

AUSTRALIAN DEMOCRATS

ECONOMY



POLICY FRAMING
STATEMENT

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ECONOMY

The Australian Democrats are committed to maintaining and improving the social services expected of Government. It is essential that the public expectation is tempered and informed with a clear understanding of the costs and benefits of these services.

A key and increasing failing of the political system in Australia is the tendency for public service programs to be driven by overly and increasingly overtly partisan party politics. This means that the cost benefit analysis, if conducted at all, is in terms of the political advantage of the party proposing the program instead of the appropriate return to the community, taxpayer and/or the nation.

Increasingly we see a political system preoccupied with short term political gain capturing the public service and in turn distorting the essential connection between the public service and their real "customers", being the taxpaying public. This leads to a public service that is predisposed to short term planning reflecting the term and tenure of the government of the day.

In spite of our growing national debt, Australian Government revenues have been increasing year on year suggesting that as a nation we do not have a revenue problem. At the same time, front line services have declined year on year in real terms and real investment in nation building infrastructure is lagging badly in proportion to previous generations. These two factors indicate that Australia has a resource allocation problem with an inference that crudely applying more money does not equate to better service delivery.

Over the past forty years spending by all levels of Government has increased as a proportion of GDP from approximately twenty-seven percent to nearly thirty-nine percent. At the same time, we see infrastructure and services, including in health and education, declining disproportionately and even closing down completely. Government spending is out of control and grossly inappropriate to function.

Government does not need to increase overall tax rates, nor does it necessarily need to cut social service provision. Government needs to ensure expenditure is efficient and appropriately targeted.

The Australian Government needs to enforce its tax regime fairly on all participants in the Australian economy by ensuring larger corporations cannot unfairly evade tax by shifting profits offshore. At the same time, it needs to stop the wanton waste and inefficiency in public service spending.

There is ample evidence to support the notion that Government can and must do more with the revenue it receives. There are more public servants than ever before, delivering fewer and inferior frontline services. No business could survive operating with the inefficiency of the public service and objective merit based key performance matrices must be adopted and applied within the public service, including an independent merit based review of the performance of personnel including politicians.

Modelling suggests that freeing up small business and providing increased incentives for essentially best practice by mitigating commercial risk, especially in the agricultural sector, will deliver increased revenues to Government through increased operating profits. At the same time this modelling indicates regional centres will retain higher populations, better utilising existing infrastructure. Similarly, this modelling indicates the resulting increase in Government revenue will be higher than the cost of the risk mitigation. This makes this type of investment cash positive and therefore essential.

Novel funding models that incorporate a commercial partnership with the private sector to deliver desirable public amenities or outcomes that provide opportunities for increased efficiency in the

application of public funds. The Clean Energy Finance Corporation is one such model that increased private sector investment in renewable energy projects and at the same time provided a cash positive funding model.

Australia is ridiculously over governed with three levels of Government as a result of the Federation model and structure. While structural reform is unlikely, it is clear that operationally there could be significant improvement in efficiency of both the collection and distribution of public monies across the three layers of government. The unnecessary duplication of bureaucracy is an obscene and unnecessary waste of taxpayer monies and delivers very little in frontline services.

An example of this duplication lies in health. While Health is a state portfolio the Federal Department of Health employs over five thousand three hundred (5300) people and delivers almost no frontline services if any. The Australian Democrats is not suggesting we do not need a Federal Department of Health and we acknowledge some aspects of the portfolio are exclusively federal, it is effectively an administration department and hard to justify to that extent.

There are a number of taxes that are simply bad for business. Payroll tax is a prime example of a tax that is a major disincentive for small business to expand and increase employment opportunities in the community. Obviously this example is a state tax as opposed to a federal tax which highlights the problem of the community being taxed independently by three levels of government and then having those tax dollars move inefficiently between those three levels of Government.

