Building More Skilled and Dynamic Workforce

Creating a more dynamic and resilient economy

Draft Recommendation 1.1 and 1.2

The purpose of an economy, as Dr Coombs pointed out many years ago, is to benefit the people, not the other way round. We need to take a clearer measure on the end benefit or cost to the broad Australian community, not just to raw economic data. Real incomes of ordinary people have been falling for many years. They will not be boosted by cutting tax rates for companies. Trickle-down economics has been known to be nonsense for about 100 years.

Gifts to companies in the hope they will change their aggressive accumulation policies is, obviously, pie in the sky. Reducing the company tax rate to 20% is clearly in that category. It is about as valid as the business case for trams in Canberra, no matter what self-serving American modelling you use. Fanciful modelling about the medium term should not be used. The most immediate effect of your proposed change would be a flurry of corporate restructuring by the big corporations to bring themselves under the $1b mark (XY Corp (NSW) Ltd, XY Corp (Sydney) Ltd). The banks already have state management structures.

Your reports should open by recognising that Australia is one of the lowest taxed countries in the OECD. That indicates that any lowering of a tax infers that another revenue action needs to be considered to enable public goods and services to be provided, at least at current levels.

It is appropriate to consider the company tax rate in other countries in terms of competitiveness. However, it is necessary to document what other tax arrangements have been developed in those countries, that offset any further gifts to corporations in Australia. For example, wealth taxes.

I do not believe, and I do not believe that ‘a reasonable person’ would believe, the 20% company tax proposal will be revenue neutral in any term. You do not define ‘medium term’. This is neo-liberalism, as generated by greed-is-good Americans.

Allowing companies to deduct the full cost of capital investments in the year incurred has merit. Current depreciation arrangements are damaging to productive investment. In the case of rural fencing they have to be spread over a 30 year period, for example.

Wealth tax

Australia has been very strong in the context of OECD countries, in taxing ordinary people, and very weak in taxing the wealthy. It is urgent that we change that.

Matt Grudnoff of the Australia Institute has calculated that a wealth tax of 2%, as in France, would net the Australian Treasury an extra $194 billion annually. Italy charges 1-2% generally, with a very finely defined set of rates. A 1% wealth tax would enable the federal government to properly fund the health system, and the education sector. It would also make a sensible and humane increase in foreign aid more acceptable. This will increase peace between and within countries, reducing the need for military spending.

A wealth tax is levied on all assets, including yachts in the harbour. See Italy's refinements. It does not impact negatively on productivity, inflation, or real incomes, except arguably to a tiny extent on the wealthy. A 1% wealth tax can be said to be equivalent to a 10% tax on the income the wealthy could have made by investing their assets in productive economic activity. A wealth tax tends to encourage productive investment.

There has been a very significant fall in university enrolments in recent years because some students have to pay as much as 93% of the cost of their courses. This reduces our 'cleverness'. It condemns more of our children to lower productivity and standards of living throughout their lives, while we try to import the skills through immigration.

Excessive immigration established by Prime Minister Howard and maintained/worsened since is beginning to cause worrying levels of community unrest and is going to bring governments down in the near term.

The company tax rate has been cut before without any significant increase in R&D being generated.

It may have increased foreign investment, but that will in many cases have been at the expense of Australian companies, which have been taken over by the foreign corporations. This loses Australia independent decision making on international marketing and on R&D.

It also disadvantages remaining Australian companies in that field because they have to pay Australian taxes, while the foreign corporations will transfer price and use other sophisticated accounting procedures which minimise or wipe out any Australian tax paying. Consequently, the Australian competitors are at a competitive disadvantage to the level of their tax paying disparity, at least.

The best-known examples are General Motors and Ford. GMH were not allowed to market Holden cars overseas to most markets, because General Motors reserved those opportunities to the American parent. Australia is the second largest market for 4WD vehicles, but Ford sacked the fellow who developed a 4WD Falcon ute. Both demanded subsidies, claiming losses while operating here for decades.

We do not want more foreign investment per se. Our economy is already excessively controlled and milked by foreign investors. As is widely known to the community and to government, foreign investors see Australia as a milk cow, minimising their tax contribution to Australia, if they bother to pay tax, doing their R&D at the home enterprise in their home country, and financially mining Australia.

Foreign investment is at such a saturation in the Australian economy that GDP figures may not be an accurate indicator of community benefit, as so much of it is shifted offshore by foreign investors.

