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TAX, INFRASTRUCTURE AND RED TAPE PROMISES PUT 31,000 VICTORIAN JOBS AT RISK

“Election promises that increase taxes and red tape will have very real consequences for the Victorian economy, leading to job losses and creating uncertainty in the labour market,” said Simon Breheny, Director of Policy at the free market think tank the Institute of Public Affairs.

An analysis by Mr Breheny and Brett Hogan of the Institute of Public Affairs has found that an estimated 31,000 jobs in Victoria would be lost, foregone, or at risk if Labor’s promises to reject proposed company tax cuts, reduce carbon emissions, reinstate the Road Safety Remuneration Tribunal, and reject the construction of the East-West Link were implemented.

Summary of estimated Victorian jobs lost, foregone or at risk from Labor policies

No economy-wide company tax cuts	5,989 foregone
More stringent climate change controls	10,160 at risk
Restore Road Safety Remuneration Tribunal	9,065 at risk
No East-West Link	6,000 foregone

“Many other policies presented by both sides of politics will affect Victoria. For instance, changes to negative gearing will likely have employment effects, restoring the Australian Building and Construction Commission will have an effect on the Victorian construction industry, and spending promises will increase the size of the public service.”

“Our analysis focuses on these four high-profile policies that will potentially have an impact on the Victorian economy. For instance, given the size of Victoria’s brown coal industry, it is important to identify how more stringent climate change policies will affect jobs.”

“Voters need to know the employment consequences of election promises before they go to the polls. Further IPA analysis of announced election policies across Australia will be released in the coming weeks,” said Mr Breheny.

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APPENDIX:

EMPLOYMENT IMPLICATIONS OF POLICY ALTERNATIVES FOR VICTORIA

By Simon Breheny, Director of Policy, Institute of Public Affairs and Brett Hogan, Director of Energy and Innovation Policy, Institute of Public Affairs.

The purpose of this analysis is to provide tentative estimates of the magnitude of employment effects associated with selected federal opposition policies for the state of Victoria.

Using available statistical evidence and literature on the job impacts of policy, this analysis indicates that major policy positions held by the federal opposition are likely to put thousands of Victorian jobs at risk and lead to numerous foregone employment opportunities in the Victorian economy.

This paper provides estimates of the jobs, foregone or at risk, associated with only four policies announced by the federal opposition to date, and does not include other policies (e.g., restrictions on negative gearing provisions) that may also harm employment prospects in Victoria. Therefore, estimates of the total jobs foregone/at risk in Victoria are significantly understated.

It is important to note that the estimates of Victorian jobs foregone or at risk, should major federal opposition policies be introduced, are highly conjectural by their nature and cannot be interpreted as definitive. Importantly, most of the policies scrutinised here have not been subjected to simulation modelling or similar empirical analysis, which attempt to capture the dynamic effects of policy change over time. Further, it is conceivable that policies introduced by the current federal opposition, should they become the next government, will be implemented simultaneously, whereas the interactional effects of such policies on the employment outlook have not been contemplated in this paper.

In addition, it should be recognised that the federal opposition have proposed several policies during the 2016 election campaign which will increase employment. However, many of these appear to be in the public sector which, in itself, has potentially adverse implications for economic growth and productivity gains in a predominantly market-based economy.

1) RESCINDING TEN-YEAR CORPORATE INCOME TAX REDUCTION PLAN

Policy	Estimated jobs foregone or at risk	Estimate reliability	Source	Comments
Company tax cuts ^(a)	5,989	Low-medium	2016 Treasury Working Paper analysing company tax cut; ABS labour force data; 2015 Intergenerational Report.	Additional jobs foregone if ten-year company tax cut plan from 2016 to 2026 is not implemented.

In their Budget Reply Speech of May 2016, the Federal Opposition announced it would not support the government's proposal, outlined in the Budget, of a plan to reduce the statutory company tax rate to 25 per cent in increments by 2026-27.¹ Opposing the government company tax cut proposal, the opposition nonetheless expressed support for tax cuts for small companies with a turnover of less than \$2 million per annum.²

¹ Hon Bill Shorten, 2016, 'Budget-In-Reply Speech 2016', House of Representatives, Canberra, 5 May; Commonwealth of Australia, 2016, *Budget Measures*, Budget Paper No. 2 2016-17, p. 41.

