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Economic Regulation Authority
Inquiry into Microeconomic Reform
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Dear Madam/Sir

UNIONSWA RESPONSE TO INQUIRY INTO MICROECONOMIC REFORM IN WESTERN AUSTRALIA: DRAFT REPORT

UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). As a peak body we are dedicated to strengthening WA unions through co-operation and co-ordination on campaigning and common industrial matters. UnionsWA represents around 30 affiliate unions, who in turn represent approximately 140,000 Western Australian workers.

UnionsWA believes that the Draft Report as it stands represents a missed opportunity to set out a fresh agenda for microeconomic reform that could genuinely lift the quality of life for all Western Australians as well as improve productivity.

Specifically the Draft Report has declined to address what UnionsWA referred to in its submission on the inquiry 'Issues Paper' (8 October 2013) as the 'high road' of innovation and up skilling in a high wage economy. Instead the underlying assumption of the Report, especially in the section dealing with infrastructure, is that the private sector is more efficient than the public sector in service delivery.

The purported reasons for the superiority of the private sector, namely that it has 'stronger incentives around profit maximization', and does not share government's 'conflicts of interest', reflect a naive, backward looking view of how both sectors operate.

The Draft Report also does not offer any perspective about the future of WA manufacturing – beyond a rejection of the 'multiplier argument' used to justify the Domestic Gas Reservation (DGR) policy. The Report also contains the following statement:

Movements in the national ToT [Terms of Trade] and exchange rate have had varying impacts across Australian and Western Australian industries. While the parts of the manufacturing industry relating to the mining sector have been relatively shielded from any negative effects, other trade-exposed industries such as textiles, clothing and wood and paper manufacturing have faced difficulty in competing in international markets.

UnionsWA contends that the WA manufacturing industry 'relating to the mining sector' has not been as 'shielded' as this statement suggests. As we stated in our original submission, the

Barnett State Government has allowed projects like Gorgon and Wheatstone to source up to 90% of their manufacturing work from offshore while local steel fabrication businesses are struggling. The Draft Report offers nothing to address this situation in its recommendations, indeed it only offers to make life more difficult for WA manufacturing by rescinding the DGR policy.

The Draft Report also fails to address issues around youth unemployment in WA. While Western Australia has lower level of unemployment than Australia as a whole, there are regions such as the South West of Perth which have levels close to the national one.

Unemployment rate for aged 15-24 years – February 2014

Perth - South West	12.1%
Western Australia	10.0%
Australia	12.3%

As UnionsWA discussed in its submission, the availability of apprenticeships for skilled jobs in the manufacturing sector is crucial for the creation of decent jobs into the future.

The Draft Report also contains sections which seem pre-occupied with delegitimizing criticism of its recommendations. It does so by classifying those critics as ‘losers’ that is

those who have benefitted from a degree of protection by existing restrictions on competition and could experience a reduction in income or wealth from the removal of those restrictions.

‘Losers’ are discussed in the context of possible compensation for the impact of reform. The Draft Report argues that there should not be any ‘general rule’ or ‘automatic presumption’ of compensation. Rather groups and individuals should ‘explain why they deserve compensation’ on a ‘case-by-case basis’.

This view of ‘losers’ assumes a level playing field for people and groups to approach government seeking compensation, and a equal capacity for those groups to be listened to by government. The ERA presumes that whoever is doing the ‘listening’ is capable of making a dispassionate assessment in the public interest. Indeed many of its recommendations around for example ‘red-tape reduction’ involve establishing independent over-sight, such as making the Department of Finance’s ‘Regulatory Gate-keeping Unit’ a fully independent authority ensure that ‘unnecessary’ regulations are not getting through.

However it will be the case that interests and individuals with more resources and already existing influence (that is wealth) will be far better placed to justify on a ‘case-by-case basis’ why they need compensation, or whether ‘reform’ should happen at all. The ‘case-by-case’ basis will privilege the already powerful in public life. You will be a ‘loser’ by definition if you can’t already make your case.

The problems with this outlook are demonstrated by the Draft Report’s rationale for the abolition of the home-ownership program Keystart, which has been praised by economists such as Saul Eslake for being a superior mechanism to First Home Buyers Grants for helping people into the housing market.

The Draft Report describes how Keystart has assisted more than 80,000 people into home ownership since it was established in 1989. It has historically had low rates of default and has delivered a profit.

However the ERA wants Keystart abolished because its existence represents 'a significant financial risk' for the state government. It also 'has the potential to disadvantage existing privately financed home buyers, who must compete for properties with Keystart clients who would ordinarily not be able to enter the market'. The ERA also complains that Keystart's eligibility criteria are so broad that around 69% of households and individuals in the Greater Perth area could be eligible for Keystart financing.

So a program that delivers profits, creates competition and appears to benefit a majority of people should now be abolished. Abolition should occur because the 'losers' in this case, existing privately financed homebuyers, have been judged by the ERA as needing relief even though, as the Report says, the inquiry received no actual submissions on this issue. By contrast the 'losers' who are the majority with at least a potential benefit from Keystart will have to make their own case. No alternatives are proposed that would fulfil the policy aims of Keystart to assist homebuyers.

To conclude, UnionsWA believes that the Draft Report as it stands represents a missed opportunity to set out a fresh agenda for microeconomic reform. Instead it repeats a tired and failed mantra that the private sector is superior to the public sector. It has nothing to say about the genuine long term issues such as the survival of WA manufacturing and youth unemployment. And it proposes policies such as the rescinding of the Domestic Gas Reservation policy and the abolition of Keystart that will leave ordinary Western Australians worse off.

We thank the Authority for this opportunity to represent the views and concerns of WA union members. Please contact me on 08 9328 7877 or MHammat@unionswa.com.au if you wish to discuss matters any further.

Yours sincerely

Meredith Hammat
Secretary