

ANDEV Submission to Productivity Commission Inquiry into Productivity 2022

Australians for Northern Development & Economic Vision (ANDEV) was set up by Australians who want to see economic and social development in the forgotten northern region of Australia. <https://www.andev-project.org/>

ANDEV acknowledges that the productivity /efficient utilization and allocation of resources (including time) in Australia is on a long-term downward trend. As global populations and workforces slow or decline the determining driver of future economic and social growth will be increasing productivity- doing more with less.

The unrelenting long term annual rise in the number and complexity of regulatory burdens on business (e.g., Government agency demands for reporting and project approvals) is a key factor in Australia becoming less competitive through the time and cost spent on such unproductive requirements. Most regulations set out what you can't do rather than provide an environment for entrepreneurship and innovation. There are many historical case studies on economic development that attribute entrepreneurship as a key driver of economic and social development. Professor Joseph A Schumpeter's coherent analysis of the economic process presented entrepreneurs as the dynamic force driving economic and social progress. See *"The Prophet of Innovation – Joseph Schumpeter and Creative Destruction"* by Thomas K McGraw. Harvard University Press 2007 and *"Essays on Entrepreneurs, Innovations, Business cycles and the Evolution of capitalism"* by Joseph Schumpeter 2006 Transaction Publishers. Schumpeter warned against the increasing bureaucratisation of the economy, high taxes, loss of personal freedoms and protectionism.

ANDEV believes the following three policy initiatives will play an important role in halting the long-term trend of declining productivity and over time boost productivity in Australia:

1. Establish Integrated Development Zones (IDZ) in Northern Australia that have differentiated taxation and regulation regimes that drive the long term economic and social development of Australia.
2. Streamlining of regulatory requirements for businesses across all areas of economic activity.
3. Remove impediments to seniors/pensioners re-entering the workforce to meet the labour shortages in Australia.

Policy 1.

Establish Integrated Development Zones (IDZ) in Northern Australia that have differentiated taxation and regulation regimes that drive productivity improvements and the long term economic and social development of Australia.

*A Big country needs a big vision and **leadership** to achieve its visions.*

Northern Australia represents almost 50% of Australia's land mass and contains only 5% (1 million) out of the total population of 25 million. Yet two thirds of Australia's export income is generated in Regional Australia. Mining and Agriculture are the two main export sectors in

Northern Australia. Northern Australia contains all of the Northern Territory and those parts of Western Australia and Queensland above the Tropic of Capricorn — it accounts for over half of our sea exports (Ports Australia, 2014). Thriving and diverse exports in minerals, energy, agriculture and tourism underpin Australia's national income. The earnings from the Pilbara alone are larger than the individual economies of 119 countries but are generated by only 60,000 people (Pilbara Development Commission, 2013).

The ANDEV vision advocates for policies that include lowering business costs, taxation reform, encouraging Foreign Direct Investment (FDI), integrated private / public agencies that deliver one stop shop regulatory agency that streamline regulations/project approvals- all policies to make Northern Australia become more **competitive and productive. These policies will attract private investment, foster expansion of the existing economy and attract new activities in for example import replacement. All productivity enhancing activities.**

A proven effective way to achieve this is through a systematic and integrated development model that has proven to be a catalyst for development around the world; the establishment of Integrated Development Zones (IDZ) or what are often globally known as Special Economic Zones. In 2018 there were 5,383 successfully in operation and 507 in planning. (UNCTAD World Investment Report 2019 https://unctad.org/system/files/official-document/WIR2019_CH4.pdf)

The competition for global investment has seen a growth in IDZ's around the world. **Australia is strangely one of the few countries in the world that has none. Australia is at a serious competitive disadvantage. The creation of IDZ's in Northern Australia is the most effective and integrated policy initiative that will drive the transformational economic and social development of Northern Australia. IDZ's have proven to be the key, to such paradigm shifting development around the world and especially in China. China's historically unprecedented economic and social growth has been driven by SEZ's. SEZ's in China have evolved since 1978 to support the evolution of China's economy. Beginning with manufacturing, SEZ's have evolved to financial services in Shanghai and joint SEZ's with neighbouring countries like Russia.**

ANDEV made a comprehensive submission to House of Representatives Select Committee on Northern Australia in 2013 and appeared in a public hearing before the Committee urging what ANDEV then called a Special Economic Zone (SEZ) be implemented across Northern Australia. **In September 2014 the House of Representatives Select Committee on Northern Australia recommended in its Report that "the Australian Government conducts a full investigation of the potential and practicality of special economic zones in Northern Australia."**

Some 7 years has now passed since the Committee made that recommendation and there has been no action. The implementation of IDZ's or a Northern Development Zone, must form part of a productivity enhancing policy package focused on the economic development of Northern Australia. This would be stage 1 in a roll out of IDZ's across Australia. It's time for Federal Government's to be creative, entrepreneurial and show leadership in this area.