² Ibid.

Table 1: Summary of key results from simulation modelling of company tax cut (per cent deviation from no policy change)

Variable	Company income tax financed by reducing government spending	Company income tax financed by increasing personal income tax
Real gross domestic product	1.1	1.0
Real gross national income (gross national expenditure deflator)	0.7	0.6
Consumption	1.0	0.3
Investment	2.9	2.6
Net exports	1.0	1.1
Employment	0.1	0.1
Real wage (pre-tax)	1.1	1.2
Real wage (post-tax)	1.1	0.4
Welfare (equivalent variation)	0.7	0.1

Summary simulation results of a corporate income tax cut financed by a lump-sum tax increase are not included in this paper.

Source: Michael Kouparitsas, Dinar Prihardini and Alexander Beames, 2016, 'Analysis of the Long Term Effects of a Company Tax Cut', Commonwealth Department of the Treasury, Working Paper No. 2.

The government commissioned Treasury to undertake simulation modelling analysis of the economic impact of a stylised corporate income tax cut from 30 per cent to 25 per cent over the long run (presumably a twenty-year period). Table 1 indicates that a company tax cut improves economic activity and living standards 'even after allowing for increases in other taxes or cutting government spending to recover lost revenue, by lowering the before tax cost of capital. This encourages investment, which in turn increases the capital stock and labour productivity.'³

Whilst the beneficial effects of reducing company taxes upon production and labour wages have been largely uncontested in the Australian empirical literature, economic modellers at Victoria University's Centre of Policy Studies have indicated that national income growth would decline as a result of a corporate income tax cut from 30 per cent to 22 per cent.⁴

However these results appear to contingent upon assumptions concerning the degree of capital immobility and apparent non-modelling of plausible alternative adjustment channels, among other

³ Michael Kouparitsas, Dinar Prihardini and Alexander Beames, 2016, 'Analysis of the Long Term Effects of a Company Tax Cut', Commonwealth Department of the Treasury, Working Paper No. 2, p. 27.

⁴ J. M. Dixon and J. Nassios, 2016, 'Modelling the Impacts of a Cut to Company Tax in Australia', Victoria University, Centre of Policy Studies, Working Paper No. G-260, April. Dixon and Nassios assume that aggregate employment is unchanged from its baseline level in the long run, following the tax policy shock.

things, all of which seem to understate the effects of tax-induced increases in investment upon growth and productivity.⁵

Taking the Treasury work to be more representative of conventional modelling strategies pertaining to the effects of fiscal policies, it is possible to arrive as a provisional assessment of the economic implications from not proceeding with the ten-year strategy to modestly lower the headline corporate income tax rate by up to five per cent.

Assuming the long run effects of the gradual company tax cuts materialise ten years after the implementation of the policy,⁶ and using figures from the 2015 Intergenerational Report,⁷ it is estimated that up to 24,000 jobs nationally would be foregone by 2034-35 if the policy does not proceed. Using the strong assumption that Victoria's share of national employment (25 per cent in 2014-15) will be maintained over the next few decades yields an estimate of roughly 6,000 jobs foregone if the full tax cuts are not implemented.⁸

This figure is derived from a calculation of employment by those aged between 15 and 64 years, and does not include employment patterns by those aged 65 and over. This exclusion of the projected extent of labour market activities by older Australians in twenty years' time could be conceived to understate the employment gains accruing from the government's company tax policy. Offsetting this to some extent, however, is the pledge by the current Labor opposition (and, for that matter, all office-aspiring political parties in the future) to provide company tax cuts for smaller enterprises, or other forms of tax relief.

⁵ Chris Murphy, 2016, 'Budget Forum 2016: The Economic Impact of the Company Tax Cut', Austaxpolicy: Tax and Transfer Policy blog, <http://www.austaxpolicy.com/the-economic-impact-of-the-company-tax-cut/> (accessed 31 May 2016); Michael Potter, 2016, 'The case for company tax cuts', Online Opinion, 19 May; Brendan Rynne, 2016, 'Basic economics tells us company taxes are too high and uncompetitive', The Australian Financial Review, 14 April.

⁶ It is noted that what is construed for economic purposes as the 'long run' is the subject of ongoing dispute, with some Australian commentators suggesting the full effects of the government's tax policy will not be realised until twenty, or even thirty, years after implementation.

