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The Secretary
House Standing Committee on Industry, Science and Resources
CANBERRA

Dear sir/madam

Increasing Value-Adding to Australian Raw Materials

Ten years ago I made a submission to the Trade Sub-Committee of the Joint Committee on Foreign Affairs, Defence and Trade, for its inquiry into Australia's Trade and Foreign Debt.

That submission reflected my working life in an industry renowned for its efforts (often coerced by State and Commonwealth governments) at increasing value-adding to Australian raw materials. Australia's miners, and the much greater number of workers who support mining with all kinds of goods and services, including value-adding to very raw minerals, want nothing more than to see more domestic value-adding. It means more jobs for our children and fellow Australians, as well as reducing foreign debt.

On the strength of that experience and various similar inquiries since, I began to understand the problems retarding Australia's international competitiveness, and I could tell you many things you (should) already know.

The first is that committee members will barely have time to scan written submissions. Oral submissions and debate are likely to be more effective, particularly if committee members are seeking non-partisan solutions. Therefore this submission is constrained to a few other key points such as:

1. The current state of value-adding in Australia reflects more than a century of the free trade vs protection debate and politics.
2. To the extent that international comparisons are feasible and objective, they show that Adam Smith was right about comparative advantages and wealth creation.
3. Government actions to increase the prospects of value-adding in Australia are best divided into two classes:
 - Those that increase the prospects of all Australian wealth creation ('win-win').
 - Those that increase the prospects of value-adding in Australia to Australian raw materials at the expense of other Australian wealth ('win some-lose more').

Some will argue, mistakenly or deceitfully, there is a 3rd class of government actions ('win more-lose less'). These may be presented as impressive computer models.

The origins, and general tenor of this inquiry mean that the bulk of submissions will be seeking 'win-lose' government actions. Because free trade has, despite continuing partisan policy reversals, been widely accepted by Australians as in their interests, most protection seekers can be expected to dress their protectionist arguments in other clothes like 'win more-lose less'. If committee members constantly ask themselves, and

all putting submissions, whether or not arguments and proposals to increase the prospects of value-adding are at the expense of other Australian wealth, they will have a sound base from which to evaluate the topics listed in your advertisement.

The first in your topic list is **incentives and impediments to investment**, and in view of the current intention to legislate for Australia's first '**value-added**' tax, I strongly urge committee members to consider its significance as an impediment to investment. Not just investment in value-adding in Australia to Australian raw materials, but any investment. Terry McCrann's column "We owe Harradine a vote of thanks" written before the GST food deal, explains why we do not need a GST – let alone an Irish one.

With the exemption of some food from the proposed GST, we can expect submissions to this inquiry seeking further base-reducing exemptions for goods and services which add value to Australian raw materials. As it stands, even sunshine, an internationally competitive raw material in rural goods (eg wine) and consumer services (eg tourism, outdoor sports and recreation), is to be taxed at an extra 10%.

Such 'win some-lose more' submissions can become the basis of partisan campaign policies at future elections. For this, and the likely consequent revival of protectionism and wealth reduction, we would be able to thank partisan MHRs, more loyal to their colleagues, than to parliamentary oaths, or to voters, taxpayers, and their children.

Not that the above is inevitable. If members try to listen with open minds, to those you are supposed to represent, including Terry McCrann, you will discover that real solutions already exist. Many have been suppressed for years, mainly because they threaten the immediate self-interests of more influential people. An example is **the far more broad-based expenditure tax** originally developed in 1985 and submitted to various parliamentary inquiries since. Along with a majority of those polled last September, I know that the tax reform it would bring more incentives and remove more impediments to investment in value-adding in Australia to Australian raw materials than any other submissions you are likely to receive.

In writing the above I am well aware of the political and financial problems of such reforms, and of the need for refinements in such areas as the time-table of removing old taxes, and States/Commonwealth tax powers. However I also believe **there are plenty of competent people in Canberra and the state capitals, who could quickly solve these problems once parliament shows the leadership** implied in the public pledges you all made last November.

If there are any hearings likely in Brisbane, or even a prospect of tele-conferencing, I'd appreciate a chance to expand on what must at first glance seem a naïve submission.

Yours sincerely

J E Stewart