The Australian Democrats would prefer to see a single simple tax point for consumers. The Goods and Services Tax is an appropriate and relatively efficient tax model, but any broadening of the base should come with the abolition and or reduction in other taxes

The Australian Democrats would prefer a streamlined geographic distribution of funds based in part of population/Gross Domestic Product and in part on economic contribution to Gross National Income. Infrastructure investment decisions should be informed and supported by objective cost benefit analysis in terms of long term benefits to Gross National Income as a key index in lieu of Gross Domestic Product.

Any infrastructure spending on public service infrastructure supporting or prescribed for administration of government or public services should be reviewed independently and benchmarked to similar commercial infrastructure investments.

The Australian Democrats are committed to an essential, motivated and empowered public service sector. The Government and the nation cannot operate without a viable public service sector. However, it is imperative that there is a concerted effort to ensure that public servants are deployed in roles that actually add value and improve the efficiency and effectiveness of the delivery of services.

The Australian Democrats are committed to limiting the size and intervention of Government. There is a need for a more commercial and objective process of review of public spending initiatives and a meaningful application of that rationale. Government needs to adopt a mindset that there is no reason to accept that the public service can't match private sector operational efficiency and effectiveness.

Government revenues should increase naturally with an increase in the affluence of the nation through considered policies that actually support domestic industries and businesses that provide real development and employment opportunities, with a particular emphasis on small business.

The Australian Democrats will work to implement stable non-partisan fiscal policies with the aim to minimise uncertainty that arises with every change of government. It is imperative that consistent, effective and workable policies are developed and understood by all sides of politics.

The Australian Democrats will work with all sides of politics to particularly develop greater understanding of rural and regional industries and communities.

Small Business

Nationally the small business sector accounts for approximately two million businesses and employs over seven million people in Australia. Employment in small business accounts for approximately two thirds of the Australian workforce.

It is clear that the health of the small business sector is a major single determinant of the health of the economy.

Successive Australian governments have professed to be concerned about the small business sector and still the regulatory demands on the sector see it pushed nearly to the brink and the decline is seeing significant reduction in business numbers and labour utilisation in spite of population growth. Furthermore, the definition of a small business varies between the Australian Tax Office, Fair Work Australia, the Australian Bureau of Statistics and the Australian Chamber of Commerce and Industry.

It is exceedingly unlikely that any Australian government has made any serious commitment to the small business sector when they have not even taken the time to define the sector. Interestingly, not a single one of the many Australian definitions of the small business sector correlates with our major international competitors. Australian government definitions range from:

- less than 15 employees by simple count rather than full time equivalents for Fair Work Australia;
- less than 20 employees for the Australian Bureau of Statistics;
- less than 50 employees for the Australian Tax Office;
- less than two million dollars in revenue for the Reserve Bank of Australia; and
- less than fifty million dollars for the Australian Prudential Regulatory Authority.

Typically, small business operators actually operate the business they own or at very least have an intimate knowledge of the operation. Similarly, most small business operators are not often “sophisticated”, in the corporate sense, and their primary skills tend to lie in the field of the service or production sector that the business operates within. For example:

- A plumbing contractor is usually a plumber with a trade background, and is not a university trained business management graduate.
- A farmer is usually skilled in production of crops or livestock, and is not a tax accountant or industrial relations lawyer.

As a result we see small business severely disadvantaged by government regulation and compliance, which does not differentiate between a large or small employer.

Small business operators are besieged by predatory and anti-competitive behaviour of big business. Similarly, small business is increasingly besieged by the regulatory systems of government which are really targeting big business and indifferently catching small business in the crossfire. The Australian Bureau of Statistic reports small business survival rates have declined sharply and the rate of labour utilisation by small business has contracted even faster.

The increasing demands on small business administration and compliance do nothing to improve productivity or profitability and simply add cost to the business and demotivate the sector.

Clearly it is essential to support small business and recognise that it is the sector of the economy most able to drive growth and innovation in the Australian economy and with meaningful support will provide the biggest growth in employment in terms of numbers of jobs and numbers of hours of work.

