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HOUSE OF REPRESENTATIVES

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**Business Regulation Agreement
and Small Business Initiatives**

SPEECH

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Speaker Emerson, Craig, MP

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Dr EMERSON (Rankin—Minister for Small Business, Independent Contractors and the Service Economy and Minister Assisting the Finance Minister on Deregulation) (4.09 pm)—by leave—I make a ministerial statement relating to the COAG business regulation agreement and small business initiatives.

Reforming business regulation to lift productivity growth

During the current difficult economic times brought on by the global financial crisis, business confidence is all-important. Businesses seeking to cope with the local impacts of the global financial crisis need the confidence to know that the Australian government is doing the right thing by them. Doing the right thing does not only mean stabilising the financial system and providing a short-term economic stimulus, which the Rudd government has done. Doing the right thing, importantly, also involves sticking with a long-term economic reform program designed to lift productivity growth off the floor. And that is what the Rudd government is doing. The Rudd government will not be diverted or distracted from long-term economic reform by the global financial crisis.

The meeting of the Council of Australian Governments on Saturday, 29 November 2008 demonstrated the Rudd government's commitment to long-term economic reform. It did so in vitally important areas such as improving the nation's education system, taking it into the 21st century and providing true equality of opportunity for children from disadvantaged communities. It did so by reducing the wasteful overlaps and ambiguous responsibilities of the different levels of government in the provision of health services and in providing stronger emphasis on preventative health. And it did so in the area of business regulation.

Today's productivity growth is tomorrow's prosperity. I have made this same observation on numerous occasions. In fact, my first warning of the dangers of declining productivity growth was way back in October 2000. When I say today's productivity growth is tomorrow's prosperity, I can support that proposition with objective evidence. The Productivity Commission estimates that 80 per cent of the increase in Australia's prosperity over the last 40 years is attributable to productivity growth. The rest has been contributed by growth in the labour force and fortuitous

events such as the contribution to Australia's national income of booms in commodity prices.

Now I will borrow from an eminent American economist and Nobel Prize winner, Paul Krugman, who said that productivity growth is not everything but in the long run it is almost everything. Krugman was making the 80 per cent observation that I have just made specifically in respect of Australia. But he was doing more than that. He was pointing out that without productivity growth we simply cannot generate the prosperity to alleviate suffering and sickness, to look after our brothers and sisters at home and abroad who just do not have the means to look after themselves. Productivity growth is not just an arcane economic term; it is the key to a prosperous, fair and compassionate society.

But what is it? What is productivity growth? Labour productivity growth is the value of a country's production of goods and services—otherwise known as gross domestic product, or GDP—divided by the total number of hours worked by that country's workforce. That is, productivity growth is the value of production per hour worked. The more we produce per hour worked, the more productive we are as a nation. There are other measures of productivity, like multifactor productivity. And productivity can be measured in the market economy or in the whole economy that includes the public sector. But for the purposes of the discussion today, labour productivity will do. In a modern economy like Australia's, we like to think that we can produce more, not by working ever harder but by working smarter. That is the trick—working smarter. And that requires governments to invest wisely in education and training, in infrastructure and in innovation. It also requires governments to remove incentive-crushing impediments to working smarter.

Governments impose two sorts of incentive-crushing impediments to working smarter. In an open, competitive economy like Australia's, fashioned by the Hawke and Keating Labor governments, businesses need incentives for risk-taking and for entrepreneurship. The first set of incentive crushers comes from the tax system. That is why the Rudd government is taking on the ambitious task of reforming the tax system through the review being overseen by the Secretary to the Treasury, Ken Henry. The second set of incentive crushers comes from

the snarl of regulations affecting private business in this country. Left unattended, this snarl will become a gridlock—seizing up the entrepreneurial flair and talent of our business community, grinding the engine of the Australian economy to a shuddering halt. That is exactly what has happened to Australia's productivity growth—it has ground to a halt. This is a national tragedy—not the sort of tragedy that appears in the daily newspapers, but a national tragedy all the same. If today's productivity growth is tomorrow's prosperity and today's productivity growth is zero, then it is not hard to figure out what this means to Australia's future prosperity and our capacity to support the underprivileged.

The productivity boom of the 1990s built on the pro-competitive economic reform program initiated by the Hawke and Keating Labor governments laid the foundations for this country's modern prosperity. Yet, instead of pressing ahead with economic reforms, the previous coalition government coasted on the productivity boom of the 1990s and then on the mining boom of the 2000s. It squandered the opportunity to build on Labor reforms by investing in education, infrastructure and innovation by reforming the tax system and by pressing ahead with the reform of business regulation.

