

# MINING THE TRUTH:

## THE REAL ECONOMIC IMPACTS OF THE MINING BOOM

The **Australia** Institute

Research that matters.

### Mining "crowds out" other industries

High commodity prices have pushed up the Australian dollar. The high Australian dollar and wage inflation erode other export industries such as agriculture, tourism, manufacturing and education.

#### The rising Australian dollar

When the Australian dollar increases farmers get less for their exports to the rest of the world. So do other industries that rely on overseas markets, like manufacturing. Tourism and education industries also suffer as Australia becomes less attractive as a destination for travellers and students.

#### Wage inflation and labour shortages

The high demand for skilled labour and high wages paid to mining workers means that other businesses and industries are often unable to recruit and retain workers or are forced to pay very high wages to compete.

The impact of this from a single mine, Clive Palmer's China First coal mine in QLD's Galilee Basin, was estimated by the company's own consultants to cost 3,000 manufacturing jobs across Australia.

As Figure 1 shows, over the past decade the expansion of the mining sector has caused a contraction in exports from other industries.

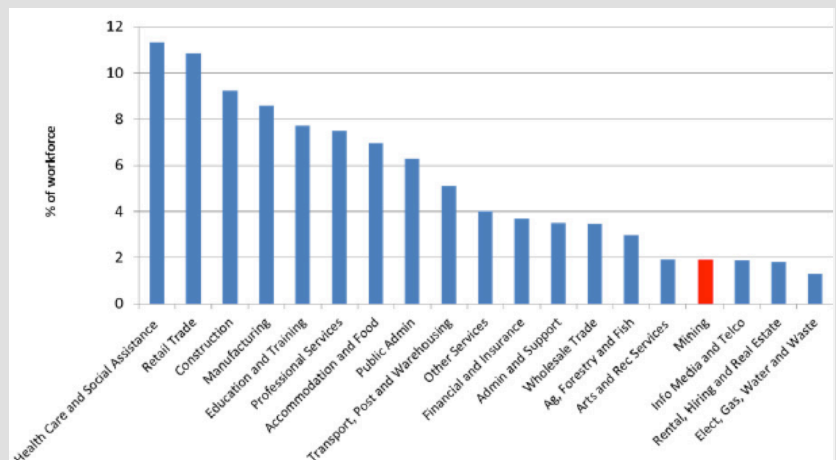
**Figure 1.** The correlation between the increase in mining exports as a percentage of Australian GDP and the decrease in all other exports.

### Mining does not employ many people

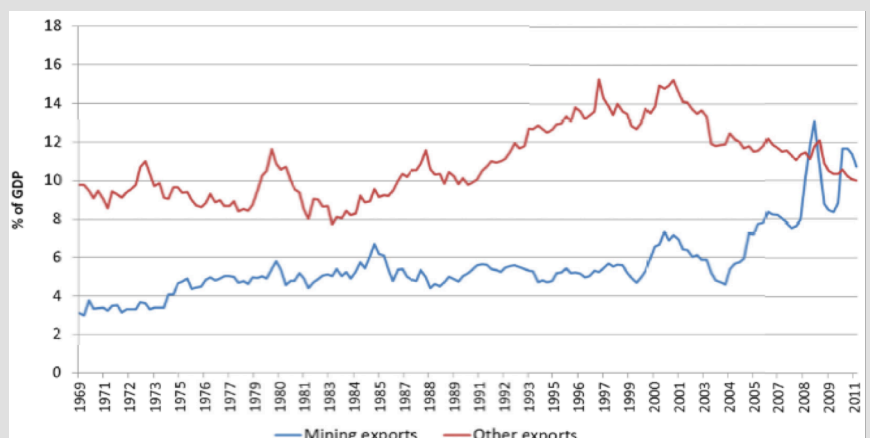
Mining is, in fact, one of the smallest employers in Australia, offering work to around 2 per cent of the population. Mining may well lead to a net loss of jobs in the economy as a result of "crowding out" of other sectors, such as manufacturing, tourism and education.

