip up populist sentiment against big corporations in an election year, either.

If Mr. Rudd really wanted to reform the corporate tax system, he would simplify it and cut Australia's sky-high rates much more than the proposed trim to 28% from 30%. That would spur investment, create jobs and ultimately, a bigger tax base. What politician wouldn't like that?