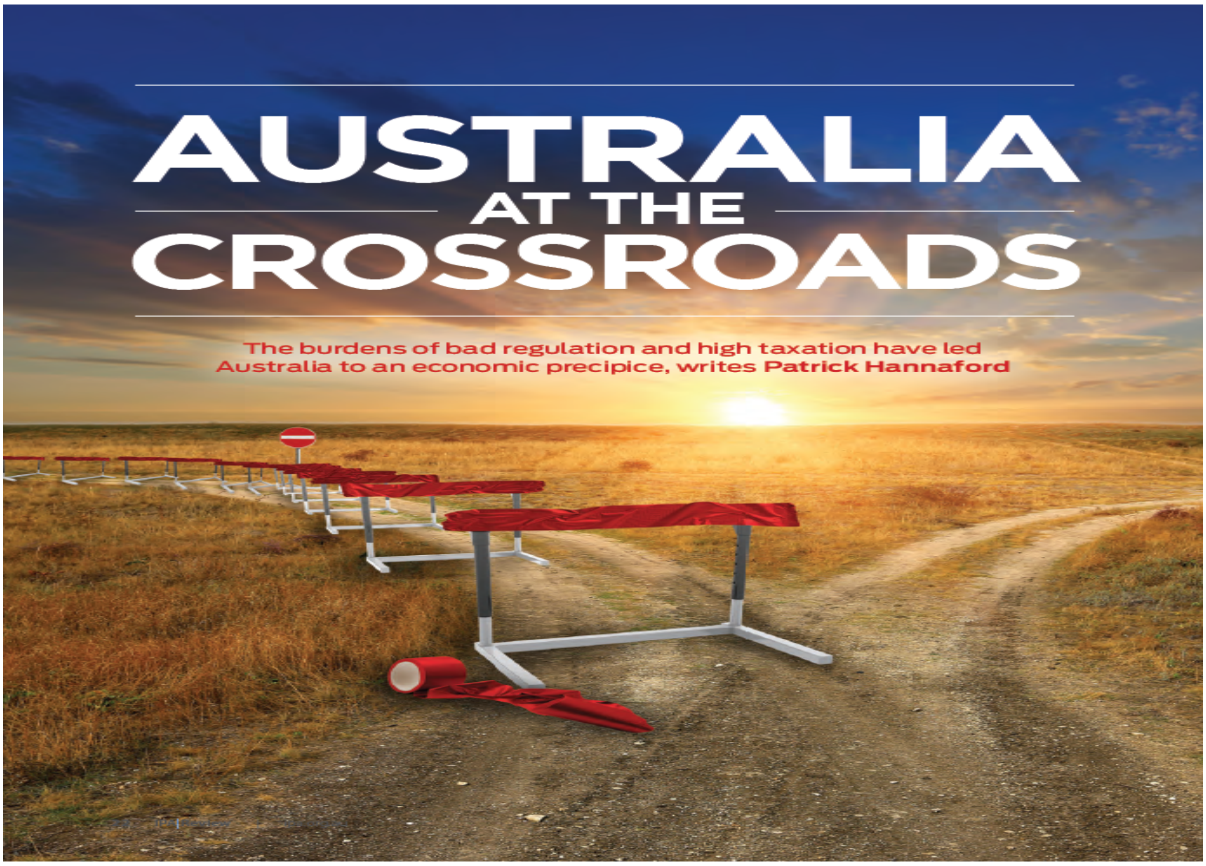

Australia at the Crossroads

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At the onset of the 2008 financial crisis, Australia's economy was the envy of the world. Economic reform and fiscal responsibility had unleashed Australia's potential and the mining boom was in full swing.

Six and a half years later and the outlook couldn't be more different. Continual budget deficits have created record levels of debt and government red tape is suffocating Australian industry.

Despite being blessed with strong institutions, vast natural resources, and entrepreneurial spirit, Australia is now on a precipice. Without principled reform to reduce the size and scope of government, Australia's economy will stagnate and our living standards will fall.

THE PROBLEM OF RED TAPE

Chief among the problems strangling the Australian economy is the burden of excessive red tape.

Every year the government imposes new laws governing our lives and governing the economy. In 2014 alone there were 135 new Acts passed by the Commonwealth Parliament. This amounted to 4,607 new pages of legislation that Australian citizens and businesses have to comply with.

Each individual rule and regulation may be introduced for an ostensibly good reason, but the cumulative effect of all this red tape is devastating the Australian economy.

The size of this regulatory burden has been measured by Deloitte Access Economics. Their report *Get out of your own way: Unleashing productivity* estimated that red tape is costing Australia $249 billion every year. This represents a staggering 15.6 per cent of Australia's national income.

