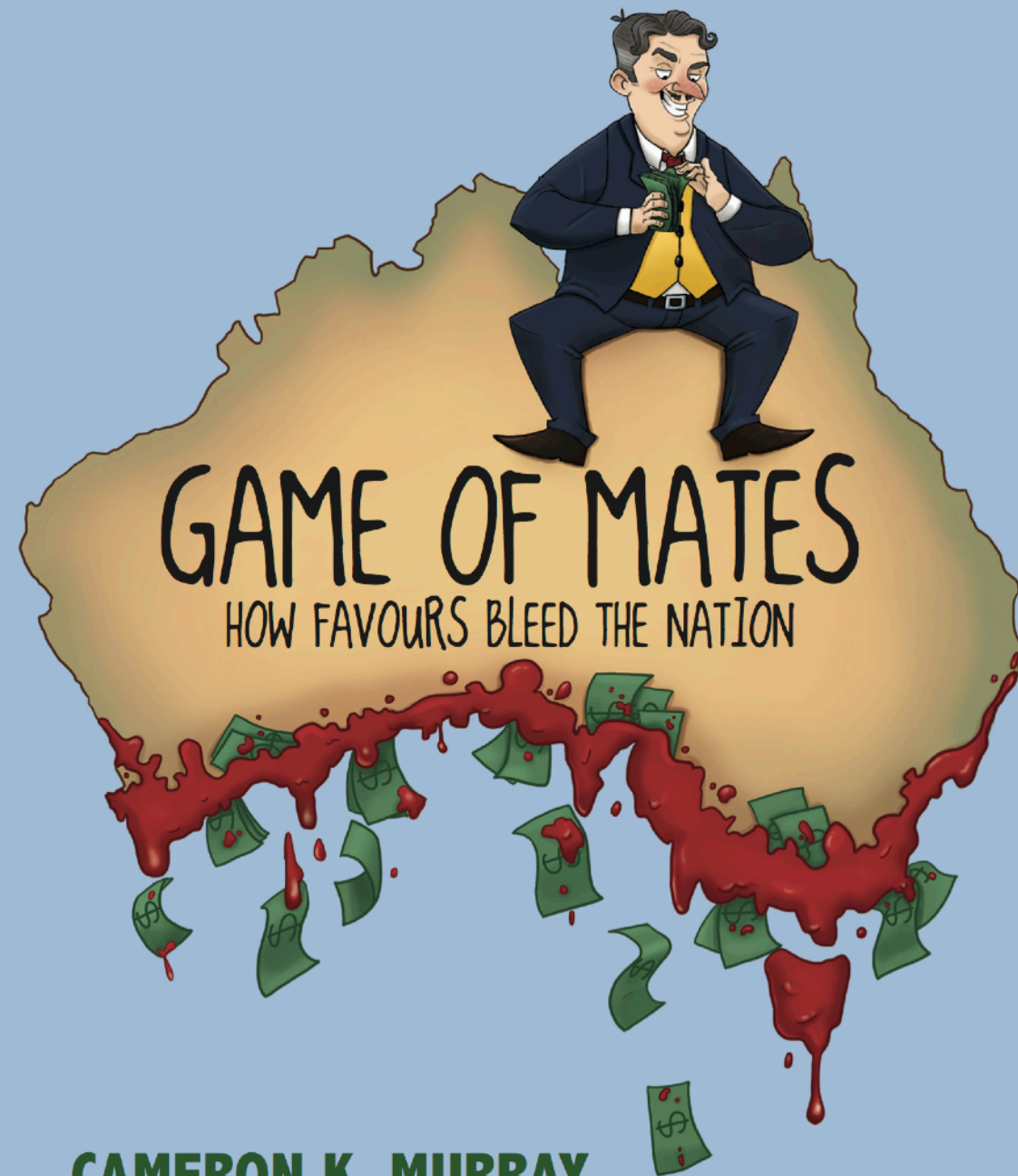


"This book will open your eyes to how Australia really works. It's not good news, but you need to know it." – *Ross Gittins, Economics Editor, The Sydney Morning Herald*



**CAMERON K. MURRAY
and PAUL FRIJTERS**

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GAME OF MATES
HOW FAVOURS BLEED THE NATION

BASIC IDEA

- ▶ Compare major sectors of Australia's economy with world's best practice in capturing economic rent
- ▶ Identify the cost to society in terms of
 - A. Transfers from outsiders to Mates
 - B. Reduction in economic output from inefficiencies generated by favouring Mates.
- ▶ Classify the main ingredients of a Game of Mates

TELLING A BORING BUT IMPORTANT STORY

- ▶ Needs a villain. We call him James. But James is a placeholder for a whole network of insiders.
- ▶ Our hero is the typical Aussie worker. We call him Bruce.