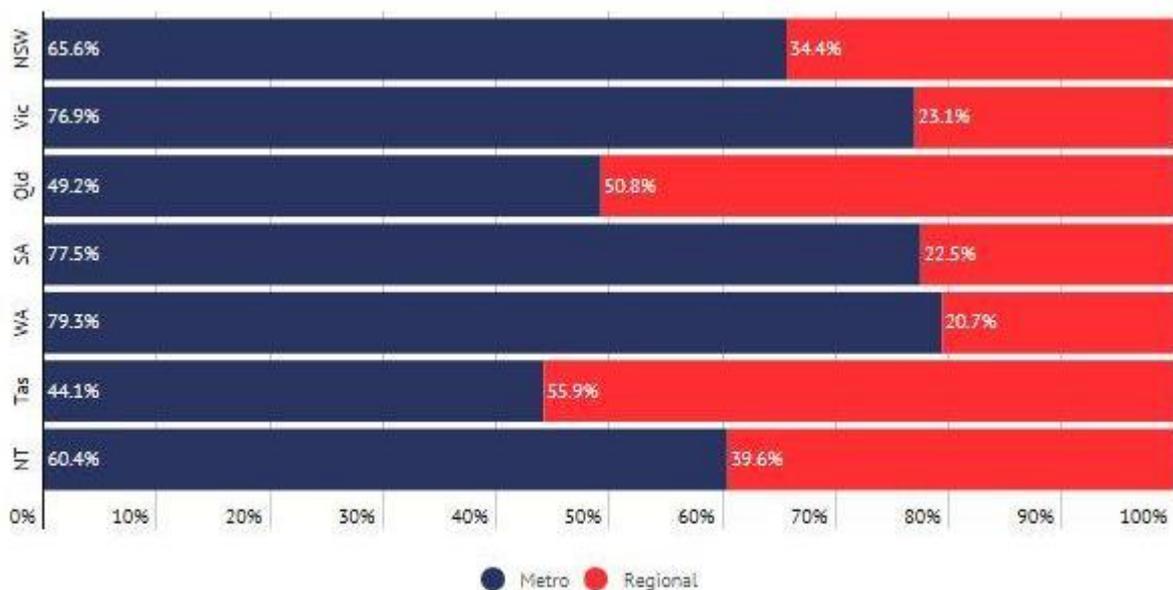
The Australian government has progressively pushed compliance requirements onto business in regards to the roll out of the administration of increasingly complex employee services such as tax collection and management and superannuation administration. It is alarming that the superannuation industry is filled with highly trained accountants and administrators who do not pick up a pencil without charging someone and the government expects small business operators to perform all the accounting and compliance functions for superannuation at no cost. The reality is that the cost of compliance and implementation of increasingly complex payroll management systems cannot be efficiently offset on small workforces that typically define small business.

The agricultural sector is one of the most skewed sectors in terms of business demographics with over 90% of businesses within the sector being classified as small businesses. It is clear that any improvements in the operating environment for small business will improve conditions for the national agricultural enterprise, but it is not necessarily helpful to differentiate the agricultural sector in this discussion.

The Australian Democrats is committed to reducing red tape and compliance costs for small business and recognises that the marginal unit costs to compliance to small business must be considered in contrast to the marginal unit costs to big business. Additionally, the Party is committed to seeing regulatory impact assessments for small business mandated for relevant legislation and regulation.

Regional Development

Australia's population trends show an increasingly centralised urban population. This trend presents significant challenges to both urban and regional communities.



