



Abbott must explain some taxing contradictions in his policies

The Opposition Leader's various plans together would blow the budget and scuttle tax reform

CRAIG EMERSON

MOST things in life, climate change policy included, come down to choices. Both main political parties have committed to a 5 per cent reduction in carbon emissions by 2020 over 2000 levels; both have pledged to achieve that target irrespective of what other countries do.

Let's put aside Tony Abbott's stated view that the climate change science is "absolute crap" and accept that he's fair dinkum about his pledge.

So which policy is best equipped to achieve the agreed target? At the heart of the Gillard government's policy is a market-based mechanism, an emissions trading scheme.

To the consternation of Malcolm Turnbull — the opposition leader Abbott deposed over this very issue — the Coalition has rejected a market mechanism in favour of a centrally planned direct action scheme.

Every economist will tell you a market mechanism is best at finding the least-cost means of reducing carbon emissions. Only Abbott and Lord Monckton could so pervert orthodox economics as to describe a market mechanism as socialism, a claim Abbott repeated on the release of the government's emissions trading policy on Sunday.

By this bizarre reasoning, Abbott must have long suspected his mentor John Howard of being a closet socialist, for the Gillard government's ETS is out of the same stable as Howard's own market-based policy released in 2007. As Howard said back then: "I think the practical, sensible thing to do is to create a market environment and you do that by having some kind of emissions trading system."

Julia Gillard's carbon price will be linked to carbon markets across the world from the start of the period, in 2015, when the price is allowed to float. If a market

mechanism finds the least-cost ways of reducing emissions within Australia, it's even smarter to link it to overseas carbon markets, where further low-cost ways of reducing emissions can be found.

But astonishingly, Abbott on Sunday ruled out both a market mechanism and the purchasing of emissions permits from overseas markets. His direct action plan just got a lot more expensive and a lot more centrally planned.

You see, the federal Department of Climate Change had estimated Abbott's plan would take Australia only one-third of the way towards the 5 per cent target. The rest would need to come from buying emission permits on overseas markets. Abbott has conceded the various components of the direct action plan would cost taxpayers \$10.5 billion. The purchasing of overseas permits to reach the agreed target would cost another \$20bn, for a total slug on taxpayers of more than \$30bn, or \$720 a household.

But now that Abbott has ruled out buying overseas permits, he must pursue even more expensive direct action measures at home.

Rejecting a market price on carbon in favour of government-controlled direct action is socialism gone mad. In taking this crazy course, Abbott would blow the budget and scuttle tax reform.

Here's why. In more than fully compensating lower-income earners for the cost of living increases associated with carbon pricing, Gillard insisted on achieving tax reform at the same time. And so, consistent with the recommendations of Australia's Future Tax System Review of 2009, chaired by Ken Henry, the tax-free threshold will be more than trebled from \$6000 to \$18,200 and will go up even further in 2015.

This fundamental tax reform will boost work incentives for cas-

ual and part-time workers while liberating more than one million Australians from the burden of filing an annual tax return.

Yet Abbott has promised to provide tax cuts with no carbon price. The departments of Treasury and Finance have already identified a funding shortfall from his unrepudiated election promises of almost \$11bn.

When asked on Sunday where he would find the savings to finance his promised tax cuts, Abbott referred to \$50bn in savings the Coalition had identified before the federal election last year. But that total included more than \$6bn in business tax reductions and infrastructure investments funded by the mineral resources rent tax. Abbott has counted the savings from abandoning small business tax breaks, company tax rate reductions and infrastructure spending but has kept the revenue.

That's right: the alternative prime minister will keep the revenue from a mining tax he has promised to repeal.

But is this stupidity or trickery? Abbott wrote in these pages less than two years ago — when urging his leader, Turnbull, to support the Rudd government's ETS — "Opposition tends to be a permanent debating society because even the most final decisions can sometimes be revisited in office."

Abbott should explain why he opposes market mechanisms. He should explain, too, why he opposes trebling the tax-free threshold.

And, while he's at it, Abbott should explain why the savings plan to which he has recommitted keeps the mining tax in place but abandons the business tax reforms it will finance.

Craig Emerson is Minister for Trade.