



ACCI POLICY STATEMENT

ECONOMIC POLICY

PRINCIPLES OF ECONOMIC POLICY

The long-term policy aims of ACCI are:

- sustained and sustainable improvements in Australia's standard of living;
- an acceptable distribution of income and wealth across the community;
- full employment;
- sustainable low rates of inflation; and
- a sustainable external balance.

ACCI's role in producing an economic climate conducive to achieving these ends is:

- to ensure that the role of commerce and industry in creating a prosperous and fully employed community is understood by decision makers and the public;
- to create an understanding amongst decision makers of the operation of a market economy and of the policy environment needed for the market to operate effectively;
- to combat various anti-market ideological beliefs and to convince the public that such ideological beliefs are contrary to their own interests and to the national interest;
- to create conditions for robust and sustainable non-inflationary growth within a fully employed economy; and
- to convince policy makers that excessive levels of public spending and heavy-handed regulation of the economy are not only unnecessary but are counterproductive in achieving the community's economic objectives.

Specific, immediate policy objectives include:

- ensuring that the public sector's role in the economy is limited to demonstrable cases of market failure and equity needs;
- maintaining sound budgetary policy;
- eliminating the role of industrial tribunals or similar institutions in the processes of national wage fixation, and until that is achieved, limiting the increases granted through the National Wage Case;
- ensuring that monetary policy is used to maintain low inflation growth in the economy;
- promoting microeconomic reform to ensure that the efficiency of the economy and our international trade competitiveness is enhanced to the greatest extent possible; and

- helping to ensure that the domestic economy is opened to a greater level of international competition by limiting the role of tariffs and other protectionist measures.

POLICY OBJECTIVES

Support for Free Enterprise

A free enterprise economy and a liberal democratic political system ensures that an economy can combine a high standard of living, an equitable distribution of income and individual freedom for the entire community. It is only through the active promotion of the private sector that a prosperous and free community can be developed.

A free enterprise economic system is able to provide the goods and services desired by the community because businesses respond to consumer demands and profitable opportunities.

Productivity

Productivity growth must be a core objective for Australian economic policy. This is the only way that living standards are able to rise in the long run. Productivity growth should therefore be the central focus of policy.

All sources of productivity improvement should be encouraged. The sources of productivity growth include:

- increases in the amount of capital available per employee, which allows each employee to produce a larger quantity of output;
- improvements in the level of technology incorporated in the capital utilised in the production of goods and services;
- research and development activity which leads either to an improvement in goods and services or to a more efficient means of producing output;
- education and training which improves the skill base of the workforce and, in turn, allows the community to harness the latest advances in technology;
- improvements in managerial practice which lead to a better organisation of production within individual firms;
- a legislative, industrial and social framework that fosters individual initiative to seek out better ways of production and provides sufficient rewards for those that succeed in doing so;
- policies that allow the economy to adjust so that resources are employed where they will earn their greatest return; and
- international trade and commerce, which realises the benefits of our international competitiveness.

In order to achieve sustained productivity growth, the Government must ensure that its macroeconomic settings, (fiscal and monetary policies) and microeconomic policies promote investment and economic growth.

The Need for Robust and Sustainable Economic Growth

Economic policy should create the conditions for robust and sustainable non-inflationary growth.

Policies that reduce growth keep Australians less prosperous than they might otherwise have been.

Economic growth will enable Governments and individuals to pay for social and environmental improvements, such as health, education and cleaner water and air.

To improve the economy's prospects for growth, businesses need to remain competitive and profitable, both as a means of raising capital and as an incentive to increased production.

Macroeconomic and microeconomic policy settings must be geared towards achieving strong and sustained rates of per capita economic growth over the longer term, while minimising the size of any cyclical variations.

Flexibility

Economic policies should encourage a more rapid process of adjustment to changing economic conditions, both from internal and external sources.

It is necessary that institutional arrangements be made more flexible. In particular, training and education must continuously adapt to the needs of commerce and industry, while further efforts are required to achieve meaningful international trade and investment liberalisation.

The structural adjustment capabilities of the economy must be continuously improved. The broad aim should be to ensure that resources flow as quickly as possible to where they can be best employed.

Competition laws, the financial system, industrial relations arrangements and industry policy must be designed to maximize economic flexibility and allow resources to flow to where they will earn their highest return.

Importance of Investment

Investment, both in physical capital and in workplace skills, is a crucial ingredient in raising living standards.

Capital investment, which generally embodies the latest technological developments, requires the acquisition of new skills. Skills development (or investment in human capital) must occur at the same time as investment and technological change.

Industrial Relations

The focus in industrial relations must be at the workplace.

The price of labour is constrained by the limits of what business can afford. Economic growth thus requires an industrial relations system which ensures that wages are determined at the workplace rather than through centralised forms of wage adjustments.

Unless labour costs are allowed to adjust to reflect labour market needs, the economy will be less efficient at providing the appropriate skills when they are wanted and where, and economic growth will be reduced.

The conduct of industrial relations (particularly wage determination) should occur at the workplace where local conditions can be taken into account during negotiations over wages and other employment-related conditions.

Under this approach, the aim is not wage restraint as such, but rather the promotion of productivity growth.

Public Sector Spending

Government spending should be contained and reduced as a proportion of GDP to enable resources to be returned to private sector use and to permit the level of business and personal taxation to fall.

The Government should not attempt to raise the rate of growth through increasing the level of public spending whenever the economy slows. Experience shows that these policies do not work.

As a general rule, governments should aim for the Budget to be in balance across the economic cycle, so that the Government does not add to public debt and is not making a net call on national savings.

