

From the desk of Dr Kevin You, Research Fellow

31 March 2023

Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Institute of Public Affairs ('IPA') Submission to the Inquiry Into Promoting Economic Dynamism, Competition, and Business Formation

The purpose of this letter is to share research and analysis conducted by the IPA, with the Standing Committee on Economics' ('the Committee') inquiry into promoting economic dynamism, competition, and business formation. Attached to this are five research reports relevant to the inquiry:

- *Australia's Green Tape Army: An Analysis of the Growth of the Environmental Bureaucracy and Agricultural Sector* (September 2022)
- *Australia's Net Zero Energy Crisis: An Analysis of the Electricity Price Implications of Net Zero Emissions by 2050* (June 2022)
- *Australia's Rising Cost of Living Challenge* (November 2022)
- *Australia's Unprecedented Worker Shortage: Causes and Solutions* (August 2022)
- *Let Them Work: How Criminal Justice Reform Can Help Address Australia's Worker Shortage* (March 2023)

As the chair of the Committee has noted, Australia's productivity growth has stalled in recent decades. Business investment – at approximately 10.1% of gross domestic product – is now at the lowest level on record. The role of the government in the economy has grown considerably over recent years and is crowding out private sector investment and business formation.

Government actions, instigated by policies such as net zero emissions by 2050, as well as the growth of red and green tape have stifled competition and economic dynamism in critical industries such as energy and agriculture.

Much needed employment reforms are also required to address Australia's worker shortage crisis, such as eliminating work barriers faced by pensioners, veterans, and students, and reforming the criminal justice system. Yet the government is taking the short-sighted and easy way out through further expanding Australia's already unsustainable mass migration programme, which will further put pressure on critical social infrastructure such as schools, roads, hospitals, and housing.

Cut red tape to unleash dynamism and productivity

Excessive regulation stifles economic dynamism, competition, and business formation by erecting artificial barriers to market entry, limiting the benefits of innovation and disincentivising entrepreneurial endeavours. Forthcoming research by the IPA finds that red tape, as measured by the number of regulatory restrictions in force, is at its highest level in recorded history, which indicates an unprecedented level of bureaucratic interference in the lives of Australians and Australian businesses.

Environmental red tape (or ‘green tape’) is of particular concern, since it and the size of the army of bureaucrats enforcing it on Australia’s most critical industries like agriculture has increased at an alarming rate. IPA research, published in *Australia’s Green Tape Army: An Analysis of the Growth of the Environmental Bureaucracy and Agricultural Sector*, finds that the Commonwealth’s environmental bureaucracy has grown at nearly three times the rate of Australia’s agricultural sector. Staffing at the Commonwealth’s environmental bureaucracy has increased by 256% while employment in agriculture throughout the nation has declined by 27%. This signifies a concerning rapid growth in the number of administrators of green tape over those on which it is imposed.

A commitment to implementing a serious red tape reduction programme will re-invigorate Australia’s most critical industries such as agriculture and energy by making them more attractive to investors - thus promoting dynamism, competition, and business formation in the broader Australian economy.

Repeal net zero to promote investment and business formation

On the first day of winter last year, the Australian Energy Market Operator announced that gas rationing may be necessary to prevent rolling blackouts across Australia’s east coast. In the same week, it suspended the spot market in all regions of the National Electricity Market (‘NEM’), effectively taking down the energy grid. The state of Victoria has committed to a government takeover of its portion of the NEM, reducing private competition in the energy market and further consolidating market power in the hands of government.

The root cause of the unprecedented actions was the commitment to net zero by 2050. This commitment disincentivised reinvestment into traditional baseload-power generators, causing them to break down and – in turn – prompting further state intervention into the market.

IPA research, *Australia’s Net Zero Energy Crisis: An Analysis of the Electricity Price Implications of Net Zero Emissions by 2050*, estimates that the cost of net zero by 2030 alone will double Australian families’ electricity bills. The cost borne by businesses will be higher still. The effects are already being felt today. The October mini-budget estimated that electricity bills for families would have increased by 20% in the second half of 2022 (coinciding with an increase in consumer price index inflation to 8.4% for the month of December) and by a further 30% in the next financial year – adding up to a 56% increase. This is all in the context of a worsening cost of living crisis, as articulated in the IPA’s research report, *Australia’s Rising Cost of Living Challenge*.

Price level volatility and the interest rate hikes associated with it are not conducive to business formation, investment, and economic dynamism. Neither is the increasing dependence on expensive and intermittent sources of energy from wind and solar at the expense of the reliable and affordable energy provided by coal and gas.

Repealing the commitment to net zero will return dynamism, competition, and business formation in the energy market, and have a positive flow-on effect to other sectors of the economy.

Worker shortage and threats to flexible work deter investors

Australia is currently facing a worker shortage crisis. According to the most recent data available, there are over 438,000 job vacancies across the country, a 240% increase since May 2020. Approximately a quarter of businesses are struggling to find workers, which deters further business investment.

In December, the *Social Services and Other Legislation Amendment (Workforce Incentive) Act 2022* (Cth) came into force. Under the law, age pensioners and veterans can earn \$226 per week, up from \$150 per week, before their benefits start to be reduced by 50 cents in the dollar.

Since these pension changes were enacted, job vacancies have only decreased by 1%, which is a clear demonstration that more comprehensive reform is needed.

A recent survey by National Seniors revealed that 20% of all pensioners would consider re-joining the workforce if work restrictions were adequately eased. This would be the equivalent to over 510,000 people entering the workforce – more than the current worker shortage. Currently, only 3% of pensioners in Australia are engaged in paid work compared to 25% in New Zealand.

IPA research, *Australia's Unprecedented Worker Shortage: Causes and Solutions*, finds that Australia's worker shortage crisis is costing Australians \$32 billion in foregone wages and the Federal Government \$7 billion in foregone income tax revenue.

The government must remove all red tape and tax barriers on pensioners, veterans, and students who want to enter the workforce but are currently prohibited by onerous government interference. It is uneconomic and unethical that our most experienced citizens are locked out of work. If they were to work and have an income greater than the tax-free threshold, they would still pay income tax, the revenue from which can be reinvested into schools, roads, and hospitals.

Another innovative and effective solution to addressing the worker shortage crisis is detailed in the report, *Let Them Work: How Criminal Justice Reform Can Help Address Australia's Worker Shortage*. IPA analysis finds that letting low-risk and non-violent offenders into the workforce could bring as many as 14,000 working age adults to alleviate the current worker shortage crisis in the most affected industries, such as retail and hospitality.

Instead of getting Australians into work, the government has taken the lazy approach of bringing in even more migrants to fill job vacancies, which means more pressure on our health, social services, and education systems – and will further exacerbate the housing crisis and cost of living pressures by fuelling inflation. The medium-term effect will be to push up interest rates, further inflicting costs on mortgage-holding families and small businesses.

Moreover, rather than stepping back to allow the labour market address the worker shortage crisis, the government's industrial relations agenda are threatening additional restrictions on employment. The government has already imposed a new set of disincentives on employment through the introduction of the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022* (Cth), such as the expansion in multi-employer bargaining. Reforms are needed – not to construct more barriers to but incentivise employment, which will have the effect of improving Australia's economic dynamism, competitive landscape, and business environment.

I wish to thank the Committee for the opportunity to provide this submission. Please do not hesitate to contact me for further consultation or discussion.

Kind regards,

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