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Edited by Kevin Chinnery: kchinnery@fairfaxmedia.com.au

FINANCIAL REVIEW

Paying the real cost of unreliable power

When BlueScope Steel's Paul O'Malley says that Australia's mishmash of climate policies could have us heading for an "energy catastrophe", he should be listened to. The ongoing energy security debate is a pretty straightforward policy issue that has become highly politicised. We've plenty of energy, but under the present arrangements there is too much wind and solar. It is intermittent, which drives up the cost at the same time as pushing out investment into more-reliable energy.

The government's renewable energy target of 23.5 per cent by 2023 will force-feed more such instability into the grid. Energy producers, taxpayers and consumers already have to pay for the subsidy that goes into these technologies and then the cost of its intermittent nature. So how does Labor respond to this? A political stunt proposing a renewable energy target of 50 per cent by 2030. It is a blatant appeal to Labor's green-left flank. And as an ABC radio interview last week showed, Bill Shorten neither knows nor cares how much this will cost consumers or whether it is workable, preferring to repeat meaningless bromides about how Labor's plan cost is insignificant "compared to the cost of doing nothing".

Malcolm Turnbull has a political solution to Mr Shorten's plan: smash Labor for making electricity more expensive and less reliable while being a slave to inner-city and rent-seeking green ideology. Mr Turnbull is correct and is right for calling Mr Shorten to account, but he has a solution to only his short-term political travails, not a policy to fix an actual problem.

Mr O'Malley says that instead of targeting renewables, we should target the right level of baseload power. While replacing a RET with BET would bring its own issues, he has a point. At the heart of the problem is a policy failure to effectively price carbon dioxide's climate impact and the costs of unreliable renewable energy. The problem with wind and solar power is that while the unit cost is cheaper for consumers, the overall cost is economically greater than fossil fuels – a fact the renewables industry keeps quiet about. The hidden cost of unreliable power is the back-up generation that is required.

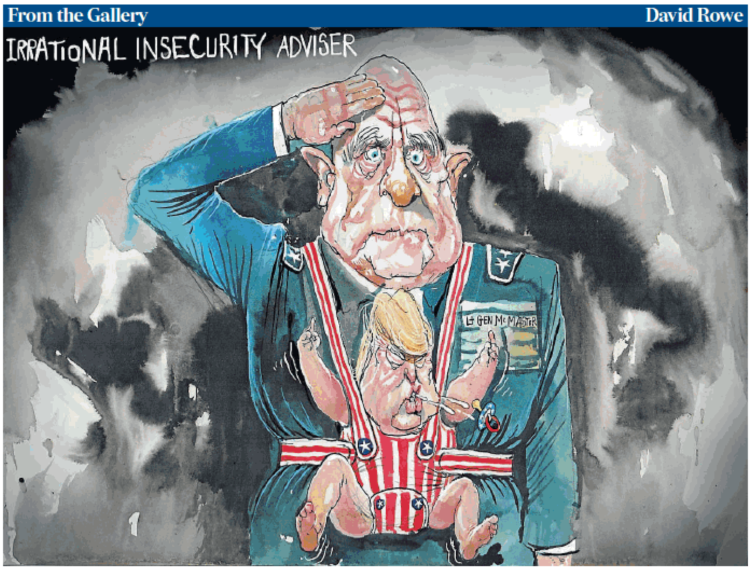
This means that new energy policy must produce the right incentives that allow wind and solar power to develop, while hedging against the inherent supply risks by purchasing dependable power off fossil fuel vendors or investing in it themselves. That would go some way to pricing unreliability and attracting more baseload investment.

The success of Israel

The visit of Benjamin Netanyahu marks an historic point in Australia-Israel relations. It is the first such trip by a sitting Israeli Prime Minister since Australia stepped up as the first nation to vote in favour of the 1947 UN partition resolution that led to the establishment of Israel. And while many Labor Party elders are now advocating for diplomatic recognition of Palestine, Australia should tread carefully. While denouncing Israel's growing settlements, Palestinians under Mahmoud Abbas have shown little taste for genuine negotiations to end the conflict. Granting diplomatic recognition might only encourage more intransigence and Bill Shorten has responsibly resisted such calls.

