ICAC Exposes Australia's Lazy Rent-Seeker Economy

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The ongoing ICAC hearings in NSW have exposed more than just corruption in the Premier State. Ian McAuley explains.

As the NSW Independent Commission Against Corruption goes on collecting scalps, there mustn't be much room left on the crossbenches at Macquarie Street.

As Ben Eltham pointed out in New Matilda recently, revelations about how the Liberal Party used the Free Enterprise Foundation to launder political donations from developers allow Labor supporters to enjoy a little hard-to-come-by Schadenfreude.

Others, more politically detached, will shrug it off, seeing it as confirmation of a rotten political culture in that State dating to 1788.

The issue goes beyond political point-scoring, however, and even beyond commendable proposals for reform of political donations, because it reveals a basic weakness in capitalism as it has developed in Australia.

This is a country where expectations of easy money have pushed aside ideas of innovation and entrepreneurship as the means for business to thrive.

Over the 20th century, and into this century, Australian companies have enjoyed extraordinarily high profits. Research published by Credit Suisse reveals that out of 21 countries studied, Australia, alongside South Africa, enjoyed the highest returns on equity over the years 1900 to 2013 – a 7.4 per cent real (after inflation) annual return.

The USA and New Zealand follow with returns of 6.5 per cent and 6.0 per cent respectively, but most established industrial countries, such as Germany and Japan, have had returns in the order of three to four per cent.

Those countries with the highest returns – Australia, South Africa, the USA and New Zealand – are all what economic historian Ian McLean calls "settler societies".

These are countries where invaders, mainly from Europe, have dispossessed earlier inhabitants, and have prospered materially through exploitation of natural resources and high population growth.

In such settler societies, miners and squatters (in Australia later to be called by the more genteel term "pastoralists") enjoyed spectacular profits. So too have land speculators, particularly in Australia, where high rates of immigration and urbanisation have continued into this century. And, of course, that high population growth has given all businesses an ever-expanding market.

The other path to quick profits, as revealed in ICAC hearings, has been through political influence. Eric Beinhocker of the Oxford Martin School records some of the extraordinary returns to lobbying in the United States. For example the pharmaceutical industry achieves a return of 77 500 per cent on lobbying for privileges dispensed by government, but only a more realistic 8 percent from developing and making drugs.

No one has measured the returns to Australia's rent-seekers with such precision, but as recent experience shows, the benefits have been substantial.

The mining industry's advertising campaign against a well-designed resource rent tax has delivered tremendous benefits, and more specifically, as repeal of carbon pricing shows, the coal industry has obviously made some sound investments in Canberra.

It's much more profitable, at least for the short-run, to buy political influence to preserve an existing industrial structure than to do the hard task of investing in new energy-saving technologies. When businesspeople have been conditioned over 114 years to expect high returns, the short-term is all that counts.

In its 2013-14 Global Competitiveness Report the World Economic Forum, which assesses countries' business competitiveness on 114 indicators, finds that on a number of indicators to do with rewarding rent-seeking Australia ranks poorly.

On indicators labelled "Diversion of public funds (to businesses, individuals or groups due to corruption)", "Public trust in politicians", "Irregular payments and bribes" and "Favoritism in decisions of government officials", Australia's does tolerably well on a world standard (for example in comparison with Nigeria), but very poorly in comparison with other high-income countries.

Australia is indeed "open for business", provided those businesses make the right connections.

The age of entitlement is alive and well in Australia. Governments of all persuasions dispense favours at public expense to those who can buy political influence — commission agents hawking financial products, "salary packagers" helping firms avoid tax, licensed clubs, private health insurers, toll road operators, and pharmacists, to list a few more recent examples.

It's a lazy business culture, making for unearned wealth and contributing to the notion that there is little connection between contribution and reward. While corporations and their industry associations have been the greatest rorters, the culture has infected parts of the union movement as well – if a few bosses are taking unearned billions from the system, why shouldn't the workers and their unions pocket a few million among themselves?

The greatest cost of this business culture, however, is in terms of expectations of profits. When rent-seeking and protection of privilege can yield such high returns, real investment – in physical plant, in innovation, in low carbon technologies, in human capital, in risky start-ups – is a mug's game.

While the Rudd-Gillard Government allowed itself to be bullied by rent-seekers, the Abbott Government is welcoming them with open arms. Either way, Australia is left poorly equipped in a world where the long-term rewards will go to those with more modest and realistic expectations of profitability.