To put this number in perspective, red tape compliance costs us more than the $200 billion the mining industry is estimated to contribute to the economy.

The harm caused by this red tape has been highlighted by one of Australia's leading business figures, Gina Rinehart, Chairman of Hancock Prospecting.

Speaking at a gala event to celebrate the 2014 CEO Magazine Awards late last year, Rinehart explained that:

> Regulation, approvals, licences and compliance are taking the momentum out of our advantage even though our nation, blessed with natural resources, is the envy of many countries.

She continued:

> People are overwhelmed with compliance and rules everywhere. The great spirit of entrepreneurs, who've built the country, faces being crushed with paperwork.

Rinehart's understanding of the red tape burden has undoubtedly been influenced by her own experience with Hancock Prospecting.

According to Rinehart, Hancock's Roy Hill project has had to go through 4,000 separate approvals and licences, some of which required thousands of pages of paperwork. This gigantic burden is now considered the norm across the mining industry.

It was one thing for this extraordinary burden to exist at the height of the mining boom, but the days of record profitability may now be at an end. Prices for iron ore, our biggest national export, have more than halved in the last year alone—falling from US $135 per tonne at the start of 2014 to US $65 per tonne today. There have been similar falls in prices for other commodities, including coal and oil. In their latest Australian Major Projects Update, ANZ predicted that these falling commodity prices would result in Australia's bulk commodities and LNG (liquefied natural gas) export earnings being AUD $110 billion lower between 2014 and 2018.

ANZ also predicted a sharp decline in capital expenditure in Australia, with investment forecast to fall from a high of AUD $104 billion in 2013 to AUD $32 billion in 2017.

In the LNG sector alone, new capital expenditure (excluding operational capital expenditure) was forecast to decline from a high of AUD $55 billion in 2014 to under AUD $5 billion in 2017.

This fall in Australia's terms of trade means that excessive regulation now poses a grave threat to our most productive industry. Australia has been blessed with vast quantities of natural resources, but contrary to popular opinion, mining companies do have other options. Natural resources exist in other countries across the world.

Australia benefits from comparative advantages such as a close proximity to Asia, strong institutions, and a relatively stable legal and political environment.

But the high cost of regulations is threatening to send future investment overseas, where costs are substantially lower. Many of our competitor nations have much lower taxes, and lower cost bases. Many also have significantly lower regulatory burdens.

Even the US and Canada— resource rich countries with similar legal, political, and cultural institutions—have significantly lower regulatory burdens.

The World Economic Forum's annual *Global Competitiveness Report* ranks countries based on a range of economic criteria. In the 2014-15 report, Australia was ranked poorly—124 out of 144 in terms of the burden of government regulation. The US and Canada were ranked 39 and 82 respectively.

IT'S NOT JUST BIG BUSINESS

This burden of red tape is not just a problem for big business or the mining industry. Businesses of all sizes are suffering. A PricewaterhouseCoopers survey, released in January 2015, found that a staggering 95 per cent of Australian CEOs surveyed said over-regulation was a threat to their business.

The Australian Chamber of Commerce and Industry (ACCI) found similar results in their 2015 National Red Tape Survey. ACCI surveyed 709 businesses, three quarters of which were small and medium sized businesses with fewer than 49 employees. The survey found that 74 per cent of businesses believed that regulation has had a negative impact on their business, and 47 per cent reported that the impact of regulation had prevented them from making changes to grow their business.

Businesses also questioned the need for so much regulation, with 68 per cent of respondents believing that their industry is overregulated, and 81 per cent reporting that regulations are unnecessarily complex. The survey also found that 34 per cent of businesses are required to provide the same or similar information to different government agencies—clear evidence of an unnecessary burden.

HIGH COSTS OF BUSINESS & FALLING ENTREPRENEURSHIP

This red tape burden is just one of the high costs of doing business in Australia.

Punishing penalty rates, the highest minimum wage in the world, and average wage earnings that in 2013 were 70 per cent above the global mean are just some of the added pressures faced by Australian businesses. These pressures have the predictable effect of raising costs for existing businesses, but they also discourage the creation of new businesses.

In research conducted by the IPA, Dom Talimanidis— former Ian Mence Fellow for Entrepreneurship—found that there has been a substantial fall in the number of new businesses created over the last ten years.

In 2003-04, 17.4 per cent of Australian businesses had been started in the previous year. By 2012-13 this figure was just 11.2 per cent—over 86,000 fewer businesses being created than a decade earlier.

Fewer people willing to start businesses results in fewer jobs and less wealth.

Consequently, there will be less dynamism and innovation. Ultimately, it could lead to us missing out on truly transformative economic innovations.

This is a troubling sign for the long-term health of the Australian economy.