Our banks are able to deal on the foreign market, and are thereby able to provide loan funds to Australian companies. What we need is more capable and dynamic Australian company managers, with vision and initiative to borrow and develop economic activity and pay their taxes honestly here, without profit shifting to somewhere else.

We, in Australia, must wean ourselves off the conventional wisdom of relying on American accounting and economic texts and models. American corporations fund the professorial chairs in some of their biggest universities. This is to skew academic publications to the best interests of large American corporations.

Fundamental change to company legislation

There is a question as to whether company legislation should be fundamentally changed. It was established to enable productive joining of capital funds for joint stock action. It has become an artifice for tax and legal liability minimisation. A high proportion of companies have only one director and one substantive shareholder. It is time to reduce inequities by taxing companies at the same rate as individuals. Significant regulation and accounting time would be reduced.

Phoenixing activities could be addressed at the same time. As things stand unscrupulous people can form a company, effectively bankrupt it, keeping funds for themselves, leaving many people unpaid for services and products supplied, and start another company the next day and do the same thing again. It is a significant problem in the house building industry. Bankruptcy legislation can catch up with them to an extent, but not adequately, or soon enough, at present.

Draft Recommendation 1.3: Introduce a 5% net cash flow (turnover) tax

This has merit in regard to picking up some tax from the large corporations, which currently avoid much of their tax obligation, but as a flat tax will fall most heavily on the poorer members of the community. There is insufficient competition in the Australian market among large corporations to cause the 5% to be paid out of corporate profits. Woolworths and Coles claim a net profit of about 2% so they would pass on the whole

5% in higher prices to customers (the broad Australian community). It is a method of increasing the GST under another guise. Again, this is an additional burden on the broad Australian community, while the wealthy make a minimal contribution. It will quite quickly increase inflation by up to 5%, no matter what your model tells you.

Deem tax payable by foreign companies

A better approach would be to deem the tax payable by foreign companies, and if they claim otherwise then require that they open their books to the ATO. This would reduce the disadvantage Australian companies suffer, without raising inflation or further burdening ordinary Australians. The USA no longer complies with internationally agreed commercial terms, so we need to be realistic about collecting taxes from American corporations, on profits made here.

Deduction of full capital expenditure costs in current financial year

Deduction of full capital expenditures in the current financial year is a good idea, to speed up innovation and productivity. Current depreciation rates were designed in an earlier, slower era, when integrity was higher. They disadvantage businesses in international competitiveness. Rural fencing has a 30-year depreciation for example.

Infrastructure Plan

Australia needs to develop some bold ambitions specific to our own interests. These will clarify many things in regard to government and business priorities, and the analysis involved will make more clear that some things should cease to be priorities. For example, by cancelling the Morrison order for nuclear submarines whose only obvious purpose is a war with China, our major trading partner, we could plan expenditures of $368b on higher priorities.

To foster success we need a 5 year infrastructure plan by government, publicly available. As it is implemented, as with any business plan, some needed variations will become apparent, but the essentials should be the focus of the responsible Minister, as in South Korea.

This will give clarity to investment options by businesses, greatly speeding up investment, R&D, and productivity in many sectors. South Korea has been particularly strong in this regard, and their economy has progressed quickly as a result. China's planning is a revelation to the world in the success of its implementation. Arguably Malaysia and some other lesser developed countries have made better progress than Australia, significantly because of clarity of 5 year plans that give a focus to everyone in government and business. Labour representatives can also better understand the reason for various decisions and focus on re-training as necessary, rather than opposing change in order to safeguard their members.

The 5 year infrastructure plan would tie into the government's goals in regard to global warming. A draft additional 5 year plan out to 2035 would focus everyone's attention on steps, in specified time frames, necessary to achieve the outcomes planned.

Regulations

Regulations exist to address market failures (sometimes including human failures of character). This needs to be clearly recognised and understood.

Draft recommendations 2.1 and 2.2 are supported.

Recommendation 2.3 is supported in regard to increasing expectation of public servants in the fields of judgement and initiative, in the context of addressing market failures. Public service staff have been de-skilled by Ministers and Prime Ministers over the last 30 years who have aimed to reduce public servants to a role of mere process workers (stewards) to serve the interests of Prime Ministers and Ministers. 'Hollowing out' refers to reducing judgement and initiative.

Good judgement, initiative and productivity have fallen quite seriously in the APS over the last 30 years. Selection and promotion on merit must be re-instated.

