

# Economic Freedom in Australia

Wolfgang Kasper

As economic freedom in the world improves, reform of Australia's two 'sacred cows'—industrial relations and big government—is becoming more urgent.

**E**conomic freedom is made up of secure private property rights, the freedom of contract, and public policy that does not play political favourites with interest groups. It relates closely to economic growth, job creation and poverty eradication, and influences general perceptions of optimism, self-reliance and well-being.

Conventionally-trained economists appear puzzled by these findings, as they have learnt that economic growth is the result of capital accumulation, resource exploitation, skills formation and the like. The old neoclassical economics of growth, however, identifies only proximate causes of growth and begs the question of what makes people accumulate capital and skills or exploit natural resources. The answer is that economic freedom is the key to all of that.

According to a recent report from *Economic Freedom Watch* (EFW), a new initiative of The Centre for Independent Studies (CIS), Australians enjoy a reasonably high degree of economic freedom compared to the third world and the over-regulated and ageing economies of Japan and most of Western Europe. They take their freedom for granted, just as we do the presence of fresh air—until we get asphyxiated.

## How Australia rates internationally

Graph 1 (overleaf) illustrates how economic freedom has fared in Australia since 1970. It shows a new measure based on CIS's own EFW network and the internationally renowned index of the Fraser Institute in Canada. The graph shows that much economic freedom was lost in the wake of Whitlam's interventionist activism, but that our property rights and freedoms to

choose have gradually improved since then, indeed faster than in many comparable economies. The present vigour and can-do spirit of the Australian economy in the global downturn is now widely attributed to the microeconomic reforms that enhanced our economic freedom on several fronts. We are, however, still well behind the United States and the United Kingdom, which are setting the benchmark for competitors in the global marketplace. This explains the weak Australian dollar, a crutch for propping up aggregate demand, but a dangerous one, as other young southern hemisphere economies have had to learn; for example, Argentina, Brazil, New Zealand.

Australia's longer-term economic problem is that the economic reforms petered out with the Keating Prime Ministership and have at best been timid in the Howard era. As a result, economic freedom is very uneven. The full benefits of past reform sacrifices are denied and we are threatened by long-term instability, like a table with uneven legs. The two deformed legs, so to speak, are industrial relations and big government. As of 2002, Australians do not have sufficient freedom to use their labour and talents, and the burden of government by taxes and regulation is excessive. Since mid-1999, things have improved somewhat, but we still suffer a 'freedom deficit' with the global benchmark economy, the US.

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Reform of Australia's unique *industrial relations* system—an outdated relic from an era of inward-looking protectionism for selected industries—has been stymied by a reactionary, anti-reform Senate and some States. Success in the new age of globalisation, and decentralised and agile service production, is stifled by rigid wage fixing and collective bargaining. For this reason, many employees and their firms have opted out of the rigid awards system. Yet they have rarely used the freedom granted to them by the Workplace Relations Act to negotiate genuinely free employment contracts. Instead, the Australian Workplace Agreements deal with top-ups and incentives, on top of old-fashioned industry-wide awards. Such are the consequences of having lived under an unfree, centralised system: many hesitate to grasp the new freedoms now available to them!

Managers in factories up and down the country acknowledge that labour relations have greatly improved since the bad old days, but they are frequently not aware that their firms are now competing with factories, ports and mines overseas where work practices, flexibility and productivity are blossoming under much freer conditions than we have. Moreover, some unions still

can flex their muscles and disrupt projects without having to fear the might of the law that would discipline any other Australians for interference and a similar abuse of power.

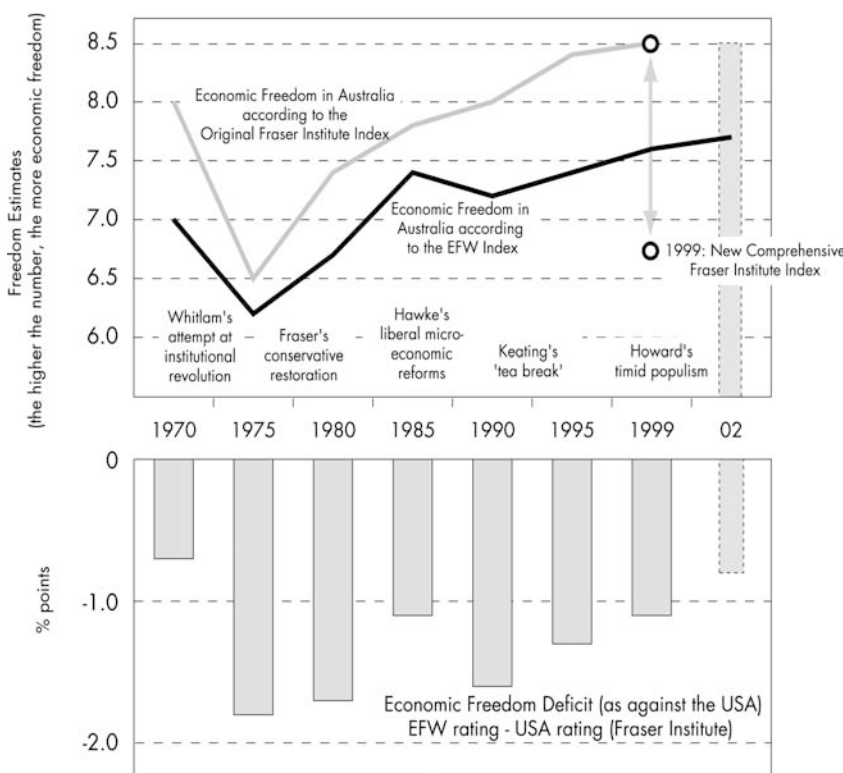
The *burden of government* remains high, partly because tax reform brought a new tax, GST, with new and cumbersome compliance costs, and the government still retains a top marginal income tax rate of 48.5% (including the Medicare tax), which kicks in at an comparatively low income level of \$60,000. This is no way to attract and retain talent and job-creating investment. The consequences of such impairments of economic freedom are not immediate, but they have a detrimental impact over the longer term.

Big government has so far tried to exempt itself from the need to reform and many in government, at Federal and State levels, have been most reluctant to apply the lessons of globalisation to themselves, even when they applaud the new spirit of globalisation affecting others! The resistance to reform in government becomes evident when the Tax Commissioner publicly describes the rule of law as 'a distraction' and a 'clinical debating point', when State governments re-regulate private markets (such as Victoria has done with privately produced electricity), and when the Transport Department simply decrees that the \$10 'Ansett tax' on domestic tickets be retained and given to even more tourism promotion. In a truly free economy, governments are held to tighter standards.

### Conclusion

We may shrug all this off, but in New York, Frankfurt and Seoul boardrooms Australian demarcation disputes and boycotts are big news. We may think that economic freedom is just a matter for big business. Yet the young man with poor skills will not get a foot on the job ladder because some commission has decreed a minimum wage. Or households may soon suffer from California-style brown-outs, because their State government has re-regulated electricity markets and decrees a price cap. The new 11 cent a litre milk tax (imposed for eight years) is favouritism to a lobby group that seems socially unjust. Shackles on economic freedom affect everyone.

**Graph 1: Economic Freedom in Australia**  
ratings out of 10



Source: W. Kasper, *Economic Freedom Watch Report No. 1* (Sydney: The Centre for Independent Studies, 21 February 2002), 2.