This EFW Report explores a number of fundamental concerns about economic freedom. Opinion leaders and governments have lost the ‘reform feeling’ that inspired them one or two decades ago. This is ominous if one goes by historic experience and international comparison. Decaying standards of economic freedom spell dangers for the maintenance of a robust economy in the medium-term future.

- Those convinced that more should be done to uphold secure private property rights and the freedom of contract under the law have reason to be concerned about the rising spectre of neo-socialist interventionism, here and overseas. A little over a dozen years after the demise of Soviet-style socialism, friends of freedom are again tacking into a headwind of reactionary interest groups and political populism. Whereas old socialism demanded the outright taking of private property, the spreading neo-socialism takes away one property right after the other by increasing and onerous regulations. Compensation for such ‘regulatory takings’ is rarely offered.

- We have selected three recent, telling cases to show how neo-socialist expropriation works: the attempt to confiscate fishing rights by the South Australian government, which sprang solely from an opportunistic political deal; the current drive to regulate Queensland industries to protect the Great Barrier Reef before all relevant issues have been explored; and the seizure by the NSW government of the right to harvest rainwater on rural properties by what activists now call ‘water barons’, namely landowners who invested to make better use of what they own.

- There may be good reasons to annul some private property rights, but, in a lawfully governed society, the case has first to be made that proposed interventions will work, that the benefits exceed the assessed costs to Australians, and that ‘regulatory expropriations’ of property rights are matched by compensation at full market price. This will restore balance between collective interests and individual economic rights and will exert a much-needed regulatory check on excessive regulation.

- We discuss other long-term dangers for economic freedom, such as the foot-dragging to complete the tax reform that began with the GST. Direct taxes are yet to be streamlined, income taxes have to be cut. Overdue tax reductions are of course hindered by another danger to economic freedom, the expansion of welfare payments. Thus, a growing number of working-age Australians choose disability pensions as a preferred route to early, tax-funded retirement. As the population ages, present welfare arrangements will make steep rises in taxes inevitable. In other words, the welfare state will mandate a growing confiscation of private wealth and incomes—and with it a further decline in motivation and entrepreneurial engagement. This will slow economic growth and in turn make present welfare burdens even less sustainable.
THE NEO-SOCIALIST CHALLENGE TO ECONOMIC FREEDOM

This issue addresses some fundamental threats to economic reform—excessive faith in regulation, uncompensated ‘regulatory takings’ of property rights, delays in tax reform and persistent welfare dependency.

The previous three issues of Economic Freedom Watch made the case that secure private property rights and the freedom of contract under the rule of law—in short, economic freedom—form the material backbone that enables citizens to uphold other aspects of freedom. They are also essential for economic growth, job creation and the reduction of poverty. Once economic freedom is eroded, the damage is felt only with a time lag. We made these points with reference to international and historic statistics (see Economic Freedom Watch Reports, no. 1-3).¹

This should surprise no one, as British law has been based on these fundamental insights since the Magna Carta. It is only with growing affluence and a progressive shift of many people out of competitive production and into dependency on unearned welfare incomes, that the central role of property rights, free contracts and objective law is overlooked.

In past EFW Reports, we also pointed out that Australia’s economic liberalisation has slowed to a snail’s pace, and that there has even been some backsliding. Microeconomic reform is now sailing into a headwind of glib complacency, and macroeconomic discipline suffers from pre-election largesse and a bountiful tax take in the wake of the 1990s expansion and the GST. As of late, security concerns absorb political energy. Therefore, the last two years have been lost for reform. Meanwhile, mineral exploration has slowed down, yet another generation acquires habits of welfare dependency, and job creation is held up by taxes, contradictory regulations and high compliance costs.

Difficult times loom ahead because security costs are rising steeply. It was recently estimated by Warwick McKibbin and Andrew Stoeckel that the Iraq war—in a worst-case scenario—will cost some two percentage points of world economic growth by 2005. And this will not be the end of extra bills to pay. The only way for the West and the new Asian industrial economies to overcome expected challenges is to demonstrate the superiority of personal, economic and political freedom and to exploit our greatest asset, the adaptive capacity of a free economy.

The previous EFW reports contained updates of indicators of economic freedom in Australia. From 2003, we have decided to update the EFW Index only twice a year, since the underlying data change but slightly. This time we will focus on several dangers to economic freedom, such as excessive faith in regulation, lack of compensation when regulations expropriate property rights, delays in tax reform and the long-term dynamics of welfare dependency.

To remind readers that economic freedom is eroded by thousands of petty but cumulative cuts, we list telling instances of pork barrelling, as well as decisions that improve and diminish economic freedom. Many of these examples come from EFW readers.

Into a headwind

In the 1980s and early 1990s, the international intellectual climate and the policy momentum favoured liberalisation. Now, opinion leaders and decision-makers in the developed world again increasingly yield to the collectivist temptation. The turn of the zeitgeist has been made possible by the success of previous economic reforms. Economic growth is—again—taken for granted. Entrenched interest groups are striking back against ‘economic rationalism’, as some unwelcome consequences of greater self-responsibility and competition are felt. The public mood favours a return to conservative collectivism and often displays a ‘neo-romantic’ aversion to the critical analysis of the costs and side effects of political intervention. So we may have to discover yet again that the road to poverty is paved with good intentions—and ignorance of economics.

