

Inquiry into impediments to business investment in Australia

Submission to the House of Representatives Standing
Committee on Economics
May 25, 2018

A policy or leadership vacuum

Australian Chamber members have consistently expressed concern that policy makers often do not implement policies that are in the long-term interests of our country. This heavily weighs on confidence, and therefore investment.

Australian energy policy is a key example of the lack of policy leadership. Although there seems to be traction through the COAG Energy Council and the National Energy Guarantee (NEG), years of policy uncertainty have preceded the current 'energy crisis' facing Australian businesses and Australians. The NEG could be an important part of the solution to the current energy crisis, but it will not be enough to reduce electricity costs in the short-term.

Another area that requires policy leadership is the development of cities and the associated infrastructure planning required. Australia as a nation has fewer land constraint concerns than many other countries. With more concerted effort in planning for Australia's future population growth, we can provide alternatives to the current direction of 'vertical densification' of our current cities.

There is need for policy makers and planners to ensure infrastructure is sufficient to accommodate growth in major cities, but also ensure there is greater connectivity between major population centres. Connectivity between cities and towns will provide opportunities for businesses to invest, as the consequence of better connectivity is economic growth and increased productivity. It will open, potentially, markets previously difficult to access either physically or digitally.

Economic studies consistently show policy uncertainty negatively impacts business investment.¹ If businesses are unsure what the future policy landscape looks like, their return projections will be uncertain too. This, in turn, will lower the investment a business makes. This is why policy leadership is so important in encouraging businesses to invest. If businesses understand and know the direction policy makers will be moving towards, their confidence and appetite to invest will likewise grow.

¹ H Gulen, M Ion (2015) 'Policy uncertainty and corporate investment', The Review of Financial Studies, Vol. 29, Issue 3

Complex regulatory environment

According to the World Economic Forum, Australia is ranked 80th out of 137 countries in terms of the burden of government regulation for companies. Ahead of Australia are countries such as Canada (38th), Russia (79th), Ethiopia (40th) and Singapore (1st).² Administrative burdens and excessive compliance costs require allocation of business resources that could be used more gainfully, and be deployed, more productively elsewhere.

Overly extensive administrative and compliance burdens for businesses take time and resources away from their main objective: to run their business. Businesses could spend this time generating wealth, which benefits the overall economy and provides employment for Australians.³ Excessive administrative and compliance complexity does not only require sub-optimal deployment of resources by businesses, it also negatively impacts governments.

The tax system is one area where there is a high level of complexity and compliance costs. There is need for a comprehensive review and reform of the tax and transfer system. Australia's Future Tax System Review (Henry Tax Review) and Re:Think Tax White Paper in 2009 and 2015, respectively, identified areas within our tax system requiring reform in order deal with Australia's future challenges. Not much has been done to this day about the recommendations made in these papers.

Australia's tax system is currently unnecessarily complex, has high compliance costs for both individuals and businesses, and is expensive for the government to administer. Each year some area(s) of the tax system undergo a change or a slight amendment, without undergoing the significant reform needed and identified in numerous tax reviews completed over the last decade.

The tax system is but one regulatory area that Australian businesses need to navigate successfully in order to have a viable business. All of these regulations add up and create significant barriers on Australian businesses ability and capacity to invest. Many businesses have diverted significant resources in order to ensure they are complying with various Commonwealth Government regulatory requirements, as well as various state and territory regulatory provisions. This creates a complex network of regulatory provisions that require significant attention and resources, taking the business away from allocating the same attention and resources to growing their business.

Elevated input costs

Given Australia's energy prices inflated by 8.7% over the year of March 2017-18, it is clear why our members consistently cite energy prices as one of their key concerns. Australia's energy price increase over the year was one of the highest comparative to other OECD countries. The only countries with a higher increase in energy prices over the same period were Norway, Mexico and Sweden.⁴ This illustrates the real, and often negative, consequences of policy makers not taking leadership on long-term policy concerns of Australians and Australian businesses.

Comparatively, consumer prices rose by 1.9% over the year to the March quarter 2018.⁵ Energy prices have clearly increased far more significantly than average inflation. These generally low inflation outcomes indicate that businesses do not have much in the way of pricing power. Market conditions, forces and competitive pressures make for a very tough pricing environment. That is,

² The World Economic Forum, Global Competitiveness Index 2017-2018,

³ OECD (2007), *Comparing Administrative Burdens across Countries*, Cutting Red Tape, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264037502-en>.

⁴ Consumer Prices, OECD - Updated: 4 May 2018, <http://www.oecd.org/sdd/prices-ppp/consumer-prices-oecd-updated-4-may-2018.htm>

⁵ Australian Bureau of Statistics, Cat. No. 6401.0 - Consumer Price Index, Australia, Mar 2018

businesses are not necessarily transferring the increase in input costs to consumers because of the competitive environment many businesses operate in. This can stifle businesses' capacity to invest.

As one of our members has noted, the consequence of increased input prices absorb funds that could have been used to invest:

"I would say the unreliability and increasing price of electricity are among the largest barriers to investing in our business. I've seen our energy overheads increase by 25% over the past 12 months. Worse still, last summer we experienced blackouts once or twice a month. On one occasion we lost power for three-quarters of a day which cost our business \$20,000. This essentially wiped out the net benefit of the Government's \$20,000 instant asset tax write-off which was supposed to help us invest and grow."

Elevated input costs impede investment. Firms face budget constraint and, if other input costs are high, acts as a barrier to investment. High input costs, as well as uncertain policy objectives and a complex regulatory environment, ensure businesses continue to be cautious in their investments.



About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

Telephone | 02 6270 8000 Email | info@australianchamber.com.au
Website | www.australianchamber.com.au

ABN 85 008 391 795 © Australian Chamber of Commerce and Industry 2018