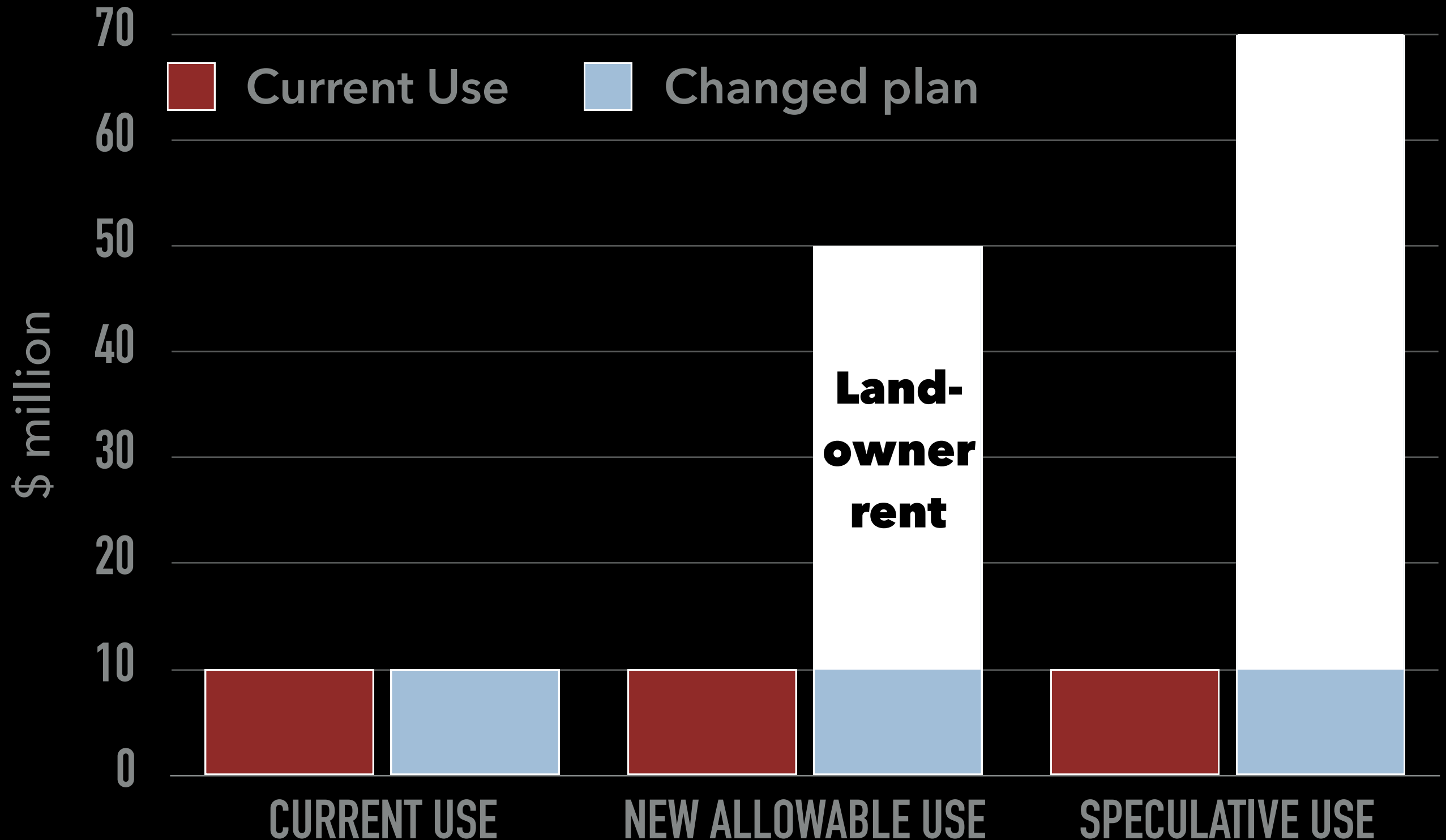


PROPERTY

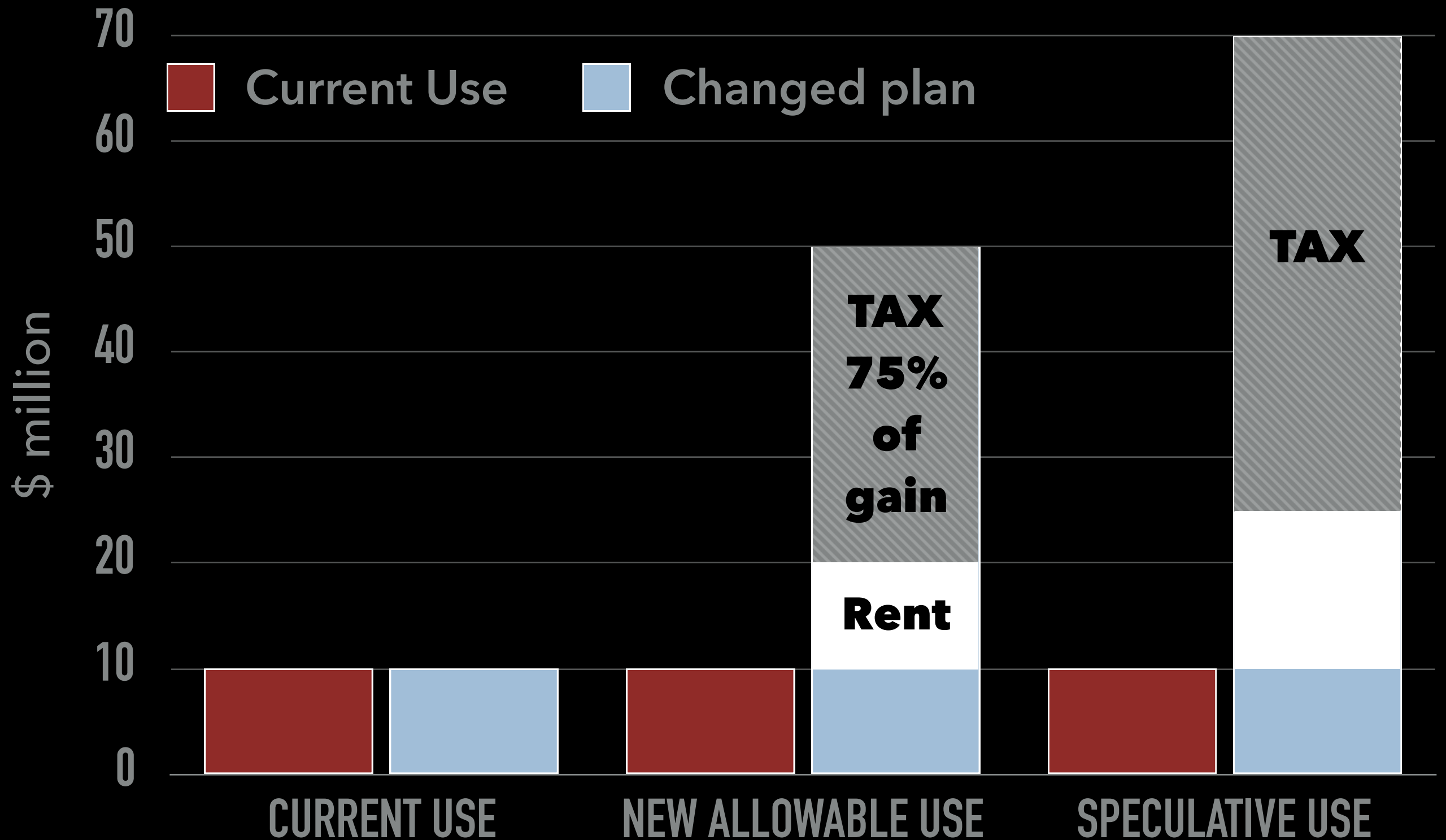
- ▶ Rezoning provides windfall gains to landowners that could be sold or taxed instead.
- ▶ Study of 6 major rezoning decisions in QLD showed that relationship networks and lobbyists main factors.
- ▶ 13,740 entities (individuals and organisations) and 272,810 relationships.
- ▶ **\$410 million** went to politically-connected landowners.

Murray, Cameron K., and Paul Frijters. 2016. "Clean money, dirty system: Connected landowners capture beneficial land rezoning." *Journal of Urban Economics* 93 (2016): 99-114.

LAND VALUE AND PLANNING CHANGES



LAND VALUE AND PLANNING CHANGES



| | Estimated tax revenue (\$m) |
|--------------|--------------------------------|
| ACT | 183 |
| NSW | 3,581 |
| VIC | 3,267 |
| QLD | 1,798 |
| SA | 389 |
| WA | 1,616 |
| TAS | 82 |
| NT | 84 |
| Total | 11,000 |

Murray, Cameron K. 2016. At the First Interval: Evaluating ACT's Land Value Tax Transition. Prosper Australia. Accessed at <https://www.prosper.org.au/wp-content/uploads/2016/09/The-First-interval-Evaluating-ACTs-Land-Valur-Tax-Transition.pdf>

COMMENT

JUNE 16 2017

SAVE

Why did the ACT throw away tens of millions of dollars in bizarre rural land sales?

Brendan O'Reilly



SHARE



TWEET



