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SUBMISSION TO INQUIRY INTO IMPEDIMENTS TO BUSINESS INVESTMENT

Daniel Wild, Research Fellow

Institute of Public Affairs
SECURING FREEDOM FOR THE FUTURE
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About the Institute of Public Affairs

The Institute of Public Affairs (IPA) is an independent, non-profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom. Since 1943, the IPA has been at the forefront of the political and policy debate, defining the contemporary political landscape.

The IPA supports the free market of ideas, the free flow of capital, a limited and efficient government, evidence-based public policy, the rule of law, and representative democracy. Throughout human history, these ideas have proven themselves to be the most dynamic, liberating and exciting. Our researchers apply these ideas to the public policy questions which matter today.

About the author

Daniel Wild is a Research Fellow at the Institute of Public Affairs. He specialises in red tape, regulation, economic policy, the philosophy of free enterprise, and criminal justice. Daniel has authored research papers on economic policy, environmental regulation, and criminal justice reform.

Daniel frequently appears in the media, and has published a number of opinion pieces in The Australian, The Daily Telegraph, The Sydney Morning Herald, The Courier Mail, and The Spectator. Daniel has also made a number of radio and television appearances, including on 2GB, 3AW, Sky News, and Channel 7 News.

Daniel previously worked at the Commonwealth Department of the Prime Minister and Cabinet where he analysed global and domestic macroeconomic policy. Prior to that he worked at the Commonwealth Department of Finance where he worked on regulatory reform.

Daniel holds an honours qualification in economics and a degree in international studies from the University of Adelaide.

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Executive Summary

Public policy should be aimed at giving all Australians the opportunity to succeed based on their own hard work and merit. Earned success – the process of applying one's skills and talents to achieve a goal of one's own design – is the key to allowing people to reach their potential and to flourish.

Business investment is key to this process. By expanding the economy's capital stock, business investment makes Australian workers more valuable. This puts upward demand on workers, which expands economic opportunity and leads to more, better, and higher paying jobs.

Business investment also provides a key conduit through which Australian firms get access to world's best practice business techniques; increases technological innovation; increases competition; and helps grow Australian businesses, as well as creating new businesses in Australia, which puts downward pressure on costs and expands consumer choice.

To this end, policy-makers should aim to make Australia the most attractive destination in the world for businesses to invest in.

However, bad public policy across a range of areas has made a substantial contribution to Australia's low levels of business investment. New private business investment in Australia is currently just 11.7 per cent of GDP, which is lower than the rate which prevailed during the economically hostile Whitlam years.

The key areas of public policy failure include:

- Australia's high business tax rate.
- Over-regulation and red tape.
- Subsidisation of high cost, unreliable renewable energy generation.
- High and rising public debt.
- A rigid and inflexible industrial relations system.

To rejuvenate business investment in Australia, the federal government must reduce Australia's high business taxes rate, reduce red tape, eliminate the subsidisation of renewable energy, reduce spending to reduce the growth to public debt, and liberalise the workplace relations system.

For reference, this submission is substantially similar to submission made by the IPA to the *Resources 2030 Taskforce*.[1]

1 Wild, Daniel, "Submission to the Resources 2030 Taskforce", Institute of Public Affairs, Melbourne, Australia, (2018)

Introduction

The Institute of Public Affairs welcomes the opportunity to provide a submission to the Inquiry into Impediments to Business Investment. This submission focusses on the role that public policy has played in causing a down-turn to business investment, and approaches that can be taken to reverse this trend.

Australia is a land of great potential and opportunity. Yet bad public policy has caused numerous self-inflicted economic wounds. This bad public policy has been a key factor contributing to the decline to new private business investment in Australia, and the associated decline in Australia's economic competitiveness. Today, business investment is just 11.7 per cent of GDP, which is lower than the rate which prevailed during the Whitlam-era. This is also lower than the long-run average and the average over the past decade, both which are 15 per cent.

It is true that there are non-policy factors contributing to Australia's declining business investment. For example, the decline in the mining investment boom was largely driven by softening demand for resources exports from growing economies such as China. While Australia's economy as a whole, as with other devolved economies, is shifting to sectors which are more labour-intensive and less-capital intensive, such as health care and aged care. Nonetheless, decline is a choice. And public policy has played a key role in both causing the decline to private business investment and preventing its recovery.

There are five key policy areas that are responsible for declining business investment: high taxes, red tape and over regulation, high energy costs, high and growing public debt, and a rigid and inflexible workplace relations system.

The remainder of this paper provides an overview of business investment in Australia, and associated declines to economic competitiveness, examines the five areas of public policy failures, and provides recommendations for how public policy can begin to reverse the decline to business investment.

Summary of recommendations:

To support business investment and job creation on an economy-wide basis, the IPA recommends the following policy changes:

- Introduce a one-in-two-out approach to red tape reduction.
- Abolish the Renewable Energy Target and end all subsidies to renewable energy generation.
- Exit the Paris Climate Agreement and remove emissions reductions as a policy objective of energy policy.
- Reduce Australia's high corporate tax to at least 25 per cent, and ideally to 10 per cent.
- Implement a series of modest changes to the *Fair Work Act* to encourage employment growth.