Throughout the 20th century, the battle for economic freedom was with socialism—whether in its communist or its national-socialist guise—itself a construct of the 19th century. ‘Property is theft’, the French proto-communist Pierre Joseph Proudhon wrote in 1840. Karl Marx later said the same in more words. The threat was expropriation, the outright seizure of assets or expropriation of assets with
Pork Watch

Here we report a few findings about the progress and tribulations of ‘rent seeking’ and politically opportunistic ‘rent creation’:

The Commonwealth government decided to postpone long-announced and overdue tariff cuts on imported motor cars. Individual buyers still pay domestic carmakers an unwarranted subsidy, estimated at $2,800 per average vehicle. The car tariff was originally to be reduced to 5% by 2004, but this has now been deferred to 2010—unless yet another Productivity Commission report gives politicians and industry a platform to argue for further deferral.

The Prime Minister said that the plan would give the 54,000 workers in the industry job protection. With huge worldwide excess capacities and rising fuel costs, it seems audacious to promise job security to Australian car workers. Let us not forget that, over the past decade, the car industry has shed about 27,000 jobs (40%), not least because of ongoing costly, union-mandated work practices.

The Commonwealth government has also committed itself to subsidies worth $4,200 million under the Automotive Competitiveness and Investment Scheme. These are to be dished out from 2006 to 2015, at more than double the rate, which the Productivity Commission had recommended.

The $6,600 million charity business enjoys income-tax exemptions, which contain numerous anomalies. For example, the Seventh Day Adventist church’s Sanitarium business enjoys tax preferment because some profits are donated back to the church. A 2001 inquiry highlighted these anomalies and recommended greater accountability. The Treasurer has so far failed to react to this inquiry.

When so much welfare is dispensed to industry, it is not surprising that the Sex Discrimination Commissioner considers her proposal for a 14-week paid maternity payment (of up to $413 a week) to women in full-time work ‘cheap’. The National Centre for Social and Economic Modelling, NATSEM, estimated the costs of this new social welfare scheme to be $213 million in 2003-04. This will snowball.

The NSW Opposition promised, as an election ‘gift’, to reduce the qualifying age for the receipt of privilege-entitling Seniors Cards to partners of Seniors who have retired at 55 years of age.

The pursuit of ‘pork’ sometimes blinds observers to the truth: When opinion polls found a majority still favours tax cuts over more social welfare (42% against 30% of surveyed Australians), this preference was somewhat down on 20 years ago. The editors of the ABC news bulletins interpreted this as Australians losing their taste for tax cuts and wanting more money spent on public services, opining that support for further tax cuts had collapsed. — Not so! Less than one-third of Australians want more socialised welfare. Most still prefer tax cuts.

The pork-seeking culture is normally politely disguised, but it was proudly revealed on p.18 of the 2001-02 Annual Report of the National Oceans Office: The office ‘had a 20 % underspend against estimated expenditures for the reporting period. This was a significant improvement (our emphasis) on the 2000-01 results where an underspend of 69 % was reported’. — Could the Auditor-General or some parliamentary committee please explain to them what an improvement is from the viewpoint of the taxpayers who fund them?

While pork is distributed and enjoyed in impressive quantities in Australia, some overseas pigs are more equal than others: The London Times reported on 29 January 2003 a new EU directive mandates the distribution of appropriate toys (‘manipulable material’ in bureaucratese) in all pigsties. This is to give inmates ‘environmental enrichment’! British farmers, who can be jailed for up to three months for violations of this EU directive, resent the new intervention. But they should realise a general law of economics which says that recipients of government preferment, such as the Common Agricultural Policy, invariably become subject to restrictions of their freedom.
compensation far below market value. This battle was won resoundingly by the protagonists of economic freedom, mainly because of the demonstrated failures of socialism.

However, a new form of collectivist ideology began to emerge in the 1960s. It does not rely on outright takings of private property, but the gradual erosion of private property rights through regulations, purportedly for a variety of political causes—to save the environment, improve public health, eradicate poverty, whatever. We call this creeping erosion of economic freedom ‘neo-socialism’.

**A bundle of rights**

To understand the latest onslaught against economic freedom, one has to realise that property rights give an individual, a small group or a firm more than simply the right to physical possession of a useful asset. Rather, ownership confers an open-ended bundle of rights—what the great 18th century English jurist William Blackstone defined as ‘the sole . . . dominion which one man claims over the external things of the world . . . [it] consists in the free use, enjoyment and disposal . . . without any control . . . save only the laws of the land.’

Property gives owners autonomy to exclude others from using the asset; rights to all uses of, and benefits from, a property; and the right to transfer it to others within the bounds of the law. People continually invent new rights to use what they own, and the market economy helps them to exploit newly discovered uses in cooperation with others. Thus, property owners discovered that a piece of land could be mortgaged, empowering them to leverage their assets and their talents. Or landowners discover that ownership of their plot may enable them to give tourists access for a fee, to collect rainwater for irrigation, or ‘rent out’ the fishing rights in their stream. Better and more intense uses of property rights have been the main source of the growing affluence of our knowledge society. Conversely, insecurity of property title frustrates discovery and the better use of people’s talents. Indeed, insecure property is one of the main reasons for continuing poverty in less developed countries.

