

Labor at the mercy of rent seekers

Canberra observed
Laura Tingle

Neil Chenoweth, an esteemed colleague here at *The Australian Financial Review*, wrote an article that appeared on page one of the paper on August 19 this year — two days before the federal election.

In it he documented how the man leading the campaign to stop the government's minerals resource rent tax, billionaire Andrew "Twiggy" Forrest, had "never signed a corporate income tax cheque for any of the listed companies he has run in the past 16 years".

Chenoweth reported that Forrest wasn't the only billionaire miner with fortuitous tax arrangements; "Clive Palmer's tax payments remain a mystery — his Mineralogy Group files no accounts — and Gina Rinehart's Hancock Prospecting, thanks to exploration costs, averaged a 10.6 per cent tax rate over a five-year period".

On some other day, you might have expected the story — forensic in its examination of the taxpaying habits of some of our richest miners — might light up the airwaves, or at least get some follow-up in other media outlets, given the bitterness of the battle over the resource rent tax and the enduring image of Forrest and Rinehart standing on the back of a flat-bed truck at a rally of "mineworkers" in Perth.

But no, two days before the election, and the news cycle had taken on a life of its own and forged exhausted towards polling day.

But we mention it here as our ultimate tribute to what has been the Year of the Rent-seeker.

Yes it has been an extraordinary political year: policy backflips, prime ministerial assassinations, minority government, hung parliaments, the rise of the Greens.

Some have declared the end of the reform era.

But 2010 has been as much driven by the powers unleashed when there is a vacuum at the centre of the

political process. And the story of 2010 has been of how such a vacuum was allowed to occur in Canberra and of the rise of all those who sought to fill it.

This was not as a result of a lack of reform ambition. If anything, it emerged from too much ambition pursued by a government that didn't really understand — and still doesn't seem to — how to prosecute that reform.

In the Howard era, the focus of the government was ceaselessly on appeasing and cajoling individual voters rather than interest groups, whether it be by blatant handouts or in the process of policy reform.

Now, despite all the talk about the dominance of polling and focus groups, we have seen the return of the big interests behind the scenes in politics.

They were there in all the concessions made to the emissions trading scheme in a last desperate bid to get Coalition support for it in late 2009. But they came out in force once the government dumped the ETS earlier this year.

This was an almost fatal sign of weakness — not just for Kevin Rudd with voters — but for signalling the spinelessness of the government as a whole.

The miners, most ruthlessly, set out to exploit that weakness. Having knocked off the ETS, they then targeted the resources tax.

The government's political position — and policy credibility — had been weakened so much by the ETS decision that it was an easy target, irrespective of the merits or otherwise of the tax put forward.

Evidence of that is that the political debate rested only briefly on the exceptional complexities of the resource super profits tax before moving straight to the much bigger proposition that taxing the mining industry would kill the economy. (Twiggy was obviously an expert on this subject.)

One only started to get really irritated by all this when being lectured rather patronisingly by one of the country's most senior miners



Rallying cry ... Andrew Forrest and Gina Rinehart.

Photo: THE WEST AUSTRALIAN

about how we needed to understand that Australia's tax regime had to compete with that of Mozambique's.

The temptation to suggest that if that was really the case, the miner should perhaps rack off to Mozambique and find out what infrastructure bottlenecks were really like, was quite strong.

Of course, in none of this discussion was the fact that some of our miners have only a passing acquaintance with the idea of paying tax ever really rated.

Now we end the year with the miners once again threatening the end of the world as we know it if the

government doesn't roll over on concessions that they privately know were never promised on the modified mining tax.

And at the same time we end the year with a renewed debate about the need for the government to spend billions and billions of dollars on infrastructure to support an unprecedented mining boom.

The obvious idea that the nation would be better placed to raise the funds to do this if it had a profits-based tax system that gave us a decent return on our resource is the only missing link in the story.

It is not clear why the same

people who have expressed horror at the thought that cross-bench MPs will understandably use their position to bid for largesse for their constituencies don't seem so concerned about vested interests making the same claims, and the government acquiescing to them.

An irony is that the knowledge that the Greens will hold the balance of power in the Senate from July might be the only thing spurring them to reach a settlement on the mining tax before then.

We enter the 2011 political year on a depressing note, with a weak government buffeted by an apparent lack of purpose, and vulnerable, as a result, to new assaults from the rent seekers as much as their political opponents.

As prime minister, John Howard forced Labor to follow him into all sorts of new political and policy territory.

As Prime Minister, Julia Gillard is yet to show she can break the Labor habit.