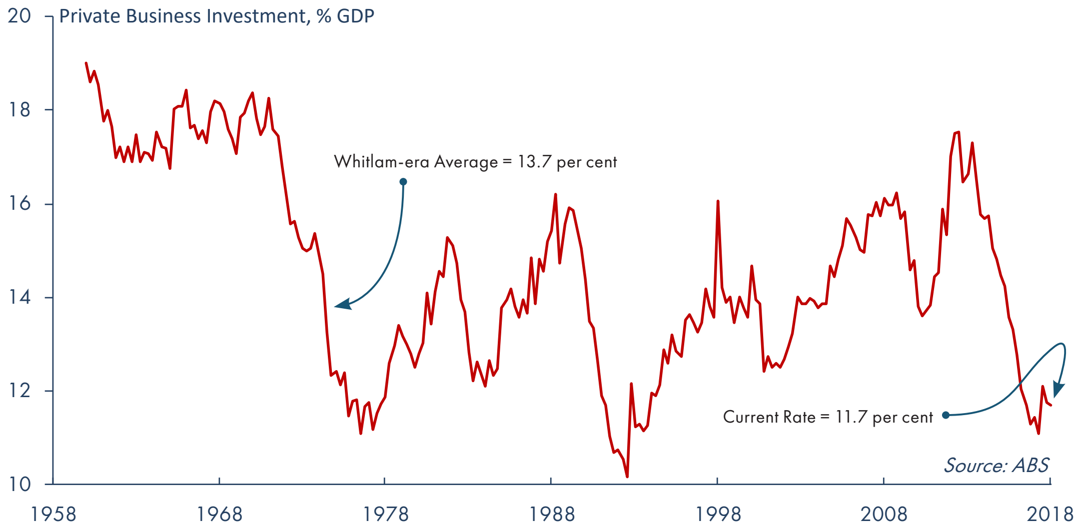
Business Investment is at Crises Level Lows

One of the great economic challenges in Australia is low levels of new business investment. Business investment is integral to creating more economic opportunities and prosperity into the future. By increasing the stock of capital, business investment increases labour productivity, which increases the demand for labour and puts upward pressure on employment and wages.

It is important to understand that business investment is not an abstract macroeconomic variable. Changes to business investment reflect changes to assessments made by investors – institutional, commercial, or individual – about Australia's future economic prospects. Stronger economic prospects increase the likelihood of stronger commercial profits, which in turn makes Australia a more attractive destination in which to invest. Conversely low levels of business investment indicate negative investor sentiment about the current and future states of Australia's economic prospects.

New business investment in Australia is just 11.7 per cent of GDP, which is lower than the rate which prevailed during the economically-hostile Whitlam years.[2] This decline is the result of the tapering off of the mining-investment boom and lacklustre investment growth in the non-mining sector. The former has occurred in defiance of macroeconomic price adjustments that were widely expected to provide a greater boost to non-mining business investment. Specifically, Australia's exchange rate has depreciated by around 25 per cent from its July 2011 peak. And interest rates have been declining or flat since 2011, and have been sitting at record lows since mid-2013.

Chart 1: Private Business Investment in Australia is Low



The slow adjustment to business investment in the non-mining sector is partly a reflection of fundamental economic forces. For example, a number of industries which are growing, such as health care and aged care, are relatively labour-intensive. Moreover, a significant increase in capital expenditure over the past 10-15 years was driven by the mining-investment boom which, in turn, was driven by growing demand from international trading partners, such as China. China's economic boom is entirely outside the control of Australian public policy.

However, bad public policy has played a key role in undermining business investment in Australia, and making Australia a relatively unattractive destination in which to invest. There are five key areas where public policy is undermining business investment: high business taxes, red tape and over-regulation, high energy costs, workplace relations, and high and growing government debt. These issues are discussed in more detail in the sections below.

2 Wild, Daniel, "Business Investment in Australia now Lower Thank Under Whitlam", Institute of Public Affairs, Melbourne, Australia, (2017)

Australia's International Competitiveness is Declining Rapidly

One of the ways in which declining levels of business investment has manifest itself is through declining levels of international competitiveness. Data from a range of studies shows that Australia's international competitiveness is declining and Australia is becoming an increasingly unattractive destination in which to invest. Table 1 below outlines how Australia's competitiveness ranking has deteriorated across five separate studies over recent years.

Table 1: Australia's Declining Economic Competitiveness[3]

	Ranking 2010	Current	Change
World Competitiveness Ranking	15	22	Down 7
World Bank Ease of Doing Business	9	15	Down 6
Heritage Foundation Index of Economic Freedom	3	5	Down 2
IMD Competitiveness Yearbook	5	21	Down 16
Fraser Institute Freedom of the World Index	5	9	Down 4

Analysing these studies in detail suggests there are five key policy areas which are contributing the to decline to business investment and the associated decline to Australia's international competitiveness: high and growing debt; a rigid industrial relations system; a high and growing tax burden; red tape; and expensive and unreliable energy. The chart below shows the change to Australia's ranking across these five policy areas, along with the change to Australia's overall ranking, in the World Economic Forum's Global Competitiveness Survey. Specifically, from 2004-2017, Australia's overall ranking dropped from 8th to 22nd. While from 2006 to 2017, Australia's ranking across key policy areas dropped as follows:

