Securing tomorrow’s Australia today

Blind to our own success

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IS AUSTRALIA really the ‘lucky country’? Not according to most Australians, who will tell you about the rising cost of living, the strain the new carbon tax will put on their household budgets, and the need to ‘Stop the Boats’. Not according to industry, who frequently complain to the media that such-and-such a new law will drive them into bankruptcy if the government doesn’t heed their demands. And certainly not according to our politicians, who instead focus their energy on short-term political manoeuvring calculated to gain a few Newspoll points against their opposition.

Australia’s current political discourse is characterised by a denial of our current economic prosperity. This curious myopia in Australia’s social and political discourse, perhaps caused by an ingrained cultural refusal to acknowledge our achievements – the ‘tall poppy syndrome’ – is fast becoming one of the biggest threats to Australia’s future. The longer we Australians refuse to see our country and our economy for what it really is, the more we risk forfeiting future opportunities. Instead of perpetuating the cultural myth that Australia is but a distant colonial outpost of Mother Britain, populated only by Steve Irwins and Baywatch babes, we need to face the reality of Australia’s economic prosperity and power that exists quite independently of nostalgic political alliances with the failing economies of the United States and Europe.

CONSIDER THE UNITED NATIONS’ Human Development Index, of which Australia held the top spot from the 1980s, until we were knocked down to second place by Norway at the beginning of the twenty-first century. Consider the OECD’s latest economic outlook, which shows that, despite the debt crises in Europe and the United States, Australia’s economy remains one of the best performing in the developed world, with growth well above, and unemployment well below, the OECD average. Over the past twenty-five years,
Australia experienced the highest growth in the developed world, and this growth predates the resources boom. Perhaps we should start seeing Australia for the global economic leader it really is, and not as the poor cousin of the Western world.

THE GOOD NEWS for Australia doesn’t stop there. This economic prosperity has made Australians some of the wealthiest people in the world: we have the highest median income and the second highest average wealth in the world, second only to Switzerland. Our poorest 10 per cent of households alone have experienced faster income growth than the income growth of the rich in almost any other country, while no other country has been able to top the income growth of our richest households. All of the above and we still have the third-lowest debt and the sixth-lowest taxes in the OECD. A low tax nation with high quality, state-funded institutions, good infrastructure, and a welfare system that ensures a minimum standard of living and healthcare for all – sounds like a model economy.

YET NO RECOGNITION of our global economic leadership can be found in our politics. Instead we have introverted political leaders, media scaremongering, and a curious colonial paralysis that prevents us from taking leadership on international issues. Why, when Australia is an economic leader in the developed world, should it refuse for ten years to ratify the Kyoto Protocol – because the United States also refused? Why could Prime Minister Julia Gillard admit to having no interest in foreign affairs, just when the waning of the West and the rising of the East presents new opportunities for Australia, a country ideally situated between the two? Never before has a country been so ignorant of its own successes and so reluctant to build on them. Australia’s cultural and political myopia has birthed a lack of vision for the future.

IT IS VISION, not luck, required to secure Australia’s future. Calling Australia the ‘lucky country’ is a misnomer: it ignores that our prosperity predates the resources boom. Although digging minerals out of the ground and shipping them to India and China has certainly been great for the economy in the past few years, our prosperity can be traced to the policy reforms undertaken between 1983 and 2003 that saw Australia move away from protectionism to become one of the most flexible economies in the world. The Productivity Commission found that these policy reforms caused huge growth in Australia’s productivity, which is slowing again because of the very mining boom we seek to nurture. What can be learned from Australia’s past experience is that far-sighted policy reforms are necessary for future prosperity. The Economist warns that Australians must now decide what sort of country we want our children to live in: we can enjoy
our prosperity and squander our wealth, or actively set about creating the sort of society that other nations want to emulate. But vision and self-belief are something that current Australians, and their politicians, seem to lack.

This failure of vision was shown by one of Australia’s most shameful recent political events: the mining tax debacle, a missed opportunity if there ever was one. Australia has some of the richest natural resource deposits in the world, profiting from the historically high commodity prices and booming demand from China and India. The value of Australia’s commodity exports hit $179 billion in 2011 (a 29 per cent increase from 2010) and are forecast to reach a record $206 billion in 2012. Iron ore, coal and gold alone made up over a third of Australia’s total exports in 2011.

