Controversies of the Implementation of Carbon Tax Policy for the Australian Economy: Harmful or Beneficial?

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ABSTRACT

Australian government had an experience in carbon tax policy implementation and evidently, it did not work out since it was enacted for the first time in 2012. The background of this policy was the Kyoto Protocol in 2007. In the beginning, Australia and United States considered as resistant countries. However, the government finally implemented carbon tax policy in 2012. There were many debates around this issue, especially two major parties, Labour and Liberal. After some considerations, the Australian government decided to repeal this policy in 2014. This study will focus on controversies around the implementation of carbon tax policy. The first part will describe the background of carbon tax policy. The next part will expose on positive impacts of the policy implementation on the Australian economy, while the following part will focus on negative impacts on household expenditures. The final part will conclude which actions the government should decide either continues or terminates carbon tax policy.

Keywords: implementation, carbon tax policy, environment, household, economy

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Introduction

The implementation of carbon tax in Australia always raises controversies among citizens. Since the first time of its implementation in 2012, there are some people who support that policy while others oppose it. As a decision maker, Australian government stated that carbon tax is a key to economic and environment reform. However, its opposition said that carbon tax might harm the Australian economy.

The background behind the implementation of carbon tax policy was a ratification of Kyoto Protocol on 12 December 2007. Through this ratification, Australia placed itself as an international community member, which has a commitment to save the environment. This is an interesting issue because at the beginning, Australia and United States were often considered as resistant countries, which refuse to ratify this protocol. As a follow up from that protocol, the Australian government implemented a domestic policy to respond the issue.

In general, carbon tax is a price that imposed manufacturing industries to pay per tonne of carbon they release to the atmosphere. As an initial cost, it will be set at $23 and it will increase gradually until 2015. The first implementation of carbon tax policy began in 1 July 2012 (Clean Energy Regulator, 2012). This policy has been implemented until it was repealed on 17 July 2014.

In this essay, I will argue that the implementation of carbon tax policy does not harm the Australian economy because of some aspects. I will compose this essay into four sections. First is the contribution of carbon tax to the government revenue. In this part, I will argue that carbon tax may contribute to the government revenue because it becomes an additional source of revenue from the government. On the other hand, it also has an impact on the people’s lifestyle. Second is the positive impact of carbon tax policy to the environment. In this section, I will elaborate that implementation of carbon tax will have a significant contribution to the environment because manufacturing companies are forced to use a cleaner technology in production process. However, they might shift their burden to the consumers as a result of carbon tax. Third is the drawback of carbon tax implementation on the cost of living. In this part, I will discuss that carbon tax will increase the daily cost of living, because...
manufacturing companies will directly suffer from its implementation. On the other hand, carbon pricing is a way to fight the climate change. Finally, I will explain the influence of carbon tax on business sectors. In this section, I will contend that there might have a declining growth from business sectors as a consequence of carbon pricing because they have to pay more on production costs. However, it also raises a good point that they have to think alternative strategies to increase their income.

The Contribution of Carbon Tax to Government Revenues

The question arises as to whether we should accept that the implementation of carbon tax policy does not harm the Australian Economy. This essay will consider a number of perspectives to determine whether to support or reject this contention. Indeed, since the first time of carbon tax policy implementation in July 2012, it has already raised some controversies among the Australian people. When people heard about the term “tax”, their mind thinks about the additional cost that they have to pay in the future. It is a nature of people that they have an economic principle, to get the maximum result with the minimum cost. Thus, in terms of the new policy implementation such as taxes, the first thing in their mind is likely to resist.

One reason to accept that the implementation of carbon tax policy does not harm the Australian Economy is the suggestion that carbon tax may contribute to government revenues. In general knowledge of taxation, there are two aspects of imposing tax. First is a budgetary aspect, which means to generate revenues. Second is a regulatory aspect, which means to regulate something that will have a law enforcement effect to tax subjects. Any means of revenue sources will contribute to the federal budget, including the carbon tax. An implementation of carbon tax policy, which is the polluter will have to pay $23 per ton of carbon released to the atmosphere will result in some additional revenues for the government. This reason is supported by a fact that government will have an additional source of revenue from carbon pricing. In Schedule of Budgeted Income and Expenses Administered on Behalf of Government, there are some interesting point to consider, Australian government is estimated to have an additional revenue of 7.54 billion, 8.34 billion, 9.27 billion from

carbon tax revenue in 2013, 2014, and 2015 respectively. Those amounts are as a result of imposing carbon tax policy to the public. Furthermore, the revenue from carbon tax will contribute to the federal budget as a whole. In a fiscal policy context, an ability to collect revenue from taxes shows the government independence to run its operation. The main responsibility for government is to ensure the provision of social policy to its citizen. Therefore, the implementation of carbon tax policy, which gives a certain contribution to the federal budget will also give benefits for the people live within the country. As a result, government can utilize the revenue earned from taxation to build public facilities such as health and education. As a developed country, Australia has a strong confidence in implementing a new policy to the citizen because a long standing history has shown that they have an essential foundation to economy. Moreover, the government also can allocate tax revenues to provide social security and household assistance package, which will be discussed and elaborated later in the following paragraph.