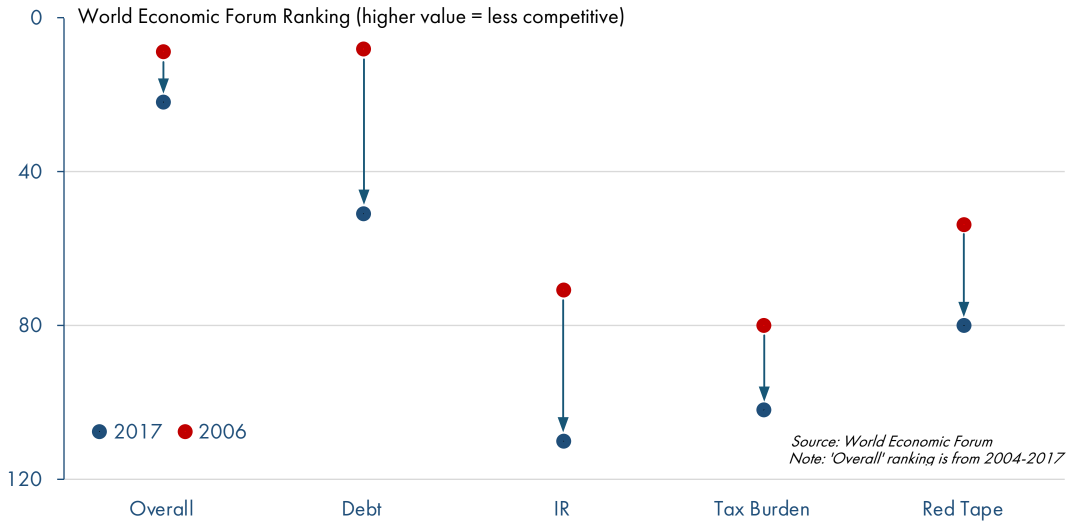
- The burden of government debt dropped from 8th to 51st, turning one of Australia's great strategic competitive advantages into a disadvantage.
- The burden of red tape dropped from 54th to 80th.
- The burden of taxes dropped from 80th to 102nd.
- The rigidity of Australia's industrial relations system dropped from 63rd to 110th.
- The quality of electricity supply dropped from 22nd to 44th.[4]

It is important to re-iterate that this declining economic competitiveness is occurring in spite of record low interest rates and a relatively weak exchange rate when compared with recent years. If anything, these macroeconomic price adjustments disguise the fact that Australia's structural economic position compared with other economies is far worse than the headline competitiveness figures suggest.

3 Adapted from Potter, Michael, "Australia's Economic Malaise", in *Australia's Red Tape Crisis: The Causes and Costs of Over-Regulation* ed. Darcy Allen and Chris Berg, Connor Court Publishing (2018)

4 World Economic Forum "Global Competitiveness Survey", Geneva, Switzerland, (2004, 2006, 2017)

Chart 2: Australia's Policy Performance is Declining Across Five Key Areas



Policy Issue #1:
Australia has one of the Highest Corporate Tax Rates in the OECD

Australia has an inefficient tax system which discourages investment and job creation. According to the World Economic forum, in 2017 Australia ranked:

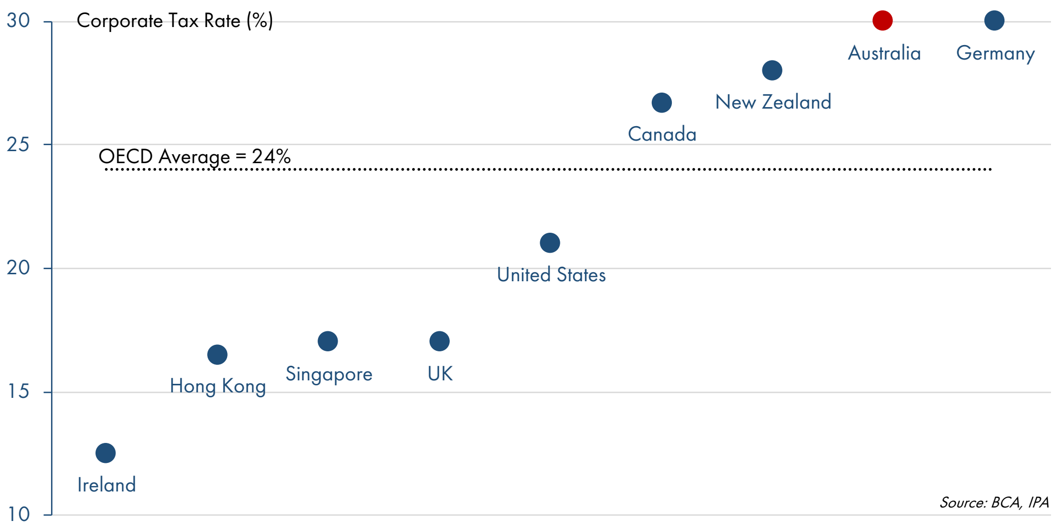
- 102nd for total tax take of business profits.
- 94th for the negative effect that taxes have on the incentive to invest.
- 102nd for the negative effect that taxes have on the incentive to work.[5]

The effect of taxation on the Australian economy has worsened over recent years:

- In 2006 Australia ranked 80th for total tax take of business profits.
- Today Australia ranks 102nd.