The taking of specific property rights reduces the value of property. If, for example, the traditional right to capture rainwater on one’s land is taken away (as is now the case in New South Wales, see below), affected farms lose value. Regulations thus have profound implications on the economic standing and the capacity of owners to improve their lot and exploit their knowledge and talents. Legislators and bureaucrats rarely reflect on the consequent injustice done to—and harm inflicted on—families and their descendants.

Individuals who are hit by regulations understand their losses very well, but they perceive them as isolated burdens on them or their industry. Few understand that ‘regulatory taking’—neo-socialism—is growing and community-wide. This is why, despite angry outbursts and populist agitation in some regions, neo-socialism, which all political parties in Australia are now advocating and practising, has not yet led to a unified political defence by aggrieved property owners.

It is possible that a regulation is imposed for a justified social reason. In that case, three questions must be asked: (a) Will the regulation achieve its professed aim, or will ‘market failure’ be replaced by ‘administrative failure’? (b) Do the carefully assessed benefits to the community exceed the costs to individual property owners? (c) Will aggrieved private owners be fully compensated?

Natural scientists and single-issue activists tend to overlook the logic and necessity of undertaking these three tests. Instead, they hastily proceed to recommending intervention once they have observed damage to nature. When Danish statistician and economist Bjørn Lomborg pointed out that the ‘neosocialist jump into intervention’ was not always justified and often produced inhumane consequences, he earned widespread abuse. Yet, just government, the rule of law and respect for individual rights of citizens demand that the above three questions are answered before policymakers intervene. Much political misunderstanding between producers and policy activists could be avoided if everyone could agree on the above three tests. Instead, the two sides of the debate normally ignore each other and resort to insults.
The traditional doctrine of the primacy of individual autonomy and private property, as outlined, is not without contention. Some hold that collective purposes and public choices must have priority, and that private property rights are always conditional on public toleration. Where free private choices produce outcomes are not wanted by an influential group, which claims ‘market failure’, automatic interventions are often advocated on the assumption that it can achieve specific outcomes. This school of thought about rights is nowadays frequently used to justify proliferating interference. The consequence is that private property and markets become less predictable and trust-inspiring. Mobile capital, knowledge and enterprise then tend to relocate to more secure political climates. Economic growth falls behind. If our individualistic, capitalist civilisation is to continue prospering, property must be protected from piecemeal takings of property rights by regulations.4

Throughout the entire productive and social systems of Australia, we observe that regulatory takings without full compensation are now causing imbalances. Partial expropriations without compensation are popular, because they allow politicians to humour single-issue pressure groups without incurring budgetary cost and to gain their support for re-election. However, the costs and benefits of interventions are frequently no longer weighed rationally against each other and we observe over-regulation. Legal owners are gradually downgraded to mere asset holders who obey government directives. Individual judgements and aspirations, the incentive to compete, risk and create jobs are dissipated.5

**Of gill nets, ‘water barons’ and fundraising**

That these considerations are far from merely academic can be shown by three recent and telling cases of regulatory expropriation in agriculture.6

[a] The first case reviewed here has, to date, ended in a reaffirmation of traditional private property rights: Justice Horton Williams of the South Australian Supreme Court ruled on 14 February 2003 that the South Australian government had no right to take away, at short notice, the right of 28 fishermen to use gill nets on the lower Murray.

In June 2002, the Rann government declared a ban, from 1 July 2002, on gill nets to catch river fish and announced it would soon disallow all commercial catching of native fish. The government intervention would have deprived the 28 citizens of an important property right, and the remaining rights would hardly have allowed these families to earn their livelihood. It was expropriation with minimal compensation, just 1.5 times a fisher’s annual income, apart from the loss of the value of fishing equipment.

Justice Williams found that the South Australian minority Labor government had intervened because of a political deal with an independent parliamentarian, so as to obtain sufficient support in parliament to gain office. No scientific reasons to justify the restrictions were given. ‘Apart from this compact (and the groundswell of opinion . . .), there is no other evidence which might provide a basis . . . for [this] exercise of regulatory power.’ He also found that the fishermen were entitled to ‘quiet enjoyment’ of their property in the licenses until these were seized with reasonable notice, in which case they were entitled to claim appropriate compensation.

In the present political climate, such clear-cut judicial defences against regulatory expropriation are a welcome signal that the Magna Carta protections of citizens’ property can still be upheld in a court of law. It is now to be hoped that the principle of full compensation will be applied.

[b] Another challenge to the traditional uses of privately owned assets is unfolding on the Queensland coast. The World Wildlife Fund has identified saving the Great Barrier Reef (GBR) as a promising cause.7 At a time when scientists appear to be deeply divided about the health of the Reef and relevant water quality, the Commonwealth and Queensland governments indicated no doubts of the decline...
Actual or anticipated damage to the environment does not necessarily justify intervention

in water quality’ when asking the Productivity Commission to inquire into matters related to Reef protection.

While the Productivity Commission’s November 2002 draft report spoke of ‘no conclusive evidence yet of water quality decline within the GBR lagoon’ and the Queensland government’s Science Panel in early 2003 noted that the ‘extant evidence for runoff effects on reefs in the GBR is circumstantial’, the Commission’s February report speaks of ‘strong evidence of declining water quality in the GBR lagoon due to . . . sediment and nutrient loads’*. Yet, it also says in the same breath that ‘while there is no conclusive evidence yet of widespread danger to inner reefs, there is circumstantial evidence of impacts in some areas’. The reader is confused: strong evidence?, circumstantial evidence?, some areas?