Source: ABS

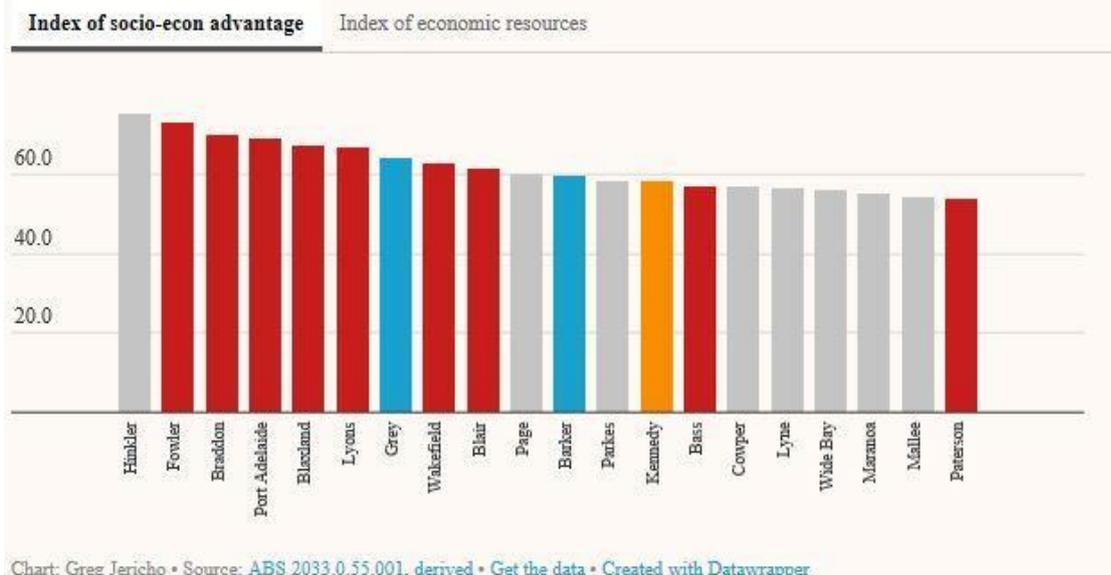
Australian cities are struggling to cope with increased demands on infrastructure and services while regional centres are struggling to justify infrastructure and services. There is an obvious imperative to retain people in regional communities, but this must be coupled with strategies to provide compelling opportunities for regional people and communities.



The current indices paint a different picture with rural and regional electorates fast becoming some of the lowest socioeconomic performers in the nation. The table below highlights the current status of the electorates in Australia with the highest number of people in bottom three deciles of socio-economic advantage in Australia. Rural seats feature disproportionately. Arguably this is because these seats have poorer internet access and levels of education and subsequently higher unemployment.

Electorates with the highest rate of residents in the bottom 3 deciles of socio-economic advantage

Blue = Liberal; Grey = National; Red = ALP; Orange = Indep



Paradoxically, regional Australia’s contribution to the underlying wealth of the nation is disproportionately high on a per capita basis.

The Australian Democrats are committed to the notion that Australia needs to be a country that grows, builds and makes things. This amplifies the natural wealth of regional Australia. However, the opportunity for service sectors to thrive in regional Australia is limited only by our connectivity.

There is a genuine and justifiable demand for investment in physical and technical infrastructure in regional Australia to facilitate commerce and industry as well as improving social opportunities to encourage regional migration and investment.