⁷ Hon J. B. Hockey, 2015, *2015 Intergenerational Report: Australia in 2055*, Commonwealth of Australia, Canberra. The aggregate employment figures are derived from demographic and economic projections provided in Appendix A of the IGR, and the assumption of a constant five per cent unemployment rate in the long run.

⁸ In addition it is implicitly assumed that Victoria's unemployment rate will be the same as Australia's as a whole, representing another strong assumption given Victoria's demographic and economic circumstances.

2) MORE STRINGENT CLIMATE CHANGE POLICY

Policy	Estimated jobs foregone or at risk	Estimate reliability	Source	Comments
Climate change policy	10,160	Low-medium	ABS labour force data; information from companies and government departments.	Jobs at risk as a result of more stringent climate change policies, including ETS.

Earlier this year the federal opposition released a Climate Change Action Plan designed to get 'Australia's pollution levels back under control and ensuring that Australian business and workers are in the best possible position to benefit from the huge investment and job opportunities that come from a renewable energy and clean technology future.'⁹

The action plan statement endorsed a more ambitious target for carbon dioxide emission reductions than that proposed by the current government – namely, a 45 per cent emission reduction target by 2030 (on 2005 levels), as opposed to a 26-28 per cent reduction by 2030 (on 2005 levels) proposed under current policies. More specifically, the key aspects of the Labor plan are to:

- Ensure that 50 per cent of national electricity is sourced from renewable energy by 2030. This consists of the continuation of the Renewable Energy Target, and consultations, post-2020, to put in place alternative policies to ensure the 50 per cent renewables target is reached.
- Transition Australia's electricity generation from 'old heavy polluting' coal-fired power stations to 'modern clean energy' in an orderly fashion, with support for workers and communities. The action plan indicates that 'old and heavily polluting' coal power will be withdrawn and replaced under a mechanism described below, coupled with a 'Just Transition' policy overseen by a new unit in the federal Environment Department for people affected by the policy-induced changes.
- Introduce an emissions trading scheme with access to international offsets, placing a legal cap on the emissions of large polluters through a 'cap-and-offsets' scheme. The first phase of the ETS will operate until 30 June 2020, consisting of a carbon dioxide emissions cap on larger emitters with provision for carbon credits or offsets. A post-2020 ETS, with different design features, will then apply. A separate, and closed, scheme will apply to the electricity sector.

Other initiatives – including financial and policy support for renewables and other clean technologies, encouraging carbon capture in agriculture, redressing broad-scale land clearing, and new emissions standards for motor vehicles – had been outlined in the opposition's policy statement.

⁹ Australian Labor Party, 2016, Climate Change Action Plan: Policy Paper, https://cdn.australianlabor.com.au/documents/Climate_change_action_plan_policy_paper.pdf (accessed 31 May 2016), p. 2.

The federal opposition's action plan statement makes it plain 'that there will be uneven impacts across Australia with some industries and regions impacted by change, especially those with a heavy reliance on fossil fuels such as Latrobe Valley... along with other emissions intensive trade-exposed sectors.'¹⁰ The potential impacts of a more stringent approach to pursuing carbon dioxide emissions reduction will be particularly hard-felt in Victoria, perhaps more so than any other Australian jurisdiction.

Victoria's conventional, base-load electricity supply, which is primarily sourced from abundant brown coal deposits in the Latrobe Valley, plays a major role in maintaining the state's productive capacity and quality of life. Coal-fired power stations deliver cost-competitive electricity, supplying 85 per cent of electricity in Victoria and, indeed, are increasingly relied on to meet supply shortages in renewables-dense South Australia and Tasmania via interconnectors.