The Productivity Commission discusses a great variety of prescriptive policy interventions based on this evidence. The report warns of ‘strong grounds for caution about any activities that lead to elevated pollutant discharges’ (p. xxix). It is of course always good to advocate caution, but this comes dangerously close to the precautionary principle advocated by Green lobby groups, which is seen by economists as a justification for unlimited interventionism. Besides, while precaution is claimed with regard to possible environmental damage, precaution might also be claimed for possible economic damage. This approach would destroy all criteria for rational analysis in an intrinsically complex area and would open the door wide to arbitrary interventions and confusion.

The friend of economic freedom has to respond when confronted with such a fuzzy, transient situation and such contorted formulations, that either there is scientific proof of damage which will stand up as evidence in court and then policy intervention may be justified, or there is none and private property owners must be allowed to continue the ‘quiet enjoyment’ of their rights.

The Productivity Commission report nevertheless proceeds straight to the statement that governments should consider new restrictions on cattle grazing and cropping to control possible pollutants from diffuse sources. If adopted, such restrictions would deprive farmers and graziers on the Queensland coast of several of their traditional property rights. The argumentation smacks of the ‘precautionary principle’ stipulated by environmentalists, although the Commission avoids using the term. The precautionary principle, if widely adopted, will be an open invitation to destroy private property rights and our capitalist market regime.

Authorities must not interfere with private autonomy simply on the suspicion of some bureaucrat or pressure group. Preventative government interventions and precautionary confiscation of existing property rights cannot simply be justified by anticipated or alleged damage. This would violate long-standing philosophical and legal principles of Western civilisation. The maxim has always been that damage to the rights of others has to be proven beyond reasonable doubt before governments can interfere with someone’s property rights. The price we pay for the protection of individual freedom is that some damage has sometimes to be tolerated.

In the current Barrier Reef debate, it has also been stipulated that farmers, graziers and other producers in the Reef hinterland must prove that they are not harming the Reef; that is, they must now prove their innocence. This violates another fundamental principle of the protection of civil liberties. Intervening authorities must prove, beyond any reasonable doubt, that property owners are guilty of causing damage to others. Like nothing else, demands for reversing the burden of proof reveal neosocialist intent and illustrate the dwindling respect for private property rights.

The Productivity Commission report goes some way to assessing the costs and benefits of better protection of the GBR, which is a valuable natural asset. However, it is a sign of our times that it cannot assure us that government interventions will be effective and that it fails to even raise the issue of compensating aggrieved producers before hastening to discuss policy options.
A third revealing case refers to the abrogation in NSW of the rights of landowners to collect the rain which falls on their properties. Surveillance, including from helicopters, now enforces new regulations that farmers pay the government metered rates for the use of their own water collected in their own dams. Environmental action groups that are opposed to private property and capitalism now call farmers, who have invested to harvest rainfall, ‘water barons’. This alludes to the paleo-socialist notion of ‘robber barons’, which was predicated on the gross misunderstanding that investors do not create wealth but exploit nature or workers. It implies that producers and investors are no more than exploitative hunter-gatherers. The same lack of understanding about how wealth is created now clouds the water-rights debate.

Admittedly, there may be good reasons why private rain collection should be taxed or regulated. It is possible that large-scale rainwater harvesting reduces ground water replenishment or damages the property rights of traditional water users downstream, for example in the Murray-Darling basin. This is an externality for which proof has, to the best of our knowledge, yet to be produced. Once it is, friends of economic freedom would argue for an evaluation of the private water rights of those upstream and downstream. Water rights need to be clearly defined and underpinned institutionally, so that it is possible to begin trading scarce water—a normal method of rationing what is becoming scarce. Simply taxing private water collection on upstream properties is not the right way to developing such markets.

Given that no proof has yet been produced that rainfall confiscation will be effective in obtaining clearly stated aims, there is a need to assess all costs and benefits exhaustively. And the long-standing principle of ‘no expropriation without compensation’ has not been applied. The conclusion is unavoidable that, in NSW, private property is less securely protected than it used to be; and that has consequences for the State’s sovereign risk assessment.

All these cases deal with the confiscation of private property rights by States. And we note that States, different from the Commonwealth, are not bound by constitutional requirements to offer ‘just terms’.

Over coming years, many such complex property rights issues will have to be worked out. If those in charge of shaping the relevant institutions deviate from first-best, simple principles and try to engage in clever ‘outcome engineering’, most property owners will be confused and made insecure. It is therefore imperative that Australian society, courts and governments assess these policy issues without repeating the mistakes of socialism, this time dressed up in Green, social-welfare and other tinsel.

**A growing threat to economic freedom: uncompleted tax reform**

(a) **Income taxes.** When the Commonwealth government advocated the introduction of a GST, this was foreshadowed as an integral part of a broader tax-reform strategy. Many petty indirect taxes were to be subsumed into the unified GST structure to save paperwork and iron out economic distortions. And rising GST burdens on individuals were to be compensated by subsequent cuts in personal income taxes. Although GST has become a bountiful source of revenue, income-tax reductions have so far been very modest.