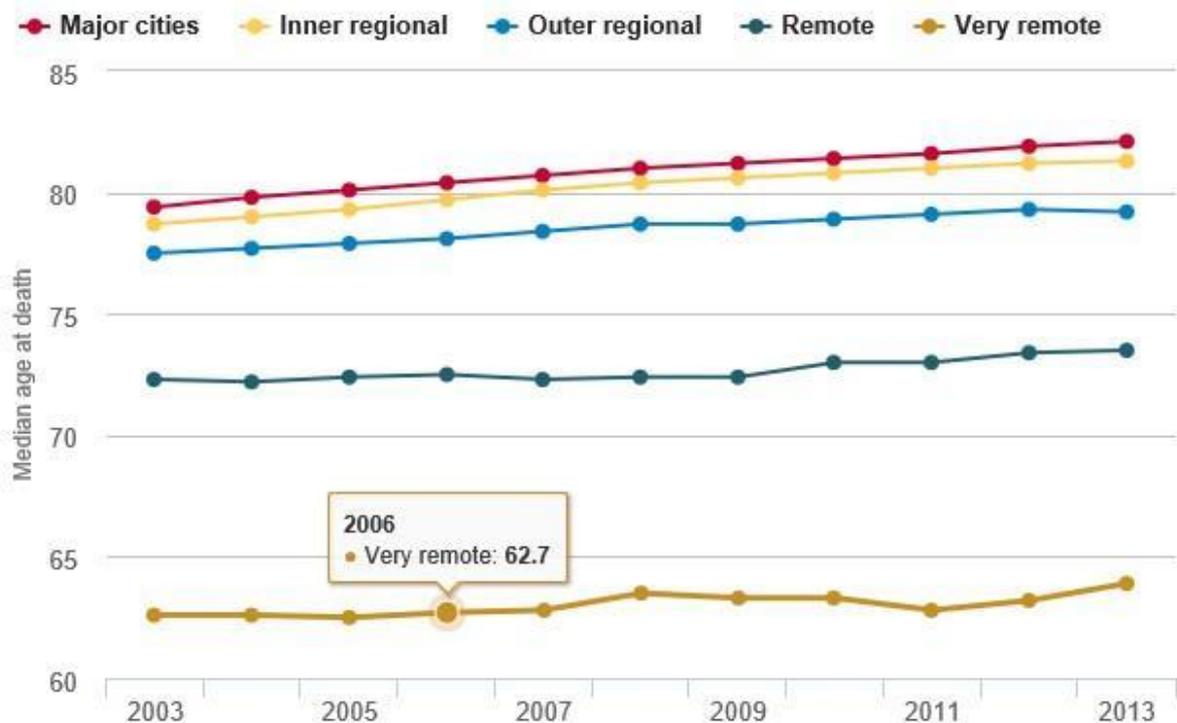
In consideration of population growth and water security for domestic use, irrigation and industry, Australia is decades overdue for more dams and essential water infrastructure.

By the same measure our national investment in regional transport infrastructure, particularly efficient rail and air and sea port facilities is equally deficient.

Internet and telephone access is a specific area of infrastructure investment that needs particular discussion. Rural and regional communities are subject to unreliable and disproportionately expensive services with limited competition.

There is a critical need for ongoing investment in infrastructure for communications to ensure adequate capacity to support ongoing business investment across all of Australia and that rural and regional based people are not disadvantaged in terms of price or quality of service.

Additionally emerging communications technology will result in much needed opportunities for improved services in health and education to remote and regional Australians.



Graphic: Conrad Walters | Source: ABS

In an increasingly digital age the requirement for fast and reliable telecommunications is unprecedented and the private sector is unlikely to provide the necessary investment to rural and regional Australia without Government intervention.

The key rationale for developing and implementing a suitable telecommunications policy for rural and regional Australia must focus on the economic return to the nation from the investment rather than simply on the number of people with access to the service.

Innovation is critical to the evolution and success of all industry and community. It is essential that we keep rural and regional professionals in rural and regional areas to stimulate and support this innovation and development. We need to ensure there is adequate capacity to support their enterprise and entrepreneurship.

Infrastructure

There are two areas of consideration for an infrastructure policy. We must consider investment in new infrastructure and equally management and divestment of existing infrastructure.

Broadly the Australian Democrats seek further strategic investment in infrastructure to underpin the provision of services equitably to the population and to stimulate commerce into the future.

The Australian Democrats are committed to the notion that Australia still needs to be a country that grows, builds and makes things. The political aspiration to promote a shift to a services based or tertiary industries nation belies our natural asset base and what should be the competitive advantage of being an island.

There are competing pressures for public spending on infrastructure to support the increasing urbanisation of our population which is undermining more strategic investment in strategic critical infrastructure to support commerce and industry into the future.

By even the crudest measures we are decades overdue for meaningful nation building infrastructure, particularly outside of the major urban hubs. Infrastructure spending has been captured in servicing the needs of an increasingly centralised population.