The mining industry often points to the number of "indirect jobs" it creates but in reality every sector, whether it is teachers, plumbers or miners, creates additional jobs when income is spent.

A lot of the current employment in mining is temporary and those jobs will be lost when the construction phase is over. When this phase winds down over the next few years, communities that have become dependent on mining will be hit hard.



**Figure 2.** Relative employment levels of different Australian industries.



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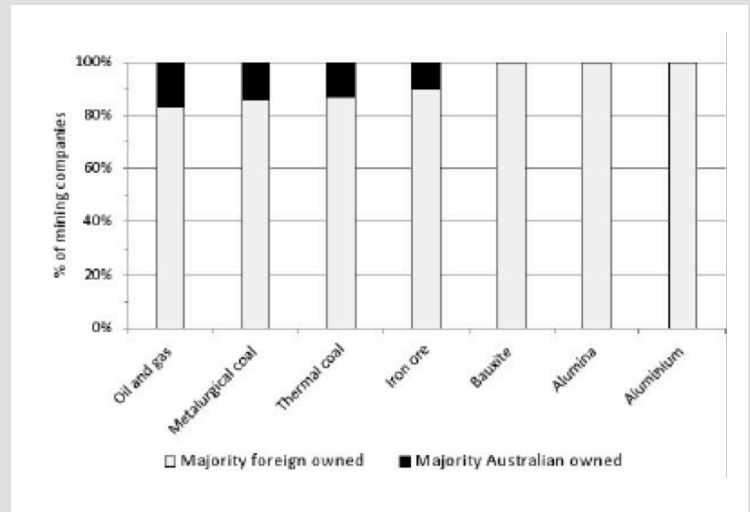
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### The mining industry is 83% foreign owned

High levels of foreign ownership mean that the profits from mining, while counted in Australian GDP, go overwhelmingly to overseas shareholders. In fact the cheques rarely reach Australia, going from the foreign company buying the coal or gas to the foreign company mining it.

The black sections in Figure 3 represent the proportion of Australian ownership.

**Figure 3.** Level of foreign ownership of different resource sectors.



### Mining companies are low taxpayers

The mining industry pays an average corporate tax rate of 13.9 per cent – far lower than the average of 21 per cent for other industries. Mining often “crowds out” better taxpayers.

#### But what about royalties?

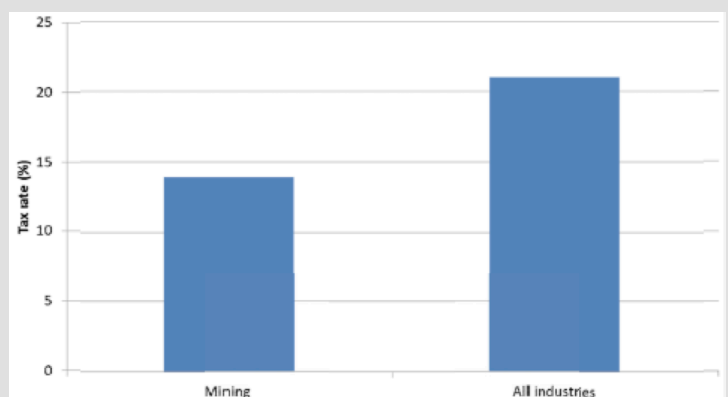
The mining industry often combines its corporate tax rate with royalties in order to argue that it is highly taxed. But royalties are the cost of raw materials, no different from when a restaurant buys food to sell or a builder buys bricks. These industries don't count their raw material costs as tax.

It is important to remember that the natural resources the mining industry profits from are owned by Australian citizens. If they didn't pay royalties mining companies would be getting our resources for free.

**Figure 4.** Average corporate tax rates.

### Mining is highly subsidised

The mining industry receives huge direct and indirect subsidies from Australian taxpayers. Every year the Commonwealth Government alone subsidises the mining industry by at least \$4 billion dollars. The main subsidies to mining include extraordinarily generous research and development tax concessions, accelerated depreciation of mines and equipment, fuel tax concessions and enormous infrastructure projects funded by state governments.



Source: All graphs are from The Australia Institute's *Mining the Truth* report

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