Governments should, in general, increase their capital spending only on what is demonstrably productive through a proper cost-benefit study. Additional non-productive government spending will reduce productivity and growth.

Additional infrastructure expenditure should be expected to provide a positive return on funds employed taking account of responsible environmental and social issues. Wasteful expenditure can never provide a positive effect on the economy. The balance of public sector spending needs to shift towards higher capital spending and lower consumption spending (assuming the capital spending meets cost-benefit tests). The Government must become more disciplined in its expenditure.

Greater private sector infrastructure investment should be encouraged. The profit motive should be harnessed for the provision of infrastructure.

Taxation

The development of an appropriate system of taxation is essential. Both the level of taxation and the structure of the tax system need to be set to ensure that Australia's economic potential is realised.

An appropriate system of taxation must satisfy the following criteria for effective revenue raising: equity, simplicity, efficiency and revenue based sustainability.

Tax policy must be based on the recognition of the importance of removing disincentives to productive activity. Forms of taxation which discourage production should be replaced by forms of taxation which do not. Where levels of taxation substantially discourage productive effort, tax rates should be reduced.

ACCI is particularly calling for significant reductions in personal tax, reductions in compliance costs, broader abolition of inefficient state taxes, reductions in Capital Gains Tax and replacing taxes on superannuation contributions and earnings with taxes on benefits only.

The level of taxation, and other costs imposed by government, should be contained and reduced. Excessive taxes and charges inhibit economic growth and productivity improvements.

Monetary Policy

Monetary policy, which incorporates considerations of interest rates, money supply growth and the exchange rate, is another government policy of significant importance to business.

The Government and Reserve Bank of Australia (RBA) have agreed that the RBA should use monetary policy to aim for low inflation. Business agrees with this goal. The use of monetary policy to target other goals, such as asset prices or the external balance should only occur in special and unusual circumstances.

However, economic policy makers can use other instruments to constrain inflation. For example, tariff cuts and reductions in protection ensure that price pressures are kept under check by imports. Reductions in taxes and regulations reduce cost pressures on business. Inflation is also constrained by decentralised wage setting and reduced labour market regulation, which keeps labour-related cost pressures under control and restraint in Government spending.

There should be transparency in the operation of monetary policy. The RBA should publish reasons for all monetary

policy decisions (including the decision to keep rates unchanged). The operation of monetary policy should be separated from the prudential supervision and corporate governance of the RBA.

Regulation

Business has a strong concern with increasing regulation of business activities. The Government should apply full cost-benefit analysis processes to all regulations, particularly through proper Regulatory Impact Statements (RISs). Regulations should only be imposed when other solutions, such as cooperative measures with business, are demonstrably not succeeding.

Regulations should ensure the existence of competitive neutrality between products and institutions. The form of regulation should not provide an institution with an advantage in the marketplace when competing against other providers of similar or identical products. Business is particularly concerned that Government-owned agencies and corporations are unfairly competing, because they have exemptions from taxes and regulations and have easier access to finance.

Business calls for a reduction in the burden of regulation. New resolve is needed to achieve this objective. For example, when new regulatory measures are considered, estimates of their compliance burden (on both business and regulators) should be made with the aim of removing a similar level of compliance burden elsewhere within the portfolio proposing the new regulation.

National Saving

It is important that private saving is not discouraged by the tax system. The tax system should be designed so that saving is encouraged.

It is important that the level of public spending is constrained, particularly government consumption expenditure. Government consumption expenditure is a major form in which domestic savings are dissipated.

International Debt

With the large reductions in Government debt during the last decade, almost all international debt is being borrowed by the private sector. In this sense, the ability for borrowers to repay the debt is a private issue between the borrower and lender.

The sizable increase in foreign debt over recent years is largely a result of the successes of the Australian economy – investments in Australia produce good returns for foreign investors. This should not be seen as a disadvantage to the Australian economy.

However, concerns should be raised to the extent that the Government is interfering (directly or indirectly) in the decisions to borrow and lend. Elsewhere, ACCI has raised concerns that the Government is overtaxing savings.

As long as the distortions to foreign investment are small, the Government should not see the level of foreign debt as a policy target.

Microeconomic Reform

Microeconomic reform is one of the main drivers of Australia's productivity performance over the longer term and has the potential to deliver an immense improvement in Australia's long-term sustainable growth rate.

Microeconomic reform allows entrepreneurs and their employees to harness their efforts towards more productive economic outcomes, so that capital assets and labour are employed as efficiently as possible.

A number of critical issues which need to be addressed as part of microeconomic reform include:

- competition in product and factor markets should be fostered. Impediments to competition should be systematically removed;
- skills need to be developed in ways that properly target the specific skills that are needed. Training needs to be undertaken where it is most economically viable. Employees should be encouraged to engage in skills development and training;
- environmental concerns need to be handled in a manner which will ensure that economic activity is not needlessly and endlessly hamstrung;
- public sector assets need to be better managed. Impediments to efficient resource use in the public sector should be removed and market pressures should be allowed to play a greater role in the decision making process;
- National Competition Policy should continue and be expanded to cover workplace relations, training and human services; and
- governments should continue policies of privatisation of public assets, particularly in industries that already have private sector participation. The return on assets in the public sector is notoriously lower than in the private sector. There are thus large efficiency gains to be made by placing a proportion of assets currently managed within the public sector into private sector hands.

Tax reform should be pursued which promotes economic efficiency by removing distortions and inappropriate pricing structures which result from Australia's current array of input taxes.

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