Australia's poor rankings on the burden of tax are driven by Australia's comparatively high business tax rate. Australia's top marginal business tax rate currently sits at 30 per cent, which is well above the OECD average of 24 per cent and above comparable nations such as Singapore, which sits at 17 per cent, the UK which will be reduced to 17 per cent by 2020, and the United States which sits at 21 per cent.[6]

Chart 3: Australia's Corporate Tax Rate is High



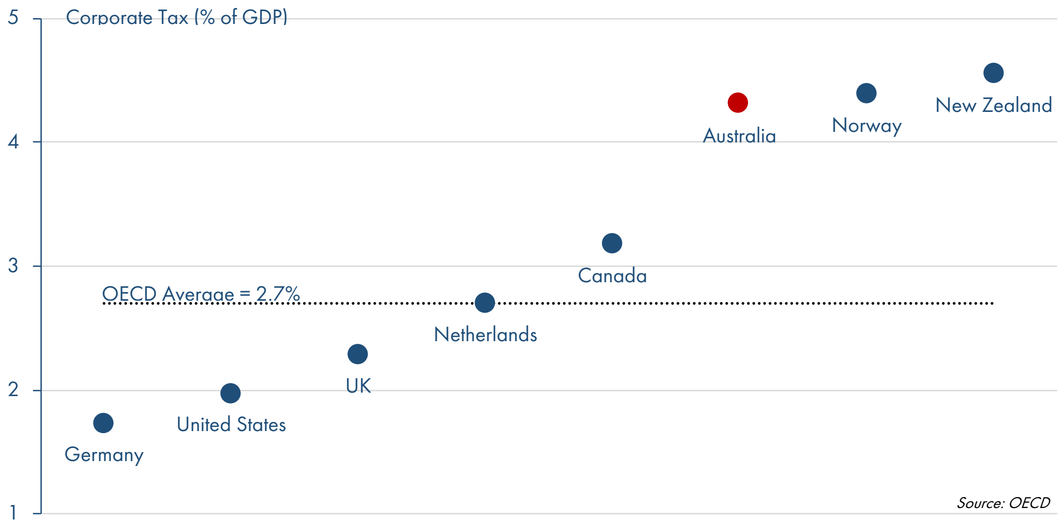
Moreover, Australia's average effective corporate tax rate, which accounts for deductions, is 26 per cent, compared with the global average of 16.3 per cent, according to Price Waterhouse Coopers.[7] Australia's corporate tax to GDP rate of 4.3 per cent is well above the OECD average of 2.7 per cent. And corporate tax as a percentage of total tax is the highest in the OECD – at 15.3 per cent in Australia compared with just 8 per cent for the OECD average.

5 World Economic Forum "Global Competitiveness Survey", Geneva, Switzerland, (2017)

6 See Organisation for Economic Cooperation and Development, "Table II.1. Statutory corporate tax rate", (2018), available at http://stats.oecd.org/index.aspx?DataSetCode=TABLE_II1

7 Price Waterhouse Coopers, https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2018/explorer-tool.html

Chart 4: Australia has the Third Highest Corporate-Tax-to-GDP Ratio



High business taxes are a straightforward deterrent to business investment. Decisions of where businesses invest are driven, in large part, by expected after-tax profits. High effective marginal tax rates reduce expected after-tax profits by increasing a project's hurdle rate of return (the rate of return that must be met to make a project commercially viable). Australia is a small and relatively open economy that is a net importer of capital. Access to international capital investment is key to growing living standards. As a recent research paper by the Treasury argued:

> "Foreign investment is integral to the Australian economy. As a resource rich country with a relatively high demand for capital and a small population, Australia has historically relied on foreign capital to finance the shortfall between national investment and national saving. Australia's national investment and saving gap has been on average about 4 per cent of GDP over the last few decades."[8]

The government's proposal to reduce Australia's business tax to 25 per cent by 2026-27 is a modest proposal that would improve Australia's international competitiveness. However, even a rate of 25 per cent would still see Australia with one of the highest business tax rates in the world. As such, the government should pursue more ambitious tax reform by targeting a business tax rate of 10 per cent.

Recommendation 1:
Reduce Australia's high business tax rate from 30 per cent to at least 25 per cent, and ideally 10 per cent.

8 Commonwealth Treasury, "Foreign Investment into Australia", Canberra, Australia, (2016)

Policy Issue #2:
Red Tape and Over-regulation

Australia has always rated poorly on the burden of government regulation, and this has further deteriorated over recent years. According to the World Economic Forum:

- During the final term of the Howard Government in 2006, Australia ranked 54th for the burden of government regulation.
- By the end of the Gillard/Rudd Government's second term in 2013, Australia ranked 128th.
- This rank improved slightly to 80th by 2017.[9]

Further, in every one of the past 12 surveys the 'burden of government regulation' ranked in the top three problematic factors for doing business in Australia. And in 10 of those 12 surveys it was ranked the most problematic factor.

Red tape is often poorly defined. What for one person might be considered red tape could, to another, be an indispensable piece of regulation which delivers an important public policy goal. To provide direction to public policy, however, it is important that there is a clear definition of red tape that can be applied across a range of policy areas.

Red tape is best defined as regulation beyond 'minimal effective regulation'.[10] Minimal effective regulation refers to a regulatory regime where the fewest rules, requirements, or procedures are in place to achieve a stated regulatory objective. Otherwise stated, a regulatory regime is defined as minimally effective by its absence of red tape. By contrast, only regulatory regimes that feature more than the minimal necessary number of rules, requirements, or procedures could be said to impose red tape.