Quality improvement in the APS, would be best led by the Public Service Commission. Government giving the Commission some guidelines, such as the RBA has in regard to inflation would be productive. Senior managers in many parts of the APS spend a highly unproductive and large part of their time writing reports to send up the line, generated by Mr Howard as a way to control people. It cut and continues to seriously reduce the productivity of the APS.

For example, as an EL1 in the central policy division of DPIE in the 1980s under Minister Kerin my briefing of Australia's position on primary industry matters to our post in Paris went out directly. Nobody above me saw the need or had the time to re-handle it. My briefing brought about major agreement on how support for agriculture was measured which led on to other major gains by Australia in international fora on trade. In restructuring many aspects of primary industry in Australia Minister Kerin had one third of the legislation going through one sitting of parliament. It was generated by a relatively small number of people, with a capable Minister and staff in close contact with the Department. There were no personal computers. We had a typing pool.

In 1979 as a Class 8 (APS 6) I wrote the Major Airport Needs of Sydney Report. About 2400 pages in 12 months, drawing in technical inputs and putting them into report structure. Much of it hand written with a typing pool which had ticker tape type means of recording material. The FAS's steno was outstanding and so she would kindly type dictation, drawn from files while I stood at her desk, straight into a letter for his signature, at a constant full speed rate. Letter perfect. After that rush it took Ministers about 20 years to develop the courage to announce Badgery's Creek.

Using Ministerial statements for the purpose of quality improvement in the public service would only encourage grandstanding. Ministers have the role of announcing policies but not directing the specific workings of a Department. That is the role of the Department's head. An increase in judgement and initiative can only be achieved by capable managers working closely with staff and mentoring their development. Re-structuring the layout of government offices so Branch Heads sit with their staff rather than the model of them being separate from their branches and huddled together with the FAS to make politicking easier, which developed over the last 30 years, will be significant in this.

It would be useful if you reflected on the productivity/efficiency of our federal parliament. Over the last 30 years it has been pathetic in comparison with other capable countries, such as South Korea or Singapore.

Your para 3 is difficult to evaluate. My experience is that it will generate a lot of useless report writing, rather than productive work. Backsides will have to be minded. Performance of all kinds can best be improved by the selection of senior staff with judgement, initiative and integrity, and a brief to develop staff. PM Howard and his successors in the coalition have sought and selected "yes" people who have been happy to be process workers. Higher quality staff have left the APS.

Key performance indicators have a limited role in this level of work. KPIs are a certain means of distancing managers from staff. They are a brutal means of producing widgets, but are not appropriate generally in the APS. If KPIs are kept to such matters as ensuring that certain regulatory actions are achieved within a specific time period (such as building approvals) they can have a role.

Holding people to account for KPIs means more reporting. This absorbs everyone's time and achieves very little. If the overall expectations are not being met in a timely manner, this will quickly become apparent. The quality of management is the key in public service performance. This should be the focus. All matters will then fall into place.

The concept of 'stewardship' in the APS is a concept of process workers. We need better judgement, integrity and initiative. In a high proportion of policy work, new thinking is essential. There is no evidence base. Information and some evidence can be gathered, but much of the work is independent thinking to solve market failures.

Staff in any organisation quickly adjust to the style of the head of the organisation. KPIs are a certain means of distancing managers from staff and generating a heap of useless report writing. Good managers who are seated close to, work with and mentor their staff is the more effective strategy. This concept is fully functional with working from home.

Seating SES together to politically machinate has been the unproductive style of recent decades.

As one solution to market failure, oversight of regulations is best done by alert people with judgement, integrity and initiative, and an appreciation of the concept of market failure, not 'stewards' simply reading regulations.

Fastest, and perhaps the only, way to increase productivity

The fastest, and perhaps the only, way to increase productivity in Australia is to change the behaviour of corporate management.

This can only be done by changing the bonus system, based on American greed-is-good culture. The economic theories developed in the late 1970s by Friedman and Johnson and taken up in Australia as conventional wisdom benefit the wealthy and disadvantage the broad population through monetary policy and the raw enthusiasm for market forces.

The Australian economy is most quickly to be enlivened by taxing emoluments other than salary at say 70% in order to get rid of them. Executives will then be paid a straight salary which will bring back a longer-term perspective, more healthy for the economy and the company. R&D will be significantly increased leading to productivity increases.

The off-salary emoluments in executive pay, thought to encourage executives to maximise profits, also have the effect of damaging the medium and longer term economy, and indeed the very companies managed. QANTAS is the most obvious recent example.