What income tax cuts there were have probably been neutralised by the progression effects of rising incomes and inflation. According to the latest OECD report on the taxation of wage earners (February 2003), Australian taxes on wages increased by 1.2% between 2000 and 2002 (whereas 19 OECD countries registered decreases in tax burdens). Income and superannuation taxes, corrected for welfare handouts, amounted to 14.7% on two-child families and 23.6% on singles.

The political promise to voters to rectify matters thoroughly has thus not been fulfilled, neither at Federal, not at State and local-government levels. Young Australians—not only aspirational, hard-to-recruit pilots, accountants and engineers, but more
moderately rewarded professions such as nurses and teachers—are fully aware that they have been pushed into the top income tax bracket: 15.5% of all taxpayers are now paying the top income tax rate. Since the introduction of GST, ‘fiscal drag’ has placed 300,000 additional income taxpayers on moderate incomes into the top bracket. The government’s 1998 plan to apply the top rate only from an annual income of $75,000 was defeated by Labor and the Democrats. This is not the ‘greater reward for effort’ that Federal politicians like to talk about.

Nowadays, Australians are also aware of lower tax rates and higher tax thresholds elsewhere, for example:

<table>
<thead>
<tr>
<th>Top marginal rate (including social security levies)</th>
<th>Threshold (multiple of average wage)</th>
<th>Top-tax threshold (in US-§)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>48.5</td>
<td>1.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>39.0</td>
<td>na</td>
</tr>
<tr>
<td>Singapore</td>
<td>26.0</td>
<td>na</td>
</tr>
<tr>
<td>France</td>
<td>52.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Japan</td>
<td>37.0</td>
<td>5.3</td>
</tr>
<tr>
<td>UK</td>
<td>40.0</td>
<td>1.8</td>
</tr>
<tr>
<td>USA*</td>
<td>47.5</td>
<td>9.4</td>
</tr>
</tbody>
</table>

* before further income tax cuts that are currently under consideration.

Moreover, young, mobile Australians know from a growing number of emigrated colleagues that, in most Asian countries, income taxes are much lower. This explains why Australia suffers from skill shortages and why occasional recruitment drives by short-staffed organisations so often fail.

For the time being, Australians appear materially rather satisfied. This is so mainly because the total wealth of average Australians has grown fast over the past ten years to 2002 (by a steep 5.4% pa. to nearly $200,000 per person in 2002, and housing assets have been on an even faster and unprecedented 6.4% p.a. growth path). However, when asset values stop growing or even deflate, popular opinion could quickly become highly critical of high-taxing governments.

(b) Indirect taxes: Australians are now coerced into paying proliferating, politically decreed ‘levies’: Families are taxed 11¢ per litre of milk, 3¢ per kg of sugar, $10 per air ticket for the Ansett mess, as well as traditional indirect taxes, such as on alcohol and cigarettes. One now hears discussion of a Commonwealth ‘war levy’ and a new ‘handgun buyback levy’. In NSW, many local councils now have the State government’s backing for boosting local rates with ‘environmental levies’. Such levies are imposed by political fiat, hence are new forms of taxation. They must not be confused with charges for services that private operators are levying.

With GST and income tax, this has driven the ‘coercive clip’ on many families to around 60% of gross incomes.

Much of the levy revenue is swallowed by the administration costs of collection and enforcement. For example, the Dairy Industry Adjustment Program has caused $12.6 million in interest costs and $24.6 million for growing numbers of administrators—the consumers are paying more administrators. The Dairy Industry Authority now even seeks to extend the levy (and its own life) to 2010.

The tax burden and size of government regularly shows up in international surveys as one of the most important competitive weaknesses and detractors from a truly free economy.

To conclude on a positive note, the Prime Minister recently rejected a proposed levy on plastic shopping bags with the comment: ‘I’m not interested in levies. I thought that we wanted lower taxes’.
Another long-term threat to freedom: aging and the welfare state

Another major development is undermining economic freedom in Australia’s democracy: the generosity of elected parliaments with social welfare subsidies that are coercively funded from taxes. The modern welfare state is, after all, not based on the voluntary generosity of the Good Samaritan, who gave his own cloak.

Australia’s commitment to widespread, tax-funded welfare provision is endangering the life opportunities and the economic freedom of future generations. In its Intergenerational Report, which the Commonwealth government published as part of the 2002-03 Budget papers, it was estimated that the Commonwealth government’s tax take would have to rise from 22% of gross domestic product (GDP) now to 27% in 2042. The Report assumed a considerable slowdown in long-term growth due to a dramatic fall in the share of the working-age population. While one may quibble with the Treasury’s rigid assumptions about working habits, immigration and innovation in its long-term projections, the Report draws attention to a worrying fundamental fact: Australia’s current welfare and tax regime and shifts in social preferences in a society which is becoming more affluent means that more and more people retire early from the workforce. The asset price boom of recent years induces many to opt for early leisure. Not many Australians have factored into their long-term plans that a slowing economy could easily go along with falling real estate and other asset prices. The 1990s experiences of real-estate and shareowners in Japan and Germany, two ageing and overregulated slow-growth economies, should serve as an instructive warning.