In consideration of population growth and water security for domestic use, irrigation and industry, Australia is decades overdue for more dams and essential water infrastructure. By the same measure our national investment in transport infrastructure to support trade and commerce, particularly efficient rail and port facilities is equally deficient.

It appears that up until the 1970s, Australian governments and industry were capable of conceiving spectacular nation building engineering works that significantly and purposefully added to the productivity and capital base of the country. These assets included power stations and transmission lines, ports, railways, roads, grain handling facilities, airports, dams and telecommunications.

Since then and contrary to the obvious need for greater investment, we have seen increasing divestment by all levels of government of public built and funded infrastructure and assets. The rationale that suggests that a commercial entity can better manage and maintain our essential assets than our Government, is an indictment on the quality of management in the public sector. Such a revelation should prompt the reform of the public asset management capacity, rather than a weak capitulation to inadequate public service and subsequent sale of essential assets.

Public assets that are conceived and built with a public or national interest often provide monopolistic market structures. This is because the infrastructure gap is not likely to be provided by private sector investment in a timeframe or design that is needed to support the community and or industry.

In turn this means that the sale of such assets means the new owners have an extraordinary market power that is in fact a legacy of an uncompetitive development process. It is fair to say that the increasing deregulation of the market environment around these legacies provides an environment that is too easily abused in the process. The general trend is an immediate and short-term cost benefit to consumers as part of the purchase contract undertakings, but ultimately the cost of service or access increases disproportionately.

The Australian Democrats are strongly opposed to the sale of essential public infrastructure. The Australian Democrats rejects the notion that a commercial entity with strong financial motivation to act in self-interest can better manage essential services in the national interest where infrastructure provides (geographical) monopolies.

One of the main triggers for the sale of public infrastructure is the run down in these assets and associated ongoing maintenance and renewal costs. This results in depressed asset pricing at sale. Often the real strategic value of the assets is not realised which means the tax payer ends up paying for the initial asset and subsequently, once the asset is privatised, paying for it again to the new commercial owners who seek a handsome profit on an asset that has been subsidised to them by the tax payer.

The decision to sell assets is often short-term rationale in relation to election cycle budget timeframes. If this rationale had been at the front of mind of the nation at its inception, no nation building infrastructure would exist today. It is essential that this thinking be reversed to facilitate retention and maintenance of existing infrastructure and to deliver new projects of meaningful benefit to the nation.

The Australian Democrats are committed to ongoing investment in public infrastructure and the ongoing and timely maintenance of these assets for the benefit of all Australians now and in the future.

Telecommunications infrastructure

Internet and telephone access is a specific area of infrastructure investment that needs particular discussion. In an increasingly digital age the requirement for fast and reliable telecommunications is unprecedented.

Australian telecommunications services are comparatively slow and expensive in a global context. This is a significant disadvantage for commerce in Australia and impacts on delivery of essential services in health, education and other community social support systems. Rural and regional communities, in particular, are subject to unreliable and disproportionately expensive services with limited competition.

The Australian Democrats are fully committed to investment in infrastructure for communications to ensure adequate capacity to support ongoing business investment across all of Australia and that rural and regionally based people are not disadvantaged in terms of price or quality of service.

Innovation is critical to the evolution and success of all industry and community. Effective and globally competitive telecommunication is essential to this ongoing innovation.

Industry and Jobs

The Australian Democrats is committed to maintaining a productive and affluent workforce. The best protection for Australian workers is achieved through stable and full utilisation of the workforce by viable businesses. In turn this means we must also provide an environment that fosters productive and affluent Australian employers.

In an increasingly globalised market, it is essential that Australian businesses are able to compete internationally. Australia's necessary commitment to maintain a high standard of living to provide adequate health and aged care, education and infrastructure requires a strong economy, which is underpinned equally by an affluent work force and thriving business sector.