The Productivity Commission has estimated that about half of the recent slump in Australia's productivity growth has been caused by temporary factors such as the drought and mining investment that has not yet fully resulted in increased production. But that leaves another half that is attributable to a slackening in reform effort. It has fallen to the Rudd government to revitalise the reform of business regulation. On Saturday at COAG the Commonwealth and the states and territories reached a historic reform agreement on business regulation. Reviving productivity growth has been at the heart of the work that has been going on all year through COAG's Business Regulation and Competition Working Group, which I have been co-chairing with the Minister for Finance and Deregulation.

In close cooperation with the states and territories, we have been working on reforms to 27 different areas of regulation that reach across national borders. Never before in Australia's history has a government attempted such an ambitious program of reducing unnecessary business regulation. We are moving Australia from being nine markets to one and putting an end to the rail gauge economics that have plagued the business community for more than a century. We have been working to create national systems of regulation

in areas which will cut costs to business and advance Australia toward a seamless national economy.

Saturday's agreement was the culmination of this work when the Commonwealth provided a \$550 million package to implement reforms in these 27 areas of regulation as well as a number of different competition reforms. On top of this, the government has already committed to directly spend \$475 million on some of these reform areas where the Commonwealth is assuming responsibility from the states and territories. Altogether, this funding package totals over \$1 billion. That is \$1 billion towards creating a seamless national economy, lifting productivity growth, creating jobs and boosting business confidence.

In so many areas it just does not make sense to continue with up to nine different sets of regulation. Take trade measurement, for example. Last week the Senate passed legislation which 107 years after Federation created a national system of weights and measures that replaces eight state and territory systems. This is the first of the 10 so-called regulatory hotspots agreed by COAG in 2006 to go through the federal parliament. Progress in implementing those agreed hotspot reforms had been so slow under the previous government that Chief Executive of the Business Council of Australia, Katie Lahey, was compelled to conclude:

Clearly they were so hot they burnt a hole in the piece of paper and we haven't seen them since.

COAG has also agreed to create a national system for registering business names, another hotspot. Under this national system, businesses operating across Australia will no longer need to register and renew their business name in each state and territory. This reform alone has been estimated by Ernst and Young to save Australian businesses \$1 billion over the next 10 years.

COAG has further agreed to create a national system of trade licensing so that a plumber, for example, who is licensed in Victoria can work in any other state or territory around Australia without having to apply for a new licence. The agreement also paves the way for a new national electronic conveyancing system. This new national system has the potential to save homebuyers up to \$400 on house purchases, helping to support the government's work on affordable housing. Total savings on conveyancing costs are estimated at up to \$250 million a year. I will not take members through each of the 27 areas. But it is worth mentioning that agreement has also been reached in important areas like financial services and consumer credit

regulation, consumer policy and for further work on food regulation and on the competition reform agenda.

We have achieved a great deal over the last eight months, having reached a landing at the COAG meeting on Saturday with the agreement on the funding package for those reforms. But the Minister for Finance and Deregulation and I will not just leave it to others to implement the agreed reforms. We will drive them through to completion. Contrast these achievements with the lack of progress on reforming business regulation over the previous 11 years, a period that the Business Council of Australia describes as one of 'the creeping re-regulation of business' as an example of 'how the benefits of past reform can be quietly eroded over time'.

The Business Council of Australia has shown strong and constructive support for this important reform agenda. Ahead of Saturday's COAG meeting, President of the BCA, Greig Gailey, said:

Right now we need businesses to have the confidence to employ and invest. Businesses will have significantly greater confidence when they see governments pushing ahead with reforms that enhance the productive capacity of the economy."

Following Saturday's meeting, Chief Executive of the BCA, Katie Lahey, said:

The BCA commends the COAG partners for their continued progress towards a 'seamless economy' where differences between states do not disrupt business activity.

The BCA particularly welcomes the \$550 million reform National Partnership funding to be provided to states in return for unified business regulation and cuts to red tape.

The OECD has also recognised the importance of this reform work. On 30 October this year, my colleague the Minister for Finance and Deregulation announced that the OECD will undertake a regulatory review of Australia, including a special chapter on cross-jurisdictional regulatory reform. We look forward to receiving the OECD's findings by the end of 2009. In advance of this report, I note that a recent OECD policy brief on Australia says:

It is also important to reduce product market segmentation caused by the regulatory differences between the states.