Red tape is one of the biggest barriers to economic opportunity and prosperity in Australia. IPA research found that red tape reduces economic output by $176 billion each year, which is around 10 per cent of GDP.[11] This estimate is a measure of forgone human potential. It captures all of the businesses which are never started, the jobs never created, and the dreams which are never fulfilled as a result of red tape and over-regulation. More specifically, the effect of red tape is to:

- Reduce entrepreneurship and competition by imposing barriers to market entry, product development, and technological innovation.
- Prevent Australian businesses receiving access to world-leading technology by erecting barriers to technological diffusion.
- Worsen the length and severity of recessions by inhibiting the free movement of resources out of contracting economic sectors and into expanding ones.
- Create uncertainty by providing greater discretion to government officials and bureaucrats to create and enforce rules.
- Undermine the function of Australia's democracy by delegating policy functions away from Parliament and to the administrative state.[12]

The growth of red tape has exploded over recent decades. In 1915, just 112 pages of legislation were passed. Fifty years later, in 1965, that number increased to 1357. And in 2015, Parliament passed a staggering 6,453 pages of law. One of the main culprits for the rising red tape burden is environmental law. In 1971, when the first Commonwealth environment department was

9 World Economic Forum "Global Competitiveness Survey", Geneva, Switzerland, (2017)

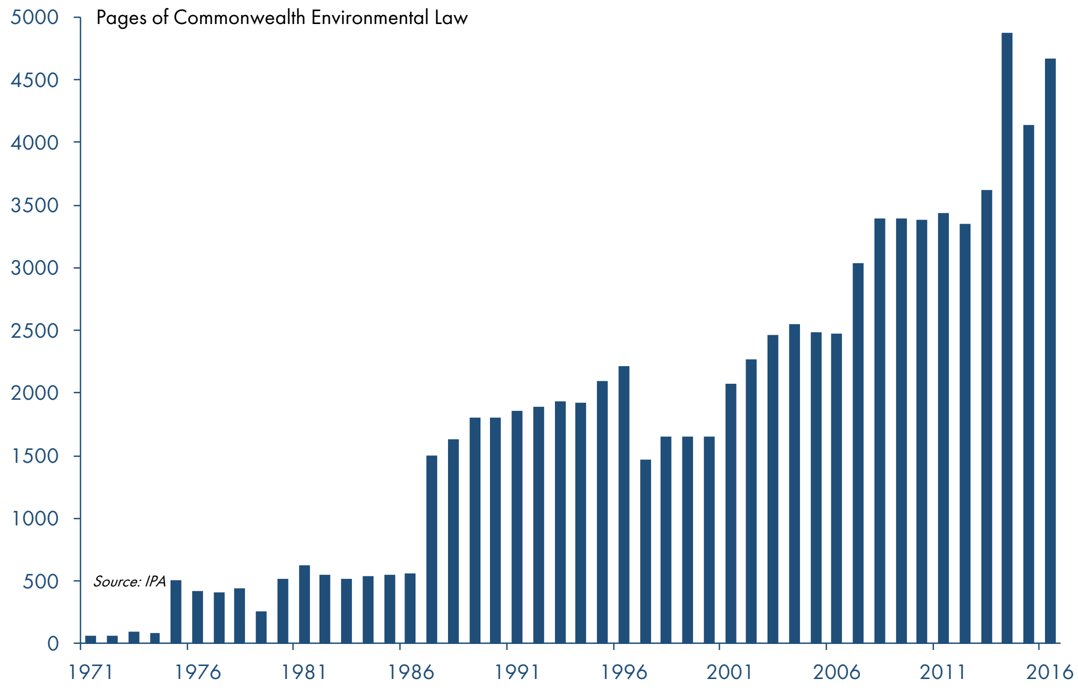
10 Wild, Daniel (2017), 'Barriers to prosperity: red tape and the regulatory state in Australia', *IPA Occasional Paper*, Melbourne, Australia

11 Novak, Mikayla, "The $176 billion tax on our prosperity", Institute of Public Affairs, Melbourne, Australia (2016)

12 Wild, Daniel (2017), 'Barriers to prosperity: red tape and the regulatory state in Australia', *IPA Occasional Paper*, Melbourne, Australia

established, just 57 pages of environmental law were in place at the federal level. That number has increased 80-fold to grow to 4,669 by 2016, as shown in Chart 6 below.[13]

Chart 5: Cumulative Total Pages of Environmental Law has Grown Rapidly



Red tape affects every sector of the Australian economy, but the resources sector is perhaps the most heavily affected.

- The Roy Hill iron ore mine in the Pilbara, located in the mid-north of Western Australia, required more than 4,967 separate licences, approvals, and permits for the pre-construction phase alone.[14]
- The Tads Corner Project, the first mining pit to ship coal from the Galilee Basin in Queensland, required more than 5,000 approvals, permits, and licenses for the pre-construction phase alone.[15]
- The Adani coal mine in central Queensland spent seven years in the approvals process, endured more than 10 legal challenges, and prepared a 22,000-page Environmental Impact Statement.[16]
- In a 2013 report the Productivity Commission gave the example of a project which was required to meet 1,500 government imposed primary conditions and 8,000 sub-conditions.[17]
- Legal challenges brought by green groups under section 487 of the Environment Protection and Biodiversity Conservation (EPBC) Act has resulted in project proponents spending some 20 cumulative years in court.[18]
- In Victoria, three miners were required to pay at least $900,000 to offset the loss of native grass resulting from a proposed mine because an orchid could, in theory, grow there in the future.[19]

13 Begg, Morgan, "The Growth of Federal Environmental Law: 1971 to 2016", Institute of Public Affairs, Melbourne, Australia, (2017)

14 Roy Hill, "Roy Hill Wins PMI Australia's Project of the Year Award – Australia's Premier Project Award", Media Release, (30 May, 2016)

15 Rinehart, Gina, "The Emperor Fiddles While Rome Burns", Speech to the Global Natural Resources Conclave, (April 2017)

16 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/ carmichaelcoal-mine-and-railproject.html

17 Productivity Commission, "Major Project Approvals", Canberra, Australia, (2013)

18 Wild, Daniel, "Section 487: how activists use red tape to stop development and jobs", the Institute of Public Affairs, Melbourne, Australia, (2016)