The executives focus on maximising their bonuses, which means they do not invest in research and development as much as they would, all things being equal. This combines with the very high level of foreign ownership we have encouraged, wherein the American and perhaps other foreign owners ensure that any benefit possible will be accrued at head office in their home country.

The executive contracts are in many cases for a five-year period, so most if not all the benefit of substantial R&D will accrue to the successors to the current executives. Reducing R&D expenditures, and even making capital sales, ensures the executives maximise their own wealth to the cost of Australia.

We barely need any foreign investment. Our superannuation funds and other government fund management provides sufficient funds for most investments in Australia. What we lack is good, visionary Australian management, who will borrow money and use it productively and profitably.

We used to have these skills. An example is McGrath who developed Repco, producing high quality motor parts and associated materials, and could then produce an engine put in Jack Brabham's racing car frame with which Brabham won F1 world championships. The only driver/builder to ever do so. Repco is now a shell, renting premises and retailing products, under the control of an American company. John Elliot is an example of the later, USA MBA trained executive, who destroyed a number of iconic Australian owned companies. Taxing off-salary emoluments will greatly encourage re-growth of the earlier productive, internationally competitive skills.

The effect of untrammelled foreign investment is barely understood. It has caused the loss of most of our potentially growthy medium level companies. They have been taken over, just as fast as their foreign competitors can identify them. We are left with large corporations, mostly foreign owned and not paying much if any tax, and small start-ups. This is the other major reason for little productivity growth. Foreign companies are basically just interested in financially mining their foreign subsidiaries.

Foreign companies also control marketing, ensuring that Australian subsidiaries do not compete with products from the home country, and do not take initiative in developing new products that may not be wanted in the vision and control by the foreign entity. Well known examples are General Motors minimising where Holden cars could be sold outside Australia, and in the country with the second largest number of 4WD vehicles, Ford sacked the fellow who developed a 4WD model of the Falcon ute in Victoria. GMH engineers were taken en-masse to the US to redesign the suspension in all General Motors vehicles.

The FIRB should be tasked with examining every foreign investment proposal down to a relatively low value. Approval should then be on conditions such as local shareholdings, R&D percentage of gross turnover, subject to Australian laws and taxation. It maybe that an RBA style Commission is more appropriate to oversee foreign investment. The whole thing is too complex for Ministers who tend to be generalists and not have the time or expertise to keep up with highly technical issues of this nature.

A major change in government rhetoric is needed in relation to foreign investment, progressing to a close linkage of government policy to developing visionary management skills in Australia. This will bring about stronger growth in productivity and re-taking ownership of our assets through the major investment pools in Australia. Those investment pools are currently looking for simple investments overseas to increase their profits. We need to develop their skills sets and vision, and confidence in being able to employ strong visionary Australian management skills.

Workforce

The need to keep our TAFEs and universities fully functioning at the highest level is obvious. We also need to ensure a higher percentage of our workforce is actually employed productively. Currently there is a widespread labour shortage while 4% or more of the workforce is officially unemployed and a great many others are under-employed.

The indication is that for many of those 4% or more of the workforce the welfare arrangements are effectively a 'universal wage'. We need to re-establish the arrangements of providing transport to work which is within the training and physical capacity of the unemployed and under-employed, and stop their welfare. There is no such thing as being 'over qualified'. This system achieved un-employment rates close to 1.25% until it was stopped in the early 1970s.

A universal wage has never worked anywhere. The clearest experiment was at the establishment of Israel. The Kibbutz system closed by about 2005 as too many people chose not to work equitably.

Large corporations

In the 1880s the American Congress recognised that some corporations had too much market power. Legislation was developed. It took until about 1911 before that legislation was fully effective in requiring the break-up of large corporations with too much market power.

In the 1980s many economists in Australia were advising governments, on the basis of the neo-liberal material being generated out of American academia, influenced by large corporations, that market concentration was not a problem and that encouraging it could generate stronger competition amongst the goliaths to the benefit of consumers.

Governments around the world have largely lost control of those large corporations. Recent inflation in Australia generated by price gouging large corporations, while real incomes for the broad population were falling, was only addressed by further stressing ordinary income earners with higher interest rates. Higher interest rates benefit the wealthy by higher returns on their savings.

Legislating away executive bonuses as proposed above would be a first step in improving productivity growth. Conditions on foreign investors including their signing up to paying taxation in Australia would be another step towards reducing the most obvious productivity and equity limiting behaviour by large corporations.

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