The majority of new businesses are small businesses and they are the backbone of the economy. But according to the latest *ACCI Small Business Survey* (released in February 2015) the outlook of small business is pessimistic.

The survey found that small businesses expected falling profits, employment, overtime, investment, and selling prices, although they did expect sales revenue, wages and other costs to rise. It also found that business taxes and government chargers were the biggest factors constraining small business.

THE TAX BURDEN

This finding—that taxes and government chargers are the biggest factors constraining small business—may surprise people who have been exposed to the oftrepeated claim that Australia is a low tax country.

This claim is popular amongst Australia’s political class, having been repeated by both the Commonwealth Treasury and the Henry tax review. Unfortunately, it is a myth—a myth recently debunked in new research by the IPA’s Dr Mikayla Novak.

The origin of Australia’s ‘low tax’ status comes from international comparisons calculated by the Organization for Economic Cooperation and Development (OECD). According to the OECD, Australia's tax-to-GDP ratio is 27.3 per cent. This is well below the OECD average of 33.7 per cent.

The problem with this comparison is that it fails to take into account important and unique aspects of Australia's tax system.

The OECD's calculations include local, state, and federal taxes. But they fail to include compulsory superannuation payments and private health insurance premiums that Australians must pay to avoid the Medicare surcharge.

These compulsory payments may not be taxes in the traditional sense, because they are not payments made directly to government; but they are payments required by law.

Since the OECD includes the taxes that other countries impose to fund retirement savings and healthcare benefits, an accurate view of Australia's comparative tax burden must include compulsory payments like superannuation and healthcare premiums.

When these compulsory payments are included, Dr Novak's research shows that Australia's tax to-GDP ratio increases to 33.5 per cent—an increase of 6.2 per cent. This is only just below the OECD average of 33.7 per cent.

Clearly, Australia is not a low tax country. So it isn't surprising that the combination of high taxes and excessive red tape is harming the economy and reducing our international competitiveness.

GOVERNMENT DEBT & DEFICITS

Despite these high taxes, successive Australian governments have run record deficits and created a debt burden that threatens Australia's economic future.

In 2007, Australia had zero net debt and a record of consistent budget surpluses. This sound put Australia in prime position to take advantage of economic opportunities that would benefit current and future generations. But this advantage has been squandered.

According to the Mid-Year Economic and Fiscal Outlook of 2014 -15 (MYEFO), Australia's net debt is now $244 billion. It is projected to reach $315 billion in 2017-18.

This problem was caused by an explosion in government spending that has spanned both ALP and Coalition governments. The scale of the spending increase was highlighted in a 2014 report by the International Monetary Fund (IMF). The IMF found that Australia had the fastest growth in spending of the top seventeen countries surveyed.

This level of spending is unsustainable. Australians are set to pay $10.8 billion in interest on the Commonwealth debt this financial year, and the burden is only set to increase. The latest MYEFO budget figures show a $40 billion deficit, and Treasurer Joe Hockey has warned that Australia may 'never get back to surplus.'

LONG TERM EFFECTS

The long-term effects of this high tax, high regulation, ‘big government’ approach to public policy can be seen around the world. An example is the economic and political collapse currently underway in Greece.

After decades of uncompetitive and unsustainable economic and social policies, Greece’s problems finally came to a head in 2009, when markets realised that Greece was not going to be able to pay back its record levels of debt.

In the years since the crisis hit, Greek society has been stretched to breaking point. International bailouts and austerity measures have prompted almost constant unrest, and successive elections have seen the rise of new extremist political parties. Golden Dawn, a fascist party reminiscent of Europe’s past, now receives over 6 per cent of the national vote.

The re-emergence of fascism has only been eclipsed by the rapid rise of the socialist left. Despite receiving less than 5 per cent of the vote in 2009, the Coalition of the Radical Left— known colloquially by its acronym, SYRIZA—now holds government, after obtaining 149 seats in Greece’s 300 seat parliament.

What SYRIZA does in government remains to be seen, but the prospects for economic freedom in Greece do not look good.

IT’S NOT TOO LATE

Australia is, thankfully, a long way from a Greek-style collapse. But it is clear from our fiscal and regulatory outlook that we are heading in their direction. The good news is that countries have come back from worse.

The UK of the 1970s was in a significantly worse position than Australia is now, but they managed to turn their fortunes around. It wasn’t easy, but Margaret Thatcher was able to tackle the UK’s problems through strong leadership and a principled and unwavering commitment to policies that unshackled the economy and reduced government interference in peoples’ lives. This is the leadership that Australia needs.

Australia is at a crossroads. We are faced with a choice. Either we can continue the long and slow progression towards collapse, or we can make the tough decisions that will enable us to reverse course.

Either choice will have profound consequences for current and future generations.