Business an easy fall guy during election silly season

Voter sentiment
Government interference rather than the power of big companies is the usual culprit for economic woe.

Tony Shepherd

Business – small, medium and large – generates 80 per cent of the wealth distributed through our economy. Governments, contrary to popular opinion, generate next to no net economic activity and create next to no wealth.

Business distributes the wealth it creates to its 11 million workers, 6 million shareholders and supports an ecosystem of customers and suppliers.

Government merely redistributes the revenue that stems from business activity. On the whole it often does this poorly, just as its legitimate attempts to regulate business behaviour often create bigger problems than those they try to solve.

Why then is business – and particularly big business – on the nose? Why did a record 74 per cent of respondents in the 2016 Australian Election Survey agree that business has too much power, up from 52 per cent in the Hawke and Keating era?

The damage caused by this anti-business sentiment is not limited to the top end of town. Small and medium enterprises become caught in the crossfire, lacking the capacity to pass on increased costs or meet an evermore demanding regulatory burden. We seem to forget that most big businesses started as small businesses and through good management, hard work and, in some cases, a bit of luck grew and prospered.

Of course the Hayne royal commission highlighted totally unacceptable and illegal behaviour in a small element of the financial services sector. It highlighted the need for tightened supervision and enforcement. Those elements have been rightly named and shamed and further legal action appears warranted in some cases. The number one principle is: obey the law. Followed closely by: do not mislead or deceive. Breaches should be punished accordingly.

The supermarkets also attract their fair share of the flak. The most astounding

Despite the rhetoric, politicians rely on the business community for a thriving economy.

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complaint is that some of their products are too cheap!

Energy companies find themselves in trouble for imagined crimes when they have simply adapted to the gross market distortions created by governments. They have had the sense to organise themselves around changing government policies. The lack of a cohesive east coast energy market due to the inevitable conflict between federal and state policies is another factor. Vertical integration is the only way the energy companies could protect themselves from government.

We are still waiting for the step change in productivity from the digital age.

A gas shortage on the east coast is another complaint. Again this is due to government policy or inaction.

Gas exports from Queensland are from "new" coal seam methane gas that could not have been developed without the export market. This has created thousands of jobs, and brings substantial royalties into a struggling Queensland Treasury and newfound wealth to the communities where the gas is mined.

There is ample gas onshore in NSW and Victoria but governments are too nervous to let it happen, despite independent expert reviews that support it with sensible conditions. Don't blame business for this.

Real wages other than in the public sector – paid by us – are stagnant and this is allegedly due to the greed of business. Business firstly pays its taxes and royalties and then invests its profits in growing the business or paying dividends to its owners. With ubiquitous superannuation, that means most of us.

The real problem on wages growth is our poor productivity performance. This is despite massive investment in the resources sector and increased investment in education and training. We are still waiting for the step change in productivity from the digital age. So far in the Industrial Age, steam has done far better than the digital revolution in improving the human lot.

Record investment in economic infrastructure – particularly in NSW – will have a significant impact on productivity. We need substantial deregulation, market-based policies that reduce the cost of energy and improve reliability. In addition, we need an education and skills development sector devoted to outputs rather than the inputs: i.e. run for the benefit of the receiver not the provider. What we don't need is more taxes and more regulation.

We are in the pre-election silly season and business provides an easy target or fall guy/gal for the green left and the naysayers.

Most Australians recognise the importance of business. After a record 27 years of continuous economic growth our enemy is complacency. I encourage all sides of politics not to forget that.

The day after the election is decided, whoever governs will still be relying on business to keep the economy pumping.

Tony Shepherd is chairman of the GWS Giants and a former president of the Business Council of Australia.

It's members' money, not Combet and big super's

Retirement
Without real choice in super, many Australians' super savings will be used to promote causes they haven't signed up to.

Richard Holden

Industry superannuation supremo Greg Combet fired the opening shot this week in what is shaping up to be the "Super Wars".

As this paper reported on Monday, Combet has made it clear that industry superannuation funds – currently managing $630 billion in retirements savings – will use their voting power to further an Environmental, Social and Governance (ESG) agenda.

Combet argued there was no tension between an ESG agenda and acting in the best interests of shareholders and that it had "nothing to do with activism". "We want to work with Aussie business to get it on a long-term sustainable basis," he said. This begs the question: which investor wouldn't?