It is clear that multi-national corporations and foreign owned business have an unfair capacity and will to undermine Australian pay and conditions. It is also clear that many multi-national and

Australian based big businesses deliberately abuse loopholes in Australian tax law including moving their domestic incomes offshore to avoid paying Australian taxes.

The Australian Democrats is committed to small and medium sized business and seeks to ensure these sectors in the economy are able to compete with big business to provide necessary competition, stimulate innovation and better utilisation of the domestic workforce.

It is true that Australian labour costs are higher than in many competing nations, increasing the economic pressure on margins for domestic goods and services that are subject to international competition. However, labour costs for Australian manufacturing, which has been hit hard by international competition, only attribute about 17% of the total costs in manufacturing. This indicates that the solution to the pressures on international competitiveness are in fact much more complex than just adjusting the labour market.

The Australian car industry is set to close facilities and cease manufacturing in Australia resulting in the loss of tens of thousands of jobs both directly and in the varied supply industries. While high labour costs were a factor in the decision to shut down, there were a range of issues affecting the domestic manufacturers' ability to compete with cheap imported cars. The comparative costs of imported cars are directly affected by factors controlled or heavily influenced by Government policy outside of the labour market.

Currency exchange rates are affected by Government fiscal policy and resulting Reserve Bank monetary policy amongst other things. A high exchange rate brings down the comparative cost of imported items and effectively drives up the comparative costs of domestic enterprises. At the time the car industry determined it was unviable the exchange rate was well over parity. It is now well under parity and sensible fiscal policy would keep it that way and provide competitive trading to extend car manufacturing and stimulate all other forms of manufacturing also.

The Government also has the ability to implement countervailing duties to protect Australian industries from dumped products or offset foreign subsidies. The reality is that forcing domestic industries to compete with nations that do not impose the same level of regulation as Australia around environmental compliance, labour market compliance and general operating compliance is hardly free or fair trade. In a quid pro quo, Australian governments must also be pressured to reduce their own regulatory burden on domestic industry.

Regardless of current Government propaganda around free trade and the forecast efficiency gains, the ongoing abolition of all forms of protection to Australian domestic industries has eroded business and labour market resilience. This has occurred particularly in regard to the increasing levels of government regulation and associated compliance costs for domestic industry and small business.

The reality is that the vast majority of any benefit of bilateral trade agreements are captured by big business. (This is the same big business that shifts its income and avoids having to pay appropriate levels of tax in Australia.) Independent analysis suggests there is very little if any benefit from liberalising trade into Australia to the broader economy or small business, where most of the domestic workforce is utilised.

Any decline in the utilisation of a skilled workforce in Australia will simultaneously result in the decline of training for a skilled workforce. This will create a long-term crisis in ability to maintain a first world standard of workmanship on critical specialist services. The potential is for a negative feedback cycle that will cripple domestic industrial capacity, labour demand and the Australian economy.

The labour market is heavily regulated in Australia and there is ample evidence to suggest that there is a real need for reform, particularly in relation to the rigidity of pay and conditions for small and regional business operators and employees. There are clear disincentives in the current system for full utilisation of the work force and common sense must prevail. Small business and their employees seem to be caught in the cross fire between big unions and big business in relation to the pay and conditions debate.

It is clear that if labour pay and conditions are aggressively undermined and more financial pressure is brought to bear on the workforce generally, the economy will be exposed to an immediate shock.

Any adjustments to pay and conditions needs to be tied to productivity and improving labour utilisation in a way that provides opportunity to both employee and employer. Ambit wage claims increasing cost to business without comparative increases in either productivity are unsustainable. Similarly, decreasing the rate of pay will not necessarily increase the rate of employment, leading to less tax to government, less money flowing into the business economy and less money to the private sector, resulting an almost immediate recession.

The Australian Democrats is committed to protecting Australian jobs and maximising the productivity of the workforce to increase employment rates in terms of people in paid work, and more importantly, the people in full time work.

We will achieve this through considered policies that actually support domestic industries and businesses that provide real development and employment opportunities, with a particular emphasis on small business.