Another consideration from the government to implement carbon tax policy is to support the economic and environment reform in conjunction with the climate change. Carbon pricing is one way for government to solve the problem of climate change. In this case, the government may gain two benefits from it. First, the Australian government may have an economic support for the federal budget. Second, the government may gain a sustainability environment for the better future. To illustrate this, imposing new taxes in every country may result in controversies and resistances from citizens. However, in the government’s view, there is a potential revenue from imposing taxes. The government has an obligation to utilize its capability to earn revenues to meet the budget requirement. This is the reason why the Australian government enacted the carbon tax from 1 July 2012 after the long controversial debates around it. Australia is a country with the highest carbon emission among developed countries in the world with 1.5 percent of world emission. Australian government argues that the implementation of carbon tax is needed to reach the limit of greenhouse effect, which is their obligation. The Australian carbon tax implemented in Australia is higher than the

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similar tax imposed in European countries.

An objection to the claim that carbon tax will give a contribution to the government revenue is that Australian people have to pay more expensive than before on their cost of living. The first reaction when this government policy was implemented is there are so many reactions and protests from people who will directly suffer from the policy implementation. In a psychological context, it is natural to observe the human behaviour when there is a controversial issue, people tend to stand up and fight against it, particularly when it concerns people’s daily life. A slight change and different in a completely regular activities, may result in an instability of their financial matters. The low-income families are likely to suffer more than others because of an increase of living cost. These families have to struggle more in maintaining their life because of carbon tax. They have to be more cautious in allocating their income to spend on. They should be more selective in choosing purchased items because the choice is getting narrower. There are two options, to cut unnecessary costs or to find another source of revenue instead of their regular income. The first choice is easier than the second one because they can do it right away without spending more time. Families can choose whatever aspect that need to be gotten rid of from their monthly spending. Of course, they cannot move away the basic necessities such as food and bills. Secondary and tertiary needs are logical aspects to consider in a selection process. The second choice is harder to do because they need some time to think and find another source of revenue to support their daily life. The effect of global financial crisis is still exist although the current condition is better now. It is hard to find a job without an adequate qualification and skills. Job demand is more than job supply itself. Therefore, it resulted in a complicated situation.

Positive impacts of carbon tax to the environment

Another reason to believe that the implementation of carbon tax policy does not harm the Australian economy is that the policy implementation may have positive impacts to the environment. This is based on


an idea that government will push manufacturing companies to invest on a cleaner technology. Every implementation of a new policy should have both sides of the story. There is a positive aspect while on the other side there is also a negative one. This is what happened when government enacted the carbon tax policy. As a consequence of this implementation, manufacturing companies, whether they like it or not, they have to find another way in using a cleaner technology. If they cannot afford in doing it, they will keep paying carbon tax as a result of carbon they released from the production process. Actually, this is one of a function of tax as a regulatory aspect instead of as a budgetary aspect. It proves that the implementation of carbon tax policy can also encourage positive elements of other fields. It will not only benefit for the economy, but also for the environment. For instance, in order to lower the carbon tax that manufacturing companies have to pay to the government, they should reduce the emission from the production process. This means they are challenged to be more creative and innovative in using an eco-friendly technology to process the raw material to the finished goods. There are two advantages of using cleaner technology for the environment. First, the advantage for the company is they can save money from producing less carbon from the production process. In essence, carbon tax is imposed progressively. This means, the more company creates carbon the more they pay carbon tax. As a result, there is a simultaneous benefit if the company utilizes cleaner and eco-friendly technology. In one hand, they can manage budget efficiency because of cost saving from less carbon tax paid to the government. On the other hand, they can allocate the fund saved from it. Second, the advantage for the environment is the company can participate and support the sustainable environment. The company participation is one of manifestation of corporate social responsibility. The environment feasibility study is the main crucial aspect to consider when a company is established at the beginning. The business process within companies should have not disturbed the environment stability and harmony. Therefore, it is an obligation for each company to pay attention on this issue. They are demanded not only consider the economic aspect of their operation, but also the environment aspect. Government encourages them to notice the importance of environment for their business.