In Australia, the effects of voluntary retirement based on asset-price optimism coincide with relatively easy access to disability pensions, high income taxes, the burdens of paperwork inflicted on income taxpayers, and dysfunctional labour markets. Mature-aged people are thus induced to leave the workforce long before the traditional retirement age of 65. Currently, only 37% of people aged 60-64 are still in work—at least not of the tax-paying kind. While we are used to unemployment, the trend is towards a possible future of labour shortages and rising tax burdens.

Particular attention needs to be paid to government subsidies that encourage early withdrawals from the workforce. As of June 2002, some 2.6 million Australians of working age (or 15% of the entire population) received income subsidies from government. No less than 660,000 Australians of all ages have been able to obtain a Disability Support Pension from the government. This is a big contributor to the extraordinary percentage (85%) of government income-support recipients of working age who are not obliged to keep looking for work. As the tax-funded ‘safety net’ has spread and is at times generously administered by a welfare bureaucracy who welcomes more clients, the clientele of the welfare lobby (ACOSS) grows. With it, the political pressures rise to increase further income redistribution. This drives up taxes and creates work disincentives, apart from eroding habits of self-responsibility and economic freedom. Slower growth then becomes a credible prospect. A time bomb is ticking.

Final thoughts

Communities are able to dispense with economic and other liberties as long as they live in a closed world and do not have to compete with freer people elsewhere. Over the past two centuries, the West has won the global economic contest, and a string of Asia-Pacific countries have successfully emulated Western economic freedom and, with a lag, Western living standards. Now economic freedom is spreading elsewhere. The next generation of Australians will find it harder to compete internationally and pay off the rising debts incurred by the present generation, if they remain tied down by prescriptive regulations, paperwork and fuzzy property rights. Australia’s long tradition of exploiting nature is likely to be challenged by other increasingly well-run resource producers. The only way to continued prosperity is by cultivating our most valuable asset—economic freedom.
Economic Freedom Watch Report No. 4

Through the Prism of Economic Freedom: Pluses (++) and Minuses (−)

Direct government subsidies to Australian producers in 2001-02 totalled $14,000 million. Relative to their gross value-added, primary producers received handouts of taxpayers’ money to the tune of 3% (as compared to 31% on average of all OECD countries), and manufacturers nearly 2.5%. These summary data disguise the fact that specific, well-organised industry groups extracted disproportionate handouts: textiles, footwear and clothing sector, the car industry and the regionally concentrated dairy and sugar industries. — NB: Experience has shown that the reduction of subsidies in Australia and New Zealand since the mid-1980s has encouraged efficiency and ongoing prosperity on the land.

Commonwealth subsidies (and tariffs) to featherbed preferred producers decreased somewhat, but State governments—often engage in wasteful bidding wars to attract firms—raised industry payouts by no less than 15% from 1994-95 to 2001-02. Economic rationalism may have made a little headway in Canberra, but the advantages of the free-market order have escaped most State governments.

There is an urgent need to write a ‘non-discrimination clause’ into Federal-State financial agreements to ban such opportunistic subsidies. That clause would have the same role that the ‘most-favoured nation clause’ has in the GATT: to constrain opportunistic and community-damaging political behaviour of governments.

Voters were told that the producer subsidies were designed to ‘provide incentives for industries to adjust to market pressures’. But aren’t payments to loss-making producers an incentive for them NOT to adjust to market pressures?

While there seems no shortage of public funds for political redistribution and industry subsidies, a classical role of government—the protection of property—is less well funded. Insolvency firms report that company directors, who break the law by trading when insolvent, making preferential payments to creditors or extending unfair loans, often escape prosecution for lack of public funding. Regulators, such as ASIC, often do not bring fraudulent business operators to justice. The institutional quality of business regulation and Australia’s reputation suffers. Trust in business and enforcement of the rules is essential if the capitalist market economy is to flourish. Unfortunately, prosecution of wrongdoers and litigation are the price to pay for the benefit of secure property rights.

The many Australians who habitually display blind trust in government regulation should take note of the delayed and timid admonitions of the post-HIH government scheme for home builders now has an unintended consequence: Because competent builders have filled up their insurance quota, uncompetitive ones get the business and much private house building is being delayed during the current economic slowdown—a case of government action helping the bad to drive out the good builders.

The sale of the remainder of Telstra and promised reforms in the telecommunications sector seem to have been postponed, as excess capacities and bottlenecks in Australian communications system are building up.

The Commonwealth cabinet approved a partial deregulation of student fees. The publicly owned universities are to be allowed to address changes in demand by price variations. — The government again rejected the proposal to introduce student vouchers, which would have empowered the buyers, the private students (consumer sovereignty). — A case of half-hearted reform out of ignorance. The price mechanism only works satisfactorily if the buyers have purchasing power.

The Council of Australian Governments (CoAG) energy market review, chaired by Commonwealth resources minister Warwick Parer recommended that the mandatory renewable electricity target should be suspended. This is a political intervention to replace cheap coal with costly wind, solar and other sources of power. It makes some Australian States less attractive to energy-using international investors.

A report by The Centre for International Economics for the Queensland government, released late 2002, argued for the complete removal of the compulsory, statutory bargaining system in the Australian sugar market and against the compulsory purchase of raw sugar for domestic markets [‘single desk’ monopoly]. — Plans to revise the Queensland Sugar Industry Act to this end were opposed by the sugar industry with a report which it commissioned from another consultancy. That report proposed rear-guard action to defer deregulatory virtue yet again! — Economic Freedom Watch was not able to establish how many costly restructuring packages the sugar industry has received over recent decades. The cane growers and sugar mills would be better assisted by streamlining the many costly regulations and by securing the property rights of cane growers.