On 20 May 2015 the then Federal Treasurer Joe Hockey said on a radio station interview in Darwin that a special tax zone for Northern Australia is worthy of consideration.

"In terms of the overarching opportunities in Northern Australia, a special tax zone is worthy of consideration," Mr Hockey said. Mr Hockey was in Darwin to talk to the Chamber of Commerce, an organisation that has pushed for tax concessions. "We already have zone tax offsets where people in remote areas or regional areas in many cases, and some not-so-regional areas, actually get a tax offset at the end of each financial year," Mr Hockey told 105.7 ABC Darwin.

What is wealth and how is it created? A study of the economic history of the human species over the last 10,000 years (since agriculture and towns) shows two casual factors: **Development of human capital** – education, public health, nutrition(agriculture) public infrastructure.

Favourable business climate- incentives, market orientated conditions that drive innovation, entrepreneurship and private investment.

IDZ creates favourable business conditions that boosts competitiveness, innovation, entrepreneurship, and the productivity of capital and resources.

As an example, let's look at the Pilbara in WA. Here through a world scale endowment of iron ore, has established large scale operations that leads the world in best practices and low-cost high grade iron ore. Port Hedland is the world's largest iron ore port. The creation of an IDZ here with streamlined regulations and taxation incentives on housing could see FIFO workers being attracted to live in these towns. Such a policy framework for a IDZ can act as a catalyst for building a world class innovation centre at Port Hedland and /or Karratha- this would encourage the establishment of import replacement businesses, new export businesses that support iron ore operations. **Private investment is encouraged by IDZ style policy framework.** This could act as catalyst for more common user port facilities and other infrastructure at Pilbara ports – port capacity can become an obstacle to growth. Federal Government can lead the way with taxation and regulatory policies to lead State governments to cut taxes like payroll tax, provide land and cooperate with Federal Government to set up one stop regulatory agencies. IDZ can be set up on a regional basis (e.g., All of Northern Australia) or localised locations like - Port Hedland and Karratha (as one IDZ), Darwin, Gladstone, Townsville.

IDZ don't require Government/taxpayer money. All that is required are leadership with market-based policies and removal or lowering of job destroying taxation/fees/productivity sapping regulations.

Policy 2.

Streamlining of regulatory requirements for businesses across all areas of economic activity.

Numerous studies and real-life case studies have shown that unnecessarily burdensome regulations, impose high direct and opportunity costs on business which invariably flow onto the consumer through inflation and declining real incomes. For example, SEZ's around

the world, and action by Federal Government in USA to cut red tape during the Trump presidency increased productivity and cut costs. Existing polices to streamline regulations needs to be accelerated with ambitious targets set and reported on- For example sunset clauses in all new legislation/ regulations, reduce more regulations for every new piece of regulation, streamline Corporations Act and Taxation legislation with a biannual review that sets a target of modernising/ streamlining/ cutting out of date provisions, / regulations., real action on Federal and State collaboration/ removing duplication, and reform. **The Federal Government can show leadership to the States in this area which control many of the project approvals processes.**

Policy 3.

Remove impediments to seniors/pensioners re-entering the workforce to meet the labour shortages in Australia.

Australia is in the midst of a skilled and unskilled labour shortage and 450,000 Australians could be available to the workforce if the Federal Government didn't penalise age pensioners so harshly if they wish to work.

Simplify the Pension system and provide Pensioners the choice of whether they wish to undertake additional work without pension penalties.

- 1) No change to the Assets Test.
- 2) Maintain marginal tax rates.
- 3) Provide an unlimited work bonus threshold without pension penalty, i.e. work income isn't assessable for the pension.
- 4) Other income thresholds (\$180 per fortnight) remain the same
- 5) Consider Pensioners income tax as return of pension (In simple terms this should mean a married pensioner will have paid tax roughly the equivalent of their pension once their salary and pension exceed \$80,000 pa. A single pensioner will have repaid their pension in full if they earn \$100k pa. Working pensioners will pay for their pension through income tax.)
- 6) If Government doesn't wish to make a full decision suggest a trial of the above for 3 years.

With 97.1% of pensioners not having any employment income, the impost of these changes on the government is small.

The Government needs to reassess how they view additional work income. Pensioners taking up additional work and paying tax means they are starting to fund their own pension. Don't penalise them for doing this.

Using recent comments made by Gina Rinehart, simplifying the pension arrangements and providing pensioners with the choice of undertaking additional work without penalty will be good for pensioners, good for industry and good for Australia.

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ANDEV: Productivity Commission Submission/1/Co Chair IGKins/ 28 February 2022