There is so much to admire about Israel, not least the sheer force of will and innovation by which a band of socialist intellectuals turned a barren land into a thriving liberal democracy, despite enemies on all sides. More recently that entrepreneurial spirit has shown itself up in small tech companies. In 2015 alone, Australians invested $650 million into Israeli start-ups. The visit is also a chance for Australia's Jewish business community – which has made a profoundly positive contribution to Australian life and prosperity, far in excess of its modest 130,000 population – to celebrate the achievements of the Jewish state. This successful community has literally helped to build both Australia and Israel.

From the Gallery — David Rowe



We need a grand bargain on tax

Reform Leaving the unpopular banks out of a company tax cut is a bad idea. We'd be better off pushing again for a full-blown overhaul of the GST and company and personal taxes.

Richard Holden

The latest instalment in the ongoing debate about Australia's company tax rate is that the big four banks should be "carved out" from the federal government's proposed transition to a 25 per cent rate.

As I wrote on these pages recently, the chief tension over a company tax cut is that it will benefit installed as well as new capital, whereas its reasoning is to reward new capital investment. The big four banks represent the largest block of installed capital in Australia.

Add to that the popularity that banks don't enjoy, a profound lack of competition, and some recent questionable behaviour, and it's no wonder Coalition MPs are not wild about being seen to hand the banks a $1.5 billion annual windfall.

But a tax-cut carve-out for the banks would be a terrible idea. As I mentioned in my last piece, capital depreciates and needs to be replaced. The banks could also choose to gradually shift their capital offshore through acquisitions. The idea that the banks have captive capital that we can tax at will is, in a word, wrong.

It's worse than that, though. A bank carve-out involves a kind of ad hoc tax policy management that is deeply misguided, and ripe for special-interest lobbying. It's like winner-picking industry policy on steroids. And we all know how successful that has been.

Tax policy should be about general principles. Tax in the least distorting way possible. Tax for efficiency and redistribute for fairness. Beware unintended consequences. Recognise that complexity leads to gaming. These are sound, broad tax principles.

The bank carve-out is populist tax policy on the run. It's policy for the next 20 months, not the next 20 years. And to his credit, the Prime Minister has said what a bad idea it was. But hands up who thinks that will be the end of it. I understand why many voters will ask: "Why are the big banks getting a tax cut but I am not?"

This reminds us that reforming tax policy piecemeal is dangerous at best, and a fool's errand at worst. Right now, we have a proposal from the government to move the company tax rate – at a glacial pace – to a level 1½ times as high as the proposed US and British rates, and the current Singapore rate. Worse still, it is front-loaded with cuts for small businesses.

Small businesses are great. But there is no economic rationale for cutting taxes for small businesses and not larger ones. Do you think your local coffee shop or a large technology company is more likely to move to Singapore?

Moreover, it's not only financial capital that can move offshore. Human capital is more internationally mobile than ever. And we tax high-value human capital at 49¢ on the dollar. More if Senator Xenophon gets his way. With tax rates like this we don't risk a slow "brain drain" but a more rapid "brain evacuation", with all the revenue and other consequences that go with it.

We need a grand bargain that puts company and personal tax reform on the table all at once.

As many have said, myself included, the only way to have competitive personal income tax rates is to increase the GST. But this has equity issues that are very real. So, here's a proposal to address that.

Let's raise the GST to 15 per cent and broaden the base to cover everything. Let's

> *The idea that the banks have captive capital that we can tax at will is, in a word, wrong.*

also provide every Australian 18 years or older with a $10,000 annual exemption from GST. Given our advanced payment system, this could easily be implemented so that any electronic transaction (debit or credit card) automatically exempts GST up until the $10,000 per-person cap is reached.

This acknowledges the equity issues – and that there are some essentials that we probably don't want to tax. But there will be no more debates about whether fresh food, prepared food, or sanitary products are more deserving of an exemption.

When countries establish or materially change their constitution, they have a constitutional convention. They do so because they know the ordinary political process is not up to the task.

Our political process can't pass a company tax cut that both sides agreed on 16 months ago – and probably still do.

We need a national tax convention to cut through the day-to-day politics. We need to stop thinking about the next media cycle, and start thinking about the next generation. Or that generation will not have the future that we want, or they deserve.

Richard Holden is professor of economics at UNSW Business School.

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