What we do know is that the Australian Council of Trade Unions urged 30 industry funds to lean on BHP to protect the jobs of 80 seafarers, that BlueScope and BHP are under pressure over sourcing iron ore from Brazil, and that the $140 billion industry fund AustralianSuper is targeting a dozen companies including Qantas and Woolworths on environmental issues.

There is, of course, quite often a real tension between making money and pursuing other social goals. If there wasn't, then shareholders would not need to use their voting power to pressure companies on ESG issues, and there wouldn't be an estimated US$20 trillion worldwide in funds under management with ESG strategies.

In any case, whoever Combet thought he was fooling, it certainly wasn't Treasurer Josh Frydenberg who on Sunday wrote to Australian Prudential Regulation Authority chair Wayne Byres seeking "urgent advice as to APRA's views regarding these matters, including whether APRA has the appropriate powers to ensure that trustees are meeting their obligations in regard to these legal duties."

Frydenberg was right to raise alarm bells.

It's one thing for shareholders to have a view about what companies, in which they hold stock, should be doing. Indeed, as I wrote on these pages last August there is a difference between maximising shareholder value, a la Milton Friedman, and maximising shareholder welfare.

As Nobel Laureate and Harvard professor Oliver Hart and the University of Chicago's Luigi Zingales have argued, plenty of shareholders have ethical and social concerns. Some people buy fuel-

Whoever Greg Combet thought he was fooling, it certainly wasn't Josh Frydenberg.

efficient cars; others buy fair trade coffee even though it is more expensive but often not higher-quality than other coffee; still others pay part-time household employees more than they need to because of a belief in a "living wage".

These shareholders internalise what economists call "externalities" through their own behaviour, and it is perfectly reasonable for them to insist the companies they own do the same. They can do that by investing in an ESG fund, for instance.

It's quite another thing, however, to have an enterprise bargaining agreement stipulate the choice of a funds manager for you and then have that funds manager decide what, if any, social and ethical concerns you and your money should have.

To put it bluntly: it's not Greg Combet's money, it's the shareholders'. But trying to get APRA to police this is not the right approach. Are we really going to have APRA adjudicate every instance of a company pursuing a goal that may or may not be in the interests of shareholders but arguably has some broader social benefit? We certainly can't rely on AustralianSuper chair Heather Ridout's assurance that trustees "leave their hats" at the boardroom door.

Thankfully, it is fairly easy to avoid going down this rabbit hole.

We should mandate genuine choice in superannuation. This could involve everyone subject to an EBA being defaulted into a standard, low cost index fund which could be managed by the Future Fund or any number of well-known funds managers – or a combination of them. Employees could opt into another fund, including an industry super fund or one of the many ESG funds available.

Industry super funds would be free to compete for superannuation dollars with their own brand of activism, or not.

Shareholders should be completely free to use their leverage to get companies to do what they want them to – get out of fossil fuels, hire Australian workers, or maximise shareholder returns. They own the company and it's their call.

But it would be a huge mistake to use the retirement savings of Australians as a political plaything without their choice in the matter.

Right now, there isn't nearly enough choice in the superannuation system. And without real choice, pursuing the Combet agenda enlists a huge chunk of Australian's hard-earned retirement savings in a cause they have not signed up to.

Richard Holden is professor of economics at UNSW Sydney.

Distracting from Trump vulnerability

Max Boot

The "phoney war" was the name given to the six-month period following Germany's invasion of Poland in September 1939, when there was no fighting along the Western Front. It feels like we are in our own phoney war as we await the results of special counsel Robert Mueller's investigation.

The battle lines are drawn. Sniping is picking up; check out Donald Trump's Twitter feed. But the real war has not yet begun, as all sides wait to see whether Mueller will drop a bombshell – or a dud.

Mueller could end his work with a bang – indicting someone from Trump's inner circle (Donald Trump jnr, perhaps) – when the special counsel is no longer in danger of being fired by a vindictive President. Already, Mueller has done yeoman's work, producing 37 indictments and seven convictions, including of Trump's former campaign chairman (Paul Manafort), personal lawyer (Michael Cohen) and national security adviser (Michael Flynn).

Yet Mueller's report still might be considered anticlimactic because, as former prosecutor Renato Mariotti notes for *Time* magazine, our expectations have diverged from reality. When it comes to collusion, expectations may be too high – and when it comes to obstruction, too low.

"Collusion" is a journalistic term, not a legal one. It is actually apt, as Mueller is primarily conducting a counterintelligence – not a criminal – inquiry

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