Nonetheless, the opposing view that manufacturing companies will shift the
burden as a result of carbon pricing to consumers provides an interesting perspective to consider. As it has already mentioned above, carbon pricing has a huge impact on a company’s business process. Consequently, it raised some alternatives for them to avoid the impact of carbon tax. One logical explanation would be shifting their burden resulted from an increasing cost on production to consumers. Inevitably, consumers have to pay more expensive to buy goods produced by the company. There is a non-mutualism relationship in his case. When a company gets a benefit from moving away its additional cost, at the same time consumers have to suffer from an increasing price of goods and products. On balance, it seems more reasonable to reject this reason. In an economic activity, there is always supply and demand. The economic transaction occurs when supply meets demands at one point, which is named equilibrium point. This means there should be a mutualism relationship between producers and consumers. In economic law, a failure to meet supply and demand will result in instability of economic transaction. There are many forms of instability such as an increasing price or declining price and the availability of products.

Some effects of carbon tax on daily cost of living

A consideration against the issue that the implementation of carbon tax policy does not harm the Australian Economy is that carbon tax policy will increase daily cost of living. Following the explanation above, consumers will suffer from the government policy implementation because the burden shifting of an additional cost resulted from the company to the consumer. Therefore, there is a serious implication on a daily cost of living from the Australian people. There is an increase in household expenses such as gas and electricity bills. It is not surprising because a carbon tax policy influences directly to manufacturing and energy companies. Implementing carbon tax policy means an additional cost that people have to cover in daily living instead of basic necessity. However, to deal with an increasing cost of living as a result of carbon tax, government has introduced a solution, household assistance package. This package is one way to help eligible households suffered from any impacts resulting from the carbon pricing. It includes tax reforms, increases to government pensions and benefits, and new payments.\textsuperscript{6} Household
assistance package is a part of clean energy future program. The mechanism of this program is very simple. Eligible families do not have to do anything because this assistance will be paid automatically to their bank account. The direct benefit received from this government assistance is for the low-income families who suffered from the policy implementation. The declining in purchasing power as a result of carbon tax is lifted by the household assistance package. This program shows a responsive action from the government to provide social policies for citizens. In addition, this objection is supported by the claim that manufacturing companies directly suffer from the carbon pricing. Manufacturing companies, which directly suffer from the policy implementation, are mining, steel, and energy companies. This is because they produce carbon from their business process. To operate their production, those companies need fuel to run the machine. It means they have a direct influence from the carbon tax policy implementation. Consequently, they have no choice to increase the cost of production and let consumers pay for it.

Nevertheless, the rebuttal that carbon pricing is a way to fight against the climate change must be considered to determine whether the objection is indeed acceptable. The Australian government has a strong commitment to implement carbon tax policy. The climate change issue is a very crucial in the global world present time. Some countries in the world have implemented the same policy as a means to solve the climate change problem. They impose carbon tax to their citizen as a form of responsibility in conserving the environment. Australia, as the highest country with carbon emission in the world concerns about this issue seriously. Initially, to articulate this, the government introduced the carbon tax issue before implementation. However, the government’s idea gained so many protests and resistance from the public. It is logical if there is a new policy was introduced to the public. Furthermore, government kept doing an intensive and serious observation regarding the implementation of carbon tax. They take many aspects into account to consider this policy starting from economic, social, and

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6 Department of Human Services, 2013.
environment. The consultation from academics and experts in every areas related to the carbon tax was also done by the government. The main objective of this policy is to fight against the climate change issue that will have a negative impact for the people in the future. In another perspective, carbon tax policy is also one way to prevent human from harming the environment.