A new international study has shown that protection and massive subsidies of the $6 billion textiles, garments and footwear industry—which are still abnormally high in Australia—are handed out typically at the expense of poor families in the importing country and poor workers in exporting countries. — This is gross social injustice! It also has the unexpected side effect that immigrant women, particularly from the middle east, are often segregated in ethnic garment workshops, where they cannot learn English, mix or learn habits of integration.

Through the Prism of Economic Freedom: Pluses (((((   )))) and Minuses (   ) (   ) (   ) (   ) (   )

In December 2002, the ATO published a new draft ruling, which proposes to levy withholding taxes (of 10 to 30%) on shipping companies that lease foreign cargo ships. According to exporters and importers, this is a change to longstanding practice, a variation of standard OECD practice and a massive cost increase on overseas bulk trade. — The case illustrates how ATO can suddenly raise the tax take by mere administrative fiat and how this can destroy business confidence.

The NSW Environment Centre recommended in February 2003 that manufacturers should be forced to take an ‘extended producer responsibility’. This means that makers of cars, fridges, computers or even packaging retain property over the hardware and have to dispose of it at the end of its life at their expense. — This novel practice is now being implemented in certain markets in Europe and is proving extremely costly to manufacturers, and ultimately consumers.

On 5 February 2003, Victorian Premier Steve Bracks announced the formation of a new government authority to cut through red tape for inward investors. — From the standpoint of economic freedom, this raises two fundamental questions: (a) Why discriminate in favour of foreign investors, and not offer the same service to long-suffering Victorian investors? (b) If red tape is a problem for investors—as indeed it is—why not streamline it, instead of adding yet another layer of bureaucracy and another pile of compliance costs on job-creators?

The Victorian Premier has picked five key sectors as ‘winners’ for future growth in Victoria — While risk-taking, competing entrepreneurs are making big, but not accident-free discoveries in Western capitalism, central planners have not been able to pull off ‘Russians.Bright Ideas.Bright Future’ in Moscow. So, why should politicians and bureaucrats in Melbourne succeed with “Victorians.Bright Ideas.Bright Future”?
2003. Premier Beattie blamed this move partly on 10,500 ‘bludgers’ who had not settled $8.1 million in outstanding ambulance bills over the past year. — Given that the formerly low-tax/budget-surplus State now runs a $900 million deficit, it might be a good idea to chase bad debts.

Land price inflation continues to fill State coffers. Thus, holiday homes and second residences in Victoria attract a land tax based on the value of land. NSW land tax kicks in beyond a threshold of $261,000 with a rate of 1.7%. With land values rising rapidly, many landowners will face steep rises in land tax (and Council rates).

West Australian Treasurer Eric Ripper announced a comprehensive streamlining of the State’s numerous petty taxes. Thus, stamp duties on cheques, leases, marketable securities, life insurance and workers compo and payroll taxes on small businesses will be scrapped, and land taxes will be reduced. The reform will also reduce paperwork for business and government. Some $1,000 million in new taxes and charges have been introduced since the ALP won office in Western Australia.

The ACT government offered an immediate government grant to those who lost homes to the devastating bushfires, a valid instance of tax-funded emergency relief. However, those who had responsibly insured themselves were offered $5000, while those who had neglected to insure their houses were given double that amount, an instance of government rewarding lack of self-responsibility. An unintended side effect of this discrimination was that a Labor government handed bigger subsidies to older, more affluent citizens, who had cancelled insurance after paying off their mortgages, and gave less to younger, poorer citizens, who were forced to insure under their mortgage conditions.

Canberrans, who wanted to rebuild their homes quickly—an understandable case of ‘loss therapy’—were told that the ACT government would first examine regulations before giving approval. Moreover, one monopoly contractor was to remove all rubble from burnt-out private houses.

In January 2003, the ACT government called a ban on all unsolicited advertising of credit — an instance of paternalistic-socialist prohibition of market information!

The South Australian parliament proposes to greatly restrict the freedom of South Australians to work as independent contractors. The proposals cover workers compensation and industrial relations and will deny independent contractors the right to organise their personal business and tax arrangements—an instance of left-leaning State governments undercutting the freedom to work and strengthening collective union control. — The proposals covering workers compensation and industrial relations would deny independent contractors the right to be independent contractors threatening their personal business and tax structures.

In January 2003, the West Australian government released a report from the Centre for Asia-Pacific Aviation and Tourism that argued for a prescriptive re-regulation of West Australian air routes. The Centre advocated a prohibition of discounted tickets and the mandatory cross-subsidisation on some routes. It also recommended the ‘establishment of a strong aviation monitoring function’ by the State government. This is a typical case of a government signalling to an industry: “Please lobby me!”

In a speech at the 40th anniversary celebrations of the Melbourne Institute of Economic and Social Research, Treasury Secretary Dr Ken Henry, said: ‘When one in nine Australians aged between 50 and 64 is on the Disability Support Pension, we can safely conclude that we have something other than a safety net. Indeed, we have to consider whether we haven’t created a set of opportunities and incentives to institutionalise voluntary early retirement and . . . non-participation in the labour force . . .’.