19 Wild, Daniel; Allen, Darcy, "Toxic Greens", IPA Review, the Institute of Public Affairs, Melbourne, Australia, (November 2016)

- In Western Australia, the discovery of microscopic, blind 'desert prawns' led the Western Australian Environmental Protection Authority to block approval of Cameco's proposed Yeelirrie uranium mine, a project for which BHP had previously paid US$450 million.[20]

One approach to take to reduce the regulatory burden is to implement institutional changes to the policy making process. One such change is a one-in-two-out approach to regulatory reduction, where two rules or "regulatory restrictiveness clauses" are eliminated for every new one implemented. A report by the IPA found that if the Federal Government had implemented a one-in-two-out rule from September 2013 there would be 107,885 fewer pages of regulation and 6,990 fewer rules by the end of 2016.[21]

Recommendation 2:
Implement a one-in-two-out approach to regulatory reduction where two rules or "regulatory restrictiveness clauses" are eliminated for every new one implemented.

20 Ibid.

21 Wild, Daniel, Fraser, Jake, Husek, Michael, "Reducing Red Tape in Australia: One in, Two Out Rule", Institute of Public Affairs, Melbourne, Australia, (2017)

Policy Issue #3:
Workplace Relations

Australia has long had one of the most rigid industrial relations systems. According to the World Economic Forum, in 2017 Australia ranked:

- 109th for flexibility of wage determination.
- 110th for hiring and firing practices.
- 72nd for cooperation in labour-employer relations.

Moreover, these rankings have substantially deteriorated over the past decade.

- At the end of the Howard Government in 2007 Australia ranked 63rd for hiring and firing practices.
- This ranking dropped to 137th in 2013, mostly as a result of the *Fair Work Act 2009*.
- Today, Australia ranks 110th.

The slight improvement since 2013 has been mostly the result of absolute deteriorations in other economies, rather than improvements in the Australian economy

As Gideon Rozner, Research Fellow at the Institute of Public Affairs, argues, Australia's "wages and conditions are among the highest in the developed world". Rozner further argues that "Australia's our industrial relations laws are among the world's most complex, restrictive and extensive in terms of conditions and benefits." In particular, Rozner finds that Australia has the second-highest hourly real minimum wage; among the shortest working weeks (in terms of hours); among the highest numbers of paid annual leave days; and a relatively large number of additional benefits, such as parental leave and long service leave.[22]

High wages and comfortable working conditions are to be celebrated. However, it must be remembered that such wages and conditions add to the cost of employment, which, if set at above market-clearing rates, deter new business investment and the hiring of new staff.

Recommendation 3: Implement the following modest changes to the *Fair Work Act* to encourage employment growth, including:

- Remove the need for the Fair Work Commission to approve workplace agreements (abolish Subdivision B, Division 4, Part 2-4 of the Fair Work Act).
- Allow Individual Flexibility Agreements (IFAs) to be made as an initial condition of offer (remove (section 341(3)) of the Fair Work Act).
- Allow Individual Flexibility Agreements (IFAs) to last longer (amend Paragraph 5, Schedule 2.2 of the Fair Work Regulations 2009).
- Replace the better off overall test with a no-disadvantage test.
- Re-instate the partial exemption from unfair dismissal laws from only small businesses, to small and medium sized business, with up to 100 employees.
- Remove the 'conveniently belong' provision (remove section 367(6)(c) of the Fair Work (Registered Organisations) Act 2009.

22 Rozner, Gideon, "Wages and Equality: and International Comparison", Institute of Public Affairs, Melbourne, Australia, (forthcoming)

Policy Issue #4:
Government Debt

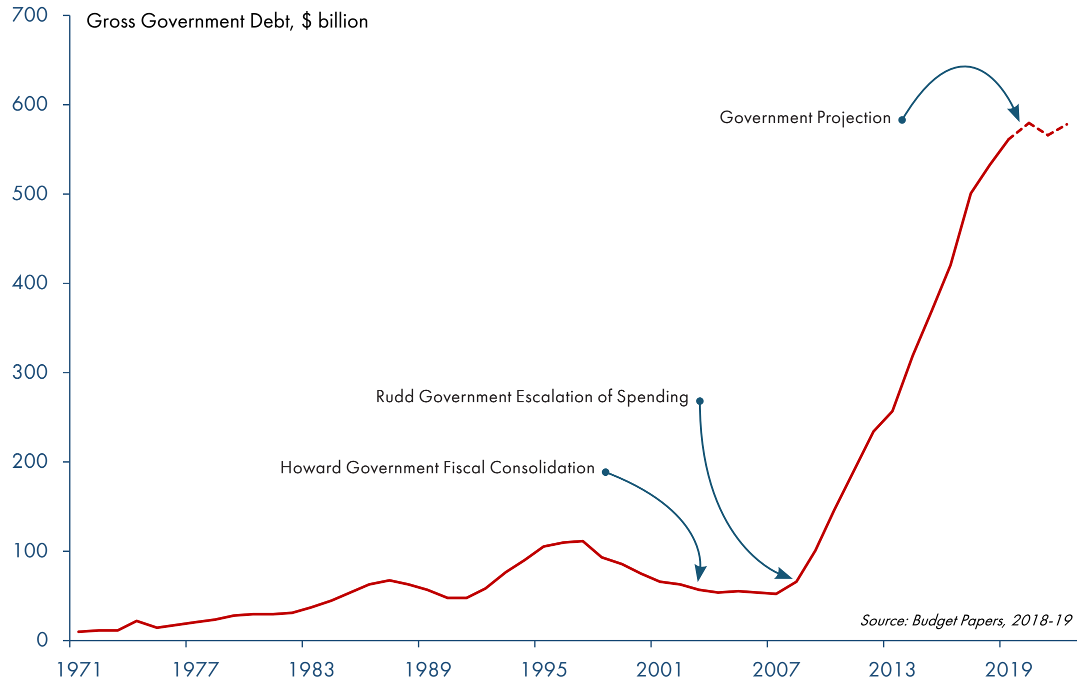
One of the few competitive advantages Australia once held was relatively low government debt and stable national finances. However, that, too, has deteriorated over recent years. According to the World Economic Forum:

- In 2006 Australia ranked 8th.
- Today Australia ranks 51st.[23]

Gross government debt has grown by a staggering 380 per cent over the past decade to reach a record an expected $561 billion next financial year. And according to the 2018-19 Budget, gross debt is projected to rise further still to $578 billion by 2021-22.[24]

High and growing levels of debt are a problem for three key reasons. Firstly, high government debt puts upward pressure on borrowing rates, which crowds out private-sector business investment. This is one of the factors contributing the low levels of business investment outlined in section one. Secondly, high levels of government debt create the expectation of higher future taxes. This is because every dollar of debt must be repaid through higher taxes. Taxes will be raised through both the business tax and income tax. Both will discourage investment, work effort, and dampen economic growth and productivity growth. Thirdly, beyond a certain point, high levels of government debt create a sovereign risk issue whereby creditors begin to questions whether they will be re-paid. This can bring about a partial or full default on debt. Australia is a long way from such a situation. However, such a risk lingers insofar as the government fails to implement a coherent plan to pay down the debt.

Chart 6: Government Debt is High and Rising



Recommendation 4: Reduce government spending to put downward pressure on government debt

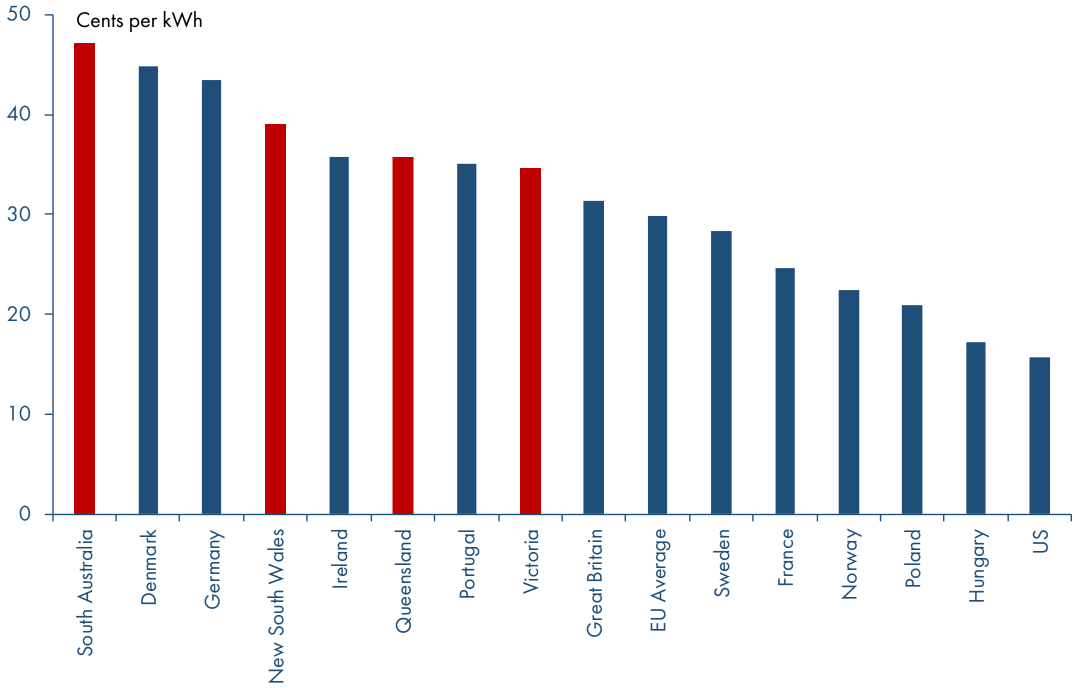
23 World Economic Forum "Global Competitiveness Survey", Geneva, Switzerland, (2017)

24 Commonwealth Government, "Budget: 2018-19", Canberra, Australia, (2018)

Policy Issue #5:
Unreliable and High Cost Energy Supply

Low cost and reliable energy supply was one of Australia's great competitive advantages. However, Australia now has amongst the highest energy prices in the world. High electricity prices increase the cost of doing business and are a substantial to deterrent to business growth.

Chart 7: Australia has the Highest Retail Electricity Prices in the Developed World



Moreover, electricity prices have been growing rapidly over the past decade. And much of the escalation to electricity prices can be attributed to public policy which favours renewable energy at the expense of coal. Consulting firms BAEconomics estimated that, in 2015-16, renewable energy producers received approximately $3 billion in subsidies.[25] While analysis undertaken by *The Australian* estimated that the renewables industry would receive approximately $60 billion in subsidies over the period 2015-2030.[26]

High and rising electricity prices are having a deleterious effect on business investment in Australia, and has resulted in a number of businesses shutting down or being substantially disrupted. In its report on electricity prices in Australia, the ACCC highlighted a number of ways in which businesses had been negatively affected:

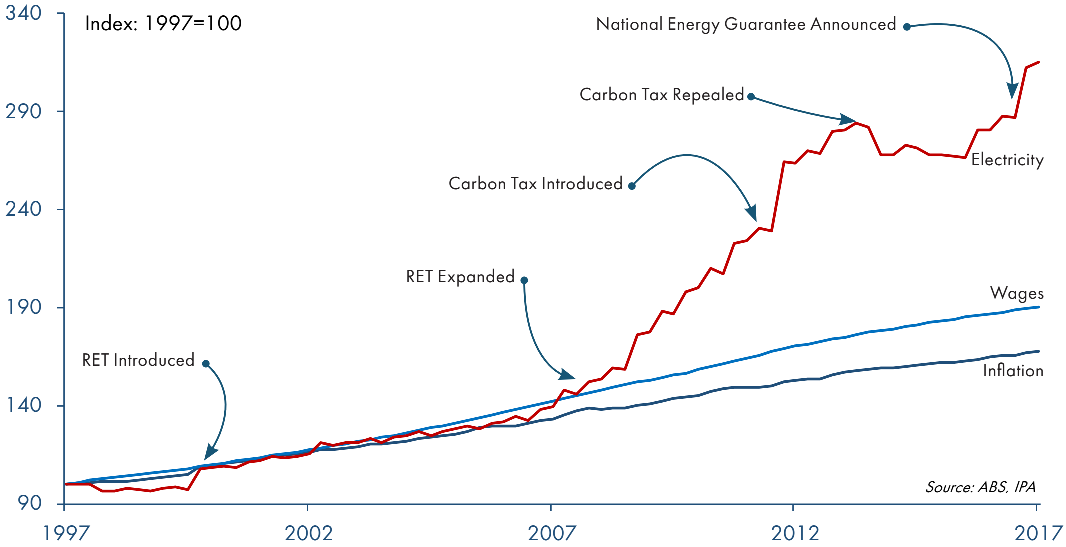
- A medium sized retail grocer experienced a 52 per cent increases to its annual electricity costs.
- A print and signage company in Queensland experienced an increase to its per unit electricity costs of almost 90 per cent over a seven-year period.
- A large winery in South Australia faced an increase in electricity costs of 160 per cent in one year.
- BlueScope Steel's electricity and gas costs increased by 92 per cent over a two-year period.[27]

25 BAEconomics, "Primer on renewable energy subsidies in Australia", Canberra, Australia, (2017)

26 Creighton, Adam, and Kelly, Joe, "The cost of going green: taxpayers hit with $60bn bill", *The Australian*, (1 September, 2017)

27 Australia Competition and Consumer Commission, "Retail Electricity Pricing Inquiry", Canberra, Australia, (2017)

Chart 8: Growth to Prices has been Driven by Renewable Energy Subsidisation



The single biggest source of renewables subsidies is the Renewable Energy Target (RET). The RET forces energy retailers to purchase a certain amount of energy from renewable sources, as opposed to from coal. This has had led to negative effects on the coal sector, as well as flow-on consequences to electricity users through higher prices and less reliable energy supply. Based on analysis by ACIL Allen, it is estimated that total energy prices for end-users would be approximately $30 billion higher over 2014-2030 as a result of the RET.[28]

A separate study by Deloitte estimated that real GDP would be $29 billion larger in 2030 if the RET were to be abolished.[29] Most of the increase to GDP comes from increased household consumption (due to increased disposable income from lower retail prices) and higher export volumes from expanded output. Because of higher output there is extra labour demand which puts upward pressure on wages and employment. Deloitte estimates that abolition of the RET would lead to 5,000 more full-time jobs and increase average.

Moreover, these costs are incurred with no demonstrable environmental benefit. According to the International Energy Agency, approximately 400 billion tonnes of carbon were emitted globally from fuel combustion from 2001- 2014.[30] Over the same period the Climate Council of Australia, a renewable energy lobby group, estimated the RET reduced emissions by just 22.5 million tonnes.[31] This means the RET resulted in 0.005 per cent fewer carbon emissions globally over a 14-year period. This is the equivalent of a reduction of 0.0004 per cent per year on average, equating to effectively no change to global temperatures. It is simply not in Australia's national interest to have an energy policy predicated on emissions reductions.

Recommendation 5: Abolish the Renewable Energy Target and end all subsidies to renewable energy generation to put downward pressure on energy prices.

Recommendation 6: Exit the Paris Climate Agreement and remove emissions reductions as a component of energy policy.

28 ACIL Allen, "RET Review Modelling: Market Modelling of Various RET Policy Options", (2014). Analysis assumes all of the costs of the renewable energy certificates are passed on as higher energy prices

29 Deloitte, "Assessing the Impact of the Renewable Energy Target", (July 2014)

30 The International Energy Agency, "C02 Emissions from Fuel Combustion", 2016

31 Peter Stock, "Giga-what? Explaining Australia's Renewable Energy Target", the Climate Council of Australia, 2015

Conclusion

Australia is a country of great opportunity and potential. But it is being held back by bad public policy which is hampering business investment. Business investment is just 11.7 per cent of GDP, which is lower than the rate which prevailed during the Whitlam years. Alongside declining business investment is declining economic competitiveness, which is occurring in spite of record low interest rates and a relatively weak exchange rate.

Low levels of business investment are primarily caused by bad public policy across five key areas: a high corporate tax rate; red tape and over-regulation; a rigid workplace relations system; subsidisation of high cost, unreliable renewable energy generation, and high and rising government debt. Substantial reform across these five areas is needed to rejuvenate business investment in Australia, and expand economic opportunity and prosperity for the next generation of Australians.

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