It goes on to say:

The government is putting a wide ranging reform programme in place ... The implementation of reforms is in most areas a shared responsibility between the states and the federal government. Implementation is backed up by measures to achieve better co-ordination of cross-jurisdictional policies in the Council of Australian Governments (COAG). It

is promising, for example, that there are now financial incentives for the states to move this process forward.

The government will continue to press ahead with economic reform while managing the impacts of the global financial crisis. The result of Saturday's COAG meeting is good for national productivity, good for business confidence and good for jobs growth in Australia.

Small business

I would like to talk now about small businesses in Australia. The agreements reached at the COAG meeting on Saturday will be of benefit to all businesses, but we know inefficient regulation with high compliance costs can hit small businesses particularly hard. Without the resources of larger businesses, small businesses can find it particularly time consuming and costly to deal with the paperwork and other compliance requirements imposed by regulation. These landmark agreements on the 27 different areas of regulatory reform will help drive business costs down for small businesses.

In this global financial crisis, the Rudd government is supporting small business in other ways too. The government's economic stimulus package was designed with small business squarely in mind.

Ms Marino—What about farmers?

Dr EMERSON—Farmers are actually small business people, and this has been very strongly supported by the National Farmers Federation, so you might want to get on board. Small businesses are the first to feel the effects of an economic downturn. On 24 October, the Prime Minister held a small business summit in Brisbane which was attended by over 500 small business owners and representative organisations. The summit provided an opportunity for the Prime Minister, the Treasurer, the Minister for Superannuation and Corporate Law, and me to hear directly from small business owners and their representatives.

At the summit, the Prime Minister launched a package of initiatives to support small businesses. I am pleased to announce that today marks the commencement of the guarantee of on-time payment for new small business contracts with Commonwealth government departments. From today, for contracts of up to \$1 million, Commonwealth government departments will pay small businesses within 30 days, otherwise small businesses will have the right to charge penalty interest. This will help small businesses maintain their cash flows, something which is critical any time but even more so in the difficult economic

times we are facing now. And the government has called on bigger businesses to follow our lead.

The government has made a further commitment to develop standard procurement documents and standard approaches to make it cheaper and easier for small businesses to sell to the government. The government will also provide extra support and advice to small businesses during the financial crisis through a \$4 million government investment over the calendar year of 2009. Applications for this funding do not close until 18 December but so far 245 inquiries have been made to the hotline and 194 application kits have been sent out.

Other government initiatives to help small business

There are other government initiatives to help small business. These initiatives build on those already underway. In this year's budget we provided \$42 million to support 36 one-stop business advisory shops for small business around Australia in providing assistance to small business debutantes as well as existing businesses.

The Rudd government's first budget began the process of tax reform. Our tax package means that typically small business owners will receive tax relief of up to \$50 a week this financial year followed by up to \$91 a week next financial year. We are also looking at ways to simplify GST compliance for small business owners through our BAS Easy proposal. The Board of Taxation is reviewing the legal and administrative framework of the GST, including the BAS Easy proposal, and is expected to report to the government by the end of the year.

To ease some of the administrative burdens associated with superannuation, the government is creating a superannuation clearing house for small business. And the government will roll out a national high-speed broadband network across Australia, especially benefiting small businesses. The government is also delivering on its promise to reform the Trade Practices Act to crack down on anticompetitive behaviour by powerful businesses. And we have provided small business with a permanent voice on the ACCC through the appointment of Professor Michael Schaper as a Deputy Chair of the ACCC.

Concluding comments

The best thing governments can do for small business is provide them with an operating

environment in which they can grow and thrive. As the Prime Minister said last year:

Labor believes that Australia's small businesses deserve support from a government that will help them make it easier to do business, to grow their business and as a result grow our future economy.

The government is committed to lifting productivity and creating jobs, while continuing to deal with the effects of the global financial crisis. The agreements reached over the weekend with the states and territories will help drive this agenda and help build a modern economy capable of meeting the challenges of the 21st century.

I ask leave of the House to move a motion to enable the member for Moncrieff to speak for 17 minutes.

Leave granted.

Dr EMERSON—I move:

That so much of the standing and sessional orders be suspended as would prevent Mr Ciobo speaking for a period not exceeding 17 minutes.

Question agreed to.