73% of a representative sample of Australians wanted strikes to be called only after a secret ballot. According to a recent Roy Morgan & Australian Public Opinion poll, only 5% wanted union officials to decide strike action. Two out of three ALP voters favoured secret ballots. Given that so many think that Australian workers deserve a better protection of their rights, why is this not the law of the land?

During 2001, about twice the number of working days were lost per 1,000 construction workers in Victoria than in NSW, Queensland or WA.

In 2002, Federal Courts further undermined the workplace peace-making intent of the Workplace Relations Act: In the ‘Electrolux decision’, the full bench decided that strikes are acceptable whether or not they are over matters that are incorporated in certified agreements. It also expressed doubt about the rule that certified agreements must only deal with matters concerning the employer/employee relationship. This opens the door again for strikes in the interest of third parties, for example unions. This is one way of destroying the confidence of job-creators.

In the ‘Emwest Products’ case, the Federal Court ruled that employees could strike over matters that are not clear in the current certified agreement. The intent of certified agreements—to ensure a period of strike-free cooperation—has thus been further undercut by economically illiterate, reactionary judges.

In the Gutnick case, the High Court allowed overseas internet publishers to be sued for defamation in Australia. This case follows a modern tendency for jurisdictions to arrogate worldwide judicial powers. It creates a nightmarish precedent, which could lead to a massive diminution of the freedom of speech, as litigants could ‘forum shop’ in search of countries with harsh defamation laws to seek damages.

In December 2002, the Court of Appeal criticised and overturned a ruling by Justice Geoffrey Eames in ‘McCabe versus British American Tobacco’ (BTA). Justice Eames had originally ruled that an elderly cancer-sufferer with a history of over 40 years’ tobacco addiction did not have to prove anything in respect of her claim for damages. He awarded $700,000 at the expense of BTA, because documents had been destroyed on legal advice. This ruling, though popular in the media, would have dispensed with vital, traditional judicial protections of a company’s private property rights. Fortunately for property-owners owners, the Court of Appeal overturned the judgement and rebuked Justice Eames, stating that ‘the judge indeed allowed his indignation to carry the day’.

In February, the High Court, in its ‘Boral decision’ reaffirmed that the Trade Practices Act (TPA) protects competition, not individual competitors (that is, from going out of business). Small businesses and politicians, who want changes to the TPA, would undermine the fundamentals of economic growth. It is not against the law to expand capacity when others already have excess capacity, and it is not a failure of competition when some suppliers are forced out by losses.

Australia concluded a free-trade agreement with Singapore in November 2002, wiping out all tariffs and a raft of protectionist measures, also for services.

Negotiations with a big US delegation about fast-tracking a US-Australia Free Trade Agreement commence in mid-March 2003. Provided the agreement is without too many exceptions, it is likely to generate $2,000 million additional trade by 2010, according to an analysis of the Centre for International Economics. Admittedly, WTO-wide liberalisation would bring superior benefits, but given the EU’s demonstrated selfishness, the growing political confrontation between the US and EU, and the listless and acrimonious start to the Doha Round of WTO, it seems unrealistic to expect benefits from WTO negotiations any time soon. Indeed, bilateral agreements seem a promising way of eroding the recalcitrance of protectionist politicians and interest groups opposed to the Doha Round.

In late 2002, the EU asked Australia to scrap foreign investment controls and service-sector protections during the WTO’s GATS negotiations. Australia’s anachronistic Foreign Investment Review Board should be dissolved.
Endnotes

3 The point has been made eloquently and convincingly by Peruvian economist Hernando de Soto in The Mystery of Capital (New York: Basic Books, 2000). The insight is now increasingly reflected in the activities of third-world intellectuals who campaign for secure property and economic freedom and against the curbing of the property rights of the third-world poor by corrupt rulers and the trade restrictions of the rich and mighty nations of the world (see M. Ayau et al., ‘Economic Freedom: The “Haves” and “Have Nots”,’ Policy 18:4 (Summer 2002-03), 26-33). While rich white kids demonstrated for environmentally motivated controls of economic freedom at last year’s UN Sustainable Development Summit in Johannesburg, third world farmers were demonstrating for globalisation and free trade, which are essential to sustain their families.
6 Although Australian farm organisations have become vocal about regulatory confiscation, the general public still pays little attention. The National Farmers Federation (NFF) has made property rights a high priority (NFF, Property Rights Position Paper, May 2002). However, instead of relying on the time-tested doctrine of autonomous private property, the NFF demands the creation by governments of new property rights, for example to water, and talks of new compensation schemes. Instead of relying on the law, they are shouldering new burdens of proof and lobby for new political action where traditional law should do the job.
10 W. Kasper, ‘Breaking the Trade Stalemate, What are Australia’s Options?’ Issue Analysis No. 18 (Sydney: Centre for Independent Studies, 12 February 2001).

We appreciate contributions from our readers and thank several contributors for ideas that are reflected in the present EFW report. If you have relevant press clippings, correspondence or other information, please send this to:

W. Kasper, c/- The Centre for Independent Studies, PO Box 92, St. Leonards 1590,
or e-mail: wkasper@cis.org.au

Publications in the Economic Freedom Watch series are subject to a reviewing process. © Copyright The Centre for Independent Studies 2003. May be freely reproduced provided due acknowledgement is given.