The government remains attuned to defensively covering the ground claimed by both the Coalition and the Greens rather than using government to set its own agenda and to be canny enough to pull the Coalition into territory where it doesn't want to go.

The big issues identified for 2011 — climate change, water, health reform — are all contentious and will attract considerable emotion.

We will have to find a way of formalising a carbon price if we are to create a certain investment environment for the energy sector.

People who hold legally granted water entitlements have every right to want to be properly compensated for them.

But they are not entitled to believe that nothing need change in the Murray-Darling basin.

But all those with vested interests go into the new round of debates on these issues having observed what the miners achieved in 2010.

■ *Laura Tingle is the AFR's political editor.*

Cooper reforms will not reduce fees for all

The federal government balked at hard decisions in default superannuation and retirement incomes, writes **Michael Rice**

Under the changes proposed by the federal government in response to the Cooper review of superannuation, the industry will evolve into three distinct products: MySuper, Choice and self-managed super funds.

The Australian Prudential Regulation Authority will provide a separate licence for funds wanting to issue the MySuper product that will look similar to the default option of a typical industry fund.

MySuper will be reasonably flexible but will not offer investment choice. Members wanting to use another investment strategy will need to take out a Choice product.

As employers will be forced to put the default super guarantee contributions into a MySuper product, all funds will develop these products. Hence, all funds are likely to have two separate products to cater for different groups of members: some might put part of their super into MySuper and the remainder into Choice.

Treasury expects 4.5 million Australians to be shifted into MySuper accounts. The real number could easily be double this.

One new feature is to provide trustees with a specific duty to deliver value for money as measured by long-term returns, and to actively consider whether the fund has sufficient scale.

Funds will need to demonstrate to APRA that they satisfy this duty. APRA will have the power to wind up funds that lack scale.

As APRA will provide comparative data between funds, there will be pressure on funds to have similar costs and investment strategies to their peers. This will reduce innovation on MySuper products as funds will focus on peer results rather than their own.

SuperStream is designed so that contributions can be paid into member accounts as efficiently as employee salaries end up in their ADI (authorised deposit-taking institution) account. That is, the data and funds should move electronically with no errors.

The use of employees' tax file numbers for identification and the requirement that businesses provide the right data and funds electronically will cut out many paper-based processes. The industry has sought this for many years and it

should lead to reduced costs for industry funds.

Cooper argued that there are too many small funds that lack the scale to deliver good value for their members. He supplied research that showed that a 30-year-old will generate an extra \$40,000 at retirement if the concepts of MySuper and SuperStream are introduced.

In fact, fees are going to increase for most members but the government used Cooper's numbers in its election campaign and has

Products with excessive fees will disappear, but fees for most members will continue to rise as funds deliver more services.

continued to promote this myth.

In the commercial sector, dominated by the bank-owned wealth management companies and AMP/AXA, fees will fall due to the separation of the cost of advice from products — a "Future of Financial Advice" initiative. Also MySuper will replace many expensive products.

In all other sectors, fees will increase through increased

requirements for reserves and stronger corporate governance.

The government did not reject many suggestions out of hand. But a few key recommendations were not accepted. Cooper recommended that cross-subsidies between MySuper and Choice accounts be outlawed. The government has modified this to a requirement for trustees to allocate costs fairly between classes of members.

The industry wanted rollover relief on capital gains to encourage fund mergers. The government will extend this only to funds required to merge by APRA.

The government supports continuation of the existing equal representation of employers (mainly employer bodies) and members (mainly trade unions) on trustee boards — Cooper wanted more independent trustees to provide a diversity of skills.

The government does not support licensing of administrators or clearing houses. This is surprising as these organisations hold significant amounts of money and are potential risks for funds.

The government has also deferred two hard decisions. It made no decision on the eligibility for default funds under industrial awards as industry funds want to continue with their monopoly over award

superannuation. This may be difficult to justify if all MySuper funds by definition provide reasonable value for members.

It also ignored retirement income. As the baby-boomers enter retirement, pension numbers will grow dramatically, so this issue cannot be ignored for much longer.

Will the government achieve its stated objectives?

Certainly, products with excessive fees will disappear, but fees for most members will continue to rise as super funds deliver more services.

There is reasonable competition in the system already but it is difficult and expensive to change funds. Also, the award system protects some small funds that would be better off merging into others.

Competition may well be directed towards Choice members rather than MySuper

This review will be a catalyst for change, but it won't end tinkering with the system. We have had annual changes since 1983 and can expect this to continue.

Mostly it tries to provide equity and integrate superannuation, taxation and social security. Our system has a long way to go before this will be achieved.

■ *Michael Rice is a director of Rice Warner Actuaries.*