Booming commodity prices may benefit mining companies and their direct employees, but surrounding communities, businesses, and non-mining industries often suffer. Natural resource deposits won’t last forever, and one day Australia will have to rely on an industry other than mining to drive its economic growth. A far-sighted politician would keep back and invest some of the wealth from mining so that Australia will continue to grow when the mining boom ends. In 2010, Kevin Rudd and Ken Henry proposed to do just that, with their Resources Super Profits Tax (RSPT) that would place a 40 per cent tax on the profits of mining companies above the 6 per cent rate of return. The revenue from the tax was to be used to fund increased superannuation and cut company tax: this would provide for the ageing population and help other sectors that are hurt by mining.

THE MEDIA HYPE created by the mining companies and Tony Abbott against the RSPT proposal should go down in Australia’s history as a period of national shame. Instead of reasoned political debate, a panicked maelstrom erupted. Fears that Australia’s mining industry would be halted and economic growth would cease were widespread. Advertising campaigns were launched urging Australians to support the mining industry and, by extension, Australia’s future – Kevin Rudd was painted as threatening the core of Australia’s economy and countless jobs. Calm was only restored when Rudd was knifed and a Prime Minister more accommodating to the mining companies was installed. The new watered-down Minerals Resource Rent Tax, negotiated between Julia Gillard and the three biggest mining companies (BHP Billiton, Rio Tinto and Xstrata), was criticised by economists as actually being more inefficient than the royalty charges it replaced. Keep in mind that BHP Billiton reported record profits of $23 billion in 2011. Keep in mind that the commodity price boom is likely to continue into the future, but natural resource deposits are finite and that other Australian industries are struggling because of the mining boom. How did we somehow end up confusing the interests of multinational mining companies with our own national interests?
AUSTRALIA MAY BE one of the luckiest countries in the world, but this came from good economic management and sound policies. Just as Rome wasn’t built in a day, the benefits we now reap from Australia’s current prosperity are the results of economic foresight decades ago. To ensure that future generations experience the same economic prosperity we do, we need to exercise the same economic foresight now. If Australia is to continue its prosperity, we need economically sound policies that focus on achieving long-run growth. The recent mining tax debacle shows how Australia’s political discourse has become dominated by self-seeking short-termism. We need to reverse this trend. The luckiest country in the world needs a government that can work out how to stay lucky in the long term. Political short-termism does nothing to secure a future for tomorrow’s Australia, nor the future of generations to come.

ECONOMIC PROSPERITY DOES not happen by chance, but by design. We need to restore a vision for the future to our politics and political debate, and policies focused on securing Australia’s long-term economic prosperity. We need to focus on long-term productivity, not short-term profit, considering future generations by designing policies that secure the living standards of our children’s children, not just our own.\(^{18}\) Mining is a cyclical industry, and to avoid irreversible harm to our natural environment and achieve sustainable economic growth we must implement policies that ensure Australia’s prosperity continues when our natural resource deposits have been exhausted. We need to secure Australia’s tomorrow through implementing sound, future-focused policies today.

NATURAL RESOURCES ARE becoming ever scarcer, and wise management of these resource deposits is an area of strategic interest around the world.\(^ {19}\) Rather than using natural resource depletion simply to increase Australia’s export figures, we need to consider how to use this wealth to ensure the long-term prosperity of all Australians. Investment in human capital, long-term community development, and redistributing the benefits from mining to ensure inclusive development can alleviate the symptoms of ‘Dutch disease’ in the manufacturing sector and combat the social exclusion, inequality and underdevelopment that often flows from resource extraction activities, to ensure Australia’s long-term economic future. Australia is a world economic leader: the challenge now is to ensure that our economic policies reflect our economic reality, not deny it.

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3. United Nations Human Development Index 2011
4. OECD Economic Outlook November 2011 http://www.oecd.org/document/18/0,3746,en_2649_37443_20347538_1_1_1_37443,00.html