**The impact of carbon tax on business sectors**

Finally, there is another significant objection to the claim that the implementation of carbon tax policy does not harm the Australian economy: business sectors might have a declining trend of growth. As a result of an increasing price of products, there might be a tendency of declining growth of company operations. This is logical because an increasing price of products will make consumers more selective in buying goods and services. This could become even worse when consumers decide not to buy at all. The competition among business sectors is highly increasing in recent years. Businesses sectors such as tourism and automotive are two simple examples to illustrate. The first thing to discuss in this section is a tourism business. There is a direct impact of carbon tax policy to this tourism business, starting from an increasing price of airline tickets, hotel or accommodation, entries to tourist objects. The implementation of carbon tax policy might slow this business operation. This is because consumers have to spend more on tickets and accommodation costs related to their tour. For the company, the fewer tourists utilize their service, the less income they will earn. In the long run, it will have a negative impact on their sustainability. Moreover, tourism business is sensitive to the slight policy implementation from the government. Apart from carbon tax, the security issue is also the main cause that will slow this business down. The second aspect to discuss is an automotive business. This is very interesting because an automotive business is not only an emerging business in developing countries, but also in developed countries such as Australia. Automotive business is a very complex business because it involves many divisions from the preparation of raw material, processing, assembling, until finished products. The impact of carbon tax is obvious in this industry because companies use fuel to run its machineries. The demand for automotive products such as motorcycles and cars are actually still high if there is no carbon tax policy.
However, since its implementation, this business shows slow progress in their operations. People are likely to shift their attention to shift their choice not to buy because of an increasing price. They have two options. First, they may postpone their purchase while waiting for their financial condition is getting better. Second, they may allocate the fund they have to buy another product that they need more. To support this view is the reason that some industries have to pay more for production costs. The implementation of carbon tax policy raises a dilemma among companies, which get a direct impact. Again and again, the financial situation regarding their daily operations may likely be threatened with this policy implementation. An increasing cost of production is a big enemy for most companies. It is logical that to gain a maximum profit, companies have to minimize the cost whatever it takes. However, in this case, an increasing cost is unavoidable. They have to suffer from this policy implementation. Another dilemma is they have to decide right away about the price determination. In the end, consumers will always be as a victim of the government policy.

Australian business community welcomed the federal government's decision to remove the carbon tax and emissions trading scheme switched to a year earlier. However, the mining industry worried about plans to float new schemes. Federal Opposition parties said the transition more quickly it will not change the impact of the imposition of a carbon price on households. The Australian Government announced it would leave the carbon tax price a year ahead of schedule and move to an emissions trading scheme next year. The decision means that the carbon price is set $24.15 per ton would fall to between $6 and $10 per ton.

However, the government still had not detailed how billions of dollars to pay costs as a result of that decision. The Australian Industry Group stated that the lower carbon price would benefit the business community. This is an initial step, but it will be brought forward to this year, and even the discussion to be carried out on how best to determine the carbon price. Carbon price burden the mining industry and many mining operations in Queensland had reduced or stopped altogether due to the policy, according to the Minerals Council of Australia.

While acknowledging Labour Party policies about reducing emissions as a mistake, Rudd admitted that his party has
addressed a number of major challenges, especially in the economic field. Prime Minister Kevin Rudd admitted if the party leader, the Labour Party does not have a mandate to introduce a carbon tax completely (Crowe, 2013). Abbott said the coalition government would abolish the carbon tax altogether and answer questions about emissions problems with more tangible action. While acknowledging the error, Kevin Rudd insisted that his party has provided a number of answers to the big issue, such as in the economic sector and employment.

In rebuttal, it is suggested that they have to think alternative strategies to increase their income. This is an interesting point to argue because the implementation of carbon tax policy, whether companies like or not; it will force them to think more seriously regarding their ongoing operations. They are demanded to be more creative and innovative in developing new ways to improve their performance. It is very attractive to observe when companies try their best effort to deal with the financial problem. Some companies will act defensively while others may act more offensive in dealing with the situation. The creative way to increase their income is to diversify their product into other products that may result in producing more income for the company. This is one of the examples of companies, which is creative and innovative in developing their operations. They do not easily give up from the difficult situation upon them because there is one main aspect to consider in running the company, to maximize the profit the minimum resources.

Conclusion

In summary, it would be more reasonable to accept the contention that the implementation of carbon tax policy does not harm the Australian economy. The strongest line of reasoning for this view is based upon both economic and environment consideration. In an economic context, carbon tax will give an additional source of revenue to federal budget as a whole. This is in line with the government’s responsibility to search some sources of revenue to fund its daily operations. It is essential to consider the two main basic functions of tax, as a budgetary aspect and a regulatory aspect. In this case, carbon tax acts both ways. On one
hand, the implementation of carbon tax will contribute to the revenue addition of the federal budget. On the other hand, it will also act as a regulatory means to fight against climate change issues.

There is another crucial aspect to consider regarding the implementation of carbon tax policy. The implementation of carbon tax will have a multiplier effect on business sectors because it will stimulate the creativity and innovation within the company. The best thing is the implementation of carbon tax may not only maintain a healthy competition among companies around Australia, but also in a global level. They have to manage and improve their competitive advantage of products they offered among all companies in Australia. If they fail, they are no longer surviving in the business world.

However, every policy implemented by the government could not satisfy public needs. It is not impossible for government in the future to revise this policy. Government may reduce the carbon tax or even decide not to implement at all. In the end, every government in the world has the same objective, to provide a social welfare to all citizens.

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