The opposition's Climate Change Action Plan argues for the closure of the likes of Hazelwood, Loy Yang and Yallourn, not on the basis of using 'taxpayers money to pay companies to withdraw generation from the market,' but favouring a so-called 'market approach to ensure an orderly process of closure.'¹¹

In this context, a proposal for the regulated closure of Victoria's lignite power plants by ANU academics Frank Jotzo and Salim Mazouz is approvingly cited in the policy statement. Financial bids to close Victorian plants will be made through a government-arranged auction process, and black coal-fired generators elsewhere in the National Electricity Market will be obliged to pay the owners of the exiting plants the bid price (in proportion to their future emissions). Jotzo and Mazouz claim this scheme 'can provide emissions savings from plant closure at least cost, avoid budgetary costs by sourcing the payments for closure from the plants remaining in production, and provide some incentives to adjust the power mix to reduce emissions.'¹²

It is suggested by Jotzo and Mazouz that their scheme – implying the quick withdrawal of Hazelwood from electricity generation - will have modest effects on wholesale, and ultimately retail, prices. However, as noted in a critical appraisal of the Jotzo-Mazouz scheme by Frontier Economics, such claims are contentious.

The exit of Hazelwood, which alone accounts for over five per cent of the National Electricity Market (NEM) production (and is comparable with NEM production from all wind and solar facilities), 'would represent a significant supply shock to Victoria and the NEM.'¹³ Based on electricity market modelling, Frontier Economics suggest that the exit of Hazelwood in 2017 would raise short-term Victorian wholesale prices by over 42 per cent and with some price elevation also evident by the early 2020s.¹⁴

¹⁰ Australian Labor Party, op. cit., p. 23.

¹¹ Ibid., p. 23.

¹² Frank Jotzo and Salim Mazouz, 2015, 'Brown coal exit: A market mechanism for regulated closure of highly emissions intensive power stations', *Economic Analysis and Policy* 48: 71-81, p. 80.

¹³ Frontier Economics, 2016, Sudden impact – revised version: Scrutinising the wholesale price impact of assisted closure of brown coal power stations, <http://www.frontier-economics.com.au/documents/2016/05/sudden-impact-wholesale-price-impact-closure-brown-coal-power.pdf> (accessed 31 May 2016), p. 3.

¹⁴ Ibid., p. 6-7.

The federal opposition's climate change policy outlines platitudes to the effect that its approach 'would see the employment impact of withdrawn generation pooled or brokered in a way that deals with the impact on a regional basis, rather than just as an impact on an individual workplace.'¹⁵ This includes 'ongoing staff from the closing generator/mine offered redeployment to the remaining generators.'¹⁶

In the absence of details about how the opposition's redeployment plans can be effected, or even if they can be (at least, without representing an unwarranted violation of the right of firm owner-managers to hire their own staff), it should be presumed, in the first instance, that conventional electricity generation employment and employment in allied activities are at risk.

It is estimated that there are roughly 1,400 coal-fired electricity generation jobs in the state, mainly concentrated in the Latrobe Valley and including coal mining operations adjacent to the plants. The estimate is taken from Environment Victoria,¹⁷ and excludes the now-defunct Anglesea and Energy Brix power stations and taking out an assumed 458 coal mining jobs from the total.

The federal opposition claims its climate change policies, including its ETS, will protect jobs and the competitiveness of Australian trade-exposed industries 'because no environmental purpose is served by those industries simply shifting their operations to other countries.'¹⁸ Further, the policy aims 'to see the emergence of stronger, renewables based emissions intensive, trade exposed industries.'¹⁹

The opposition insists that manufacturing industries such as aluminium and steel will remain important in a low-carbon dioxide emissions future, but this aspiration sits uneasily with the reality of still-significant cost differentials for electricity sourced from coal versus renewable sources.²⁰

The policy insistence that producers consume more renewable-based energy renders Australian manufacturers vulnerable to increasing cost pressures, thus making them more susceptible to losing international market shares. This has significant implications both for general economic activity and employment in manufacturing industries.

Given the carbon dioxide emissions intensity of aluminium production, it is anticipated that implementation of the opposition's policies would put at risk up to 1,500 jobs in the Alcoa Portland aluminium smelter.²¹ Quantifying the potential effects of Labor policy on employment in other Victorian manufacturing industries is difficult in the absence of modelling, however a small number of studies (admittedly, pertaining to different kinds of climate change policies) provide some rough indication of the extent to which manufacturing workers are potentially made vulnerable under the policies proposed by the opposition.

¹⁵ Australian Labor Party, op. cit., p. 22.

¹⁶ Ibid.

¹⁷ Environment Victoria, <http://environmentvictoria.org.au/renewablejobs> (accessed 31 May 2016).

¹⁸ Australian Labor Party, op. cit., p. 29.

¹⁹ Ibid., p. 24.

²⁰ Alan Moran, 2015, 'Green energy generates big costs for little gain', *The Australian Financial Review*, 21 June.

²¹ Alcoa Australia, 'About aluminium smelting', http://www.alcoa.com/australia/en/info_page/smelting.asp.

A study modelling the effects of a national ETS (based on the current bipartisan approach of a five per cent emissions reduction on 2000 levels by 2020, giving an ETS price of \$28.11 per tonne of emissions) shows a general reduction in employment amongst certain manufacturing industries of varying magnitudes. An earlier study of the impact of a \$23 per tonne of emissions carbon tax showed similar results for a range of manufacturers nationally.

Manufacturing employment data by industry subdivision, supplied by the ABS, suggests that in the February quarter of 2016 there were 270,200 manufacturing jobs in the state. We employ the assumption that three per cent of Victorian manufacturing jobs (netting out aluminium industry jobs, already accounted for above, and employment in the declining automotive industry) are at risk from a prescriptive climate change policy. It is estimated on this basis that 7,260 Victorian manufacturing jobs are at risk.

3) REINTRODUCING THE ROAD SAFETY REMUNERATION TRIBUNAL

Policy	Estimated jobs foregone or at risk	Estimate reliability	Source	Comments
Road Safety Remuneration Tribunal	9,065	Low	Newspaper reports; ABS labour force data.	Jobs at risk as a result of potential RSRT reintroduction.

The federal opposition's failure to support the government's recent abolition of the Road Safety Remuneration Tribunal (RSRT), a former body responsible for establishing minimum pay rates for contractor drivers in the trucking industry, has been interpreted as suggesting that the opposition, if elected to government, would support the reintroduction of the RSRT.²² In December 2015 the RSRT imposed new mandatory minimum pay standards for owner-drivers operating in Australia, a move claimed by the industry would put employment at risk as certain drivers become priced out of the freight transportation market.

It has been commonly reported that the effect of the RSRT decision would put the employment of 35,000 people operating in the trucking industry nationally at risk. In this study, a share of Victorian contractor drivers is estimated on the basis of the state's share of national employment in the transport, warehousing and postal sector (25.9 per cent).²³ Apportioning the assumed Victorian share of employment gives an estimate of over 9,000 jobs at risk if the RSRT is to be reintroduced.

²² Jared Owens, 2016, 'Labor stops short of Road Safety tribunal pledge', The Australian, 19 April.

²³ Australian Bureau of Statistics, Labour Force, Australia, Detailed, Quarterly, February 2016, cat. no. 6291.0.55.003.

4) FOREGOING MELBOURNE'S EAST WEST LINK PROJECT

Policy	Estimated jobs foregone or at risk	Estimate reliability	Source	Comments
East-West Link	6,000	Medium	Department of Infrastructure and Regional Development.	Jobs foregone in construction phase in East-Link road project does not proceed.

The East-West Link is a proposed toll road in inner-city Melbourne, spanning 18 kilometres in length. The proposal is to connect the Eastern Freeway at Clifton Hill with the Western Ring Road at Sunshine West. According to a needs-assessment of the project by Sir Rod Eddington, the East-West Link is designed to cater for anticipated strong growth in demand for travel (including private motor vehicle and road freight usage) by the early 2030s.²⁴

Although the government has indicated it would be prepared to contribute to the financing of the project, despite the Victorian government abandoning the East-West Link shortly after the 2014 state election, the federal opposition has reversed its initial support for the project.

Information provided by the Commonwealth Government indicates that the East-West Link road project would have created approximately 6,000 jobs during the peak construction phase.²⁵ Although it is highly likely that infrastructure construction employees would be otherwise assigned to works for other projects in Victoria and elsewhere, it is assumed that the 6,000 jobs specifically for the East-West Link project would be foregone upon a change of government at the federal level.

²⁴ Sir Rod Eddington, 2008, *Investing in Transport: East West Link Needs Assessment*, Government of Victoria, Melbourne.

²⁵ Department of Infrastructure and Regional Development, 'East West Link', http://investment.infrastructure.gov.au/publications/reports/pdf/factsheets2014/Factsheet_East_West_Link_October_2015.pdf (accessed 2 June 2016).