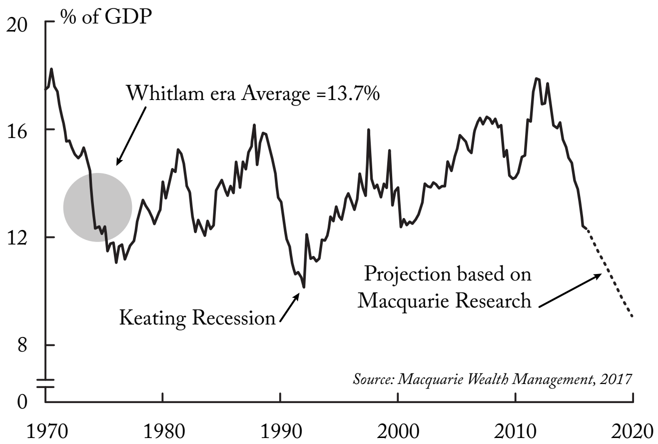
Business investment in Australia now lower than under Whitlam

Business investment in Australia is 12.2% of GDP[1] and is forecast to fall to a record low nine per cent of GDP by 2020, according to Macquarie Research.[2] During the Whitlam era of economic crisis business investment averaged 13.7% of GDP.

Business Investment as a Percentage of GDP is Approaching Record Lows



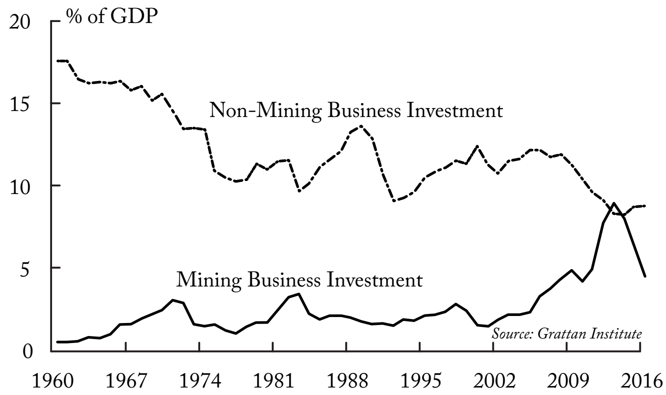
Declining investment is a key cause of record low wage growth: less investment reduces the economy's capital stock, which lowers labour productivity and puts downward pressure on wages.

Business investment is decreasing because the mining investment boom has tapered off without an offsetting increase to non-mining investment. Even though "economists and policymakers have assumed that a lift in non-mining business investment was forthcoming," according to Gareth Aird, Economist at the Commonwealth Bank.[3]

But despite record low interest rates and an exchange rate which has depreciated by 25% from its July 2011 peak, non-mining business investment as a percentage of GDP remains close to historic lows.[5]

Even the International Monetary Fund said low investment, suppressed price and wage growth and high underemployment are symptoms of the 'new mediocre' where long term growth malaise is becoming the norm.[6]

Mining and non-mining Business Investment as a Percentage of GDP



Why is Investment Weak?

It has been argued that weak business investment in Australia is due to changing economic fundamentals. A recent report by the Grattan Institute argued that about two-thirds of the decline in non-mining business investment was "due to benign long-term structural changes to the economy", which include:

- The non-mining sector becoming less capital intensive.
- The economy moving toward capital-light services.
- The non-mining sector declining as a share of GDP.[7]

The remaining one-third of the decline is explained by low economic growth.

The Grattan Institute concludes that today's level of non-mining business investment is "about what should be expected"[8] and that Australia is "moving toward the advanced economy average."[9]

But this analysis downplays the negative effect that public policy has had on declining business investment. Australia has a high corporate tax rate, restrictive regulations and red tape, and an inflexible labour market, all of which discourage business investment.

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Investing in Australia is Unattractive

Surveys and analysis constantly show that Australia has a policy environment which discourages investment.

For example, Australia's corporate tax rate of 30% for businesses with more than $10 million in annual turnover is one of the highest in the developed world. Singapore's rate is 17%. The UK's rate will be 17% by 2020. And the rate in the US is expected to drop to 15%.

Further, according to the World Economic Forum, out of 138 nations, Australia ranks:

- 96th for the negative effect taxation has on the incentive to invest.
- 100th for how much business profit is taken by tax.
- 118th for workplace relations efficiency.
- 111th for labour market flexibility.[11]

Red tape and overregulation are also constantly re-emerging concerns. Specifically:

- The Sensis Business Index found that small and medium sized businesses are "worried about excessive bureaucracy and red tape and would like to see more done by the Government to address these issues."[12]
- The most recent National Red Tape survey by the Australian Chamber of Commerce and Industry (ACCI) found "nearly half of the respondents reported that the impact of regulation had prevented them from making changes to grow their business."[14]
- In his recent speech to the National Press Club, Ken Henry referenced research by the National Australia Bank which revealed that businesses believe less red tape, less regulation and a simpler tax system would support business growth.[16]
- Danny Gilbert AM, chair of the Business Council of Australia's Ease of Doing Business Committee, recently said "we are being held back by a noxious culture of overregulation that has infiltrated almost every aspect of our lives."[17]

Several examples highlight Australia's red tape problem:

- The Roy Hill iron ore mine in the Pilbara required more than 4000 separate licences, approvals, and permits for the pre-construction phase alone.[18]
- The Adani coal mine in central Queensland has spent seven years in the approvals process, endured more than 10 legal challenges, and prepared a 22,000 page Environmental Impact Statement. And the project may be stymied by more legal challenges.[19]
- In a 2013 report the Productivity Commission gave the example of a project which was required to meet 1500 government imposed primary conditions and 8000 sub-conditions.[20]

As the Institute of Public Affairs said in "Be like Gough: 75 radical ideas to transform Australia", the Federal Government should formalise a one-in-one-out rule to cut red tape, and reduce the corporate tax rate to a globally competitive 25%.[21]

Conclusion

Policy makers have a choice. They can either sit back and watch decline unfold. Or they can implement structural reforms to make Australia a more attractive investment destination by reducing tax and regulation, cutting red tape, and making Australia's labour market more flexible.

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4 The Treasury, "Budget 2015-16: Budget Strategy and Outlook, Budget Paper No. 1", Canberra, Australia (May 2015), pg. 1-1, and pg. 1-5

5 Grattan Institute, "Stagnation nation? Australian investment in a low-growth world", Carlton, Victoria (26 February, 2017), Figure 2.5, pg. 17

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9 Ibid, pg. 15, figure 2.4

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12 Sensis, "Sensis Business Index December 2016: A survey of confidence and behaviour of Australian small and medium businesses", (18 January 2017)

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19 Department of State Development, "Carmichael Coal Mine and Rail Project Environmental Impact Assessment", Queensland Government, Brisbane, Queensland. Available at http://statedevelopment.qld.gov.au/assessments-and-approvals/carmichael-coal-mine-and-rail-project.html

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