Business regulation holding back growth

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The China boom has continued to lift Australian income levels via mining demand and this has been supplemented by general increases in primary product prices. But our success has been due to the investment environment of the past two decades and earlier.

The "micro-economic reforms", started in the early 1980s by the Hawke government, dismantled many of the government-imposed restraints that added costs to enterprise, and injected greater competition into a range of products and services. The Howard government built on these with labour market reforms, while privatisations amplified the benefits.

In all too many ways, the Rudd/Gillard Government's policies have reversed these painstakingly assembled pre-conditions for prosperity enhancement. Key decisions have undermined the ability of the private sector to invest with confidence in productivity improvements. Some recent policy stances are even challenging the long-standing expectations that governments would respect property rights and would maintain a stable, non-discriminatory taxation regime.

These developments are particularly evident in the four key industry policy areas - telecommunications, a carbon tax, the mining tax and Murray Darling water.

With regards to telecommunications, it is almost a cliché to acknowledge the importance of a first-rate system, given the sector's ubiquity to productivity throughout the economy. Investment in the sector requires predicting needs and the costs of meeting these as well as the usual concerns about competition, concerns that heighten risks as a result of the startling developments in technology and usage patterns.

The national broadband network, comprising an infra-marginal government-owned network, is created as a monopoly and likely to incorporate competition-restraining features. Its subsidised nature is paralysing new investment by the private sector in developing services that might compete with it, while forcing the industry to adopt a government rather than customer-oriented focus.

The threat of a carbon tax is the second major policy negative. It means that major new electricity generation facilities cannot be contemplated. As seen with the NSW "gentrader" sales, it has also brought a steep discount to existing facilities - perhaps reducing their worth by two thirds.

No coal-fired power stations can pass an investment test while the threat of a tax on their emissions is an ever-present risk to their future profitability. Nor can gas-fired power stations obtain financial approval, because even if a tax that placed a greater penalty on coal were introduced its durability cannot be guaranteed. And the Government continues to subsidise intrinsically high-cost wind which suppresses wholesale market prices.

The third detrimental policy threat is the mining tax. New mining investment is proceeding but Australian exploration expenditure has not reached previous peaks and has fallen relative to that in other countries. The risk of a new mining tax makes Australia less attractive. This is a slow fuse undermining new ventures, one that will bring productivity shortfalls in years, even decades to come.

Finally there is the policy of the on-going threat to buy water from irrigators in the Murray Darling aimed at reducing irrigation rights by at least one third. This places a deterrent to new investment in the interior townships in Queensland, New South Wales, Victoria and South Australia. It means ageing processing equipment, riskier real estate developments in the towns themselves and on-farm developments geared to short-term measures.

Investment-sapping policies in these four areas are setting up Australia to reap a penalty of slow growth, if not stagnation in the years to come. And this is being compounded by backsliding in a range of earlier micro-economic reforms.

We are seeing union monopolies being bolstered with restraints on employer-employee bargaining and the "tough cop" on the beat that Gillard promised having his powers undermined. In addition protectionism is creeping back in for example coastal shipping services.

Compounding these are the increased hidden charges from the requirements for wind-based electricity and from building standards that require new houses to incorporate costs like grey water systems and solar panels.

At the same time the energies of regulatory agencies like the ACCC have been directed at measures that thwart productivity growth. These include attacking banks and requiring firms to share their facilities with their competitors (guaranteeing that fewer such facilities will be built).

A new impetus to reform could be initiated if the regulatory agencies were redirected from restraining business activity to unchaining the manacles on enterprise by:

• Bringing about competition and lower costs in public transport
• Undoing planning laws that force up the price of new housing, restrain competition in shopping centres and add costs to commercial developments
• Reviewing laws on environment and heritage to ensure they are not extending beyond their necessary levels and thereby preventing development
• Removing the restraints on the adoption of new technology like GM in agricultural production.

Australia has the highest levels of natural wealth per capita in the world. This can be translated into achieving the world's highest living standards. We were progressing towards this until the process was halted by government intervention and impositions on business that were introduced or foreshadowed over the past three years. We can restore the process by recommitting to a reform program that involves taking measures to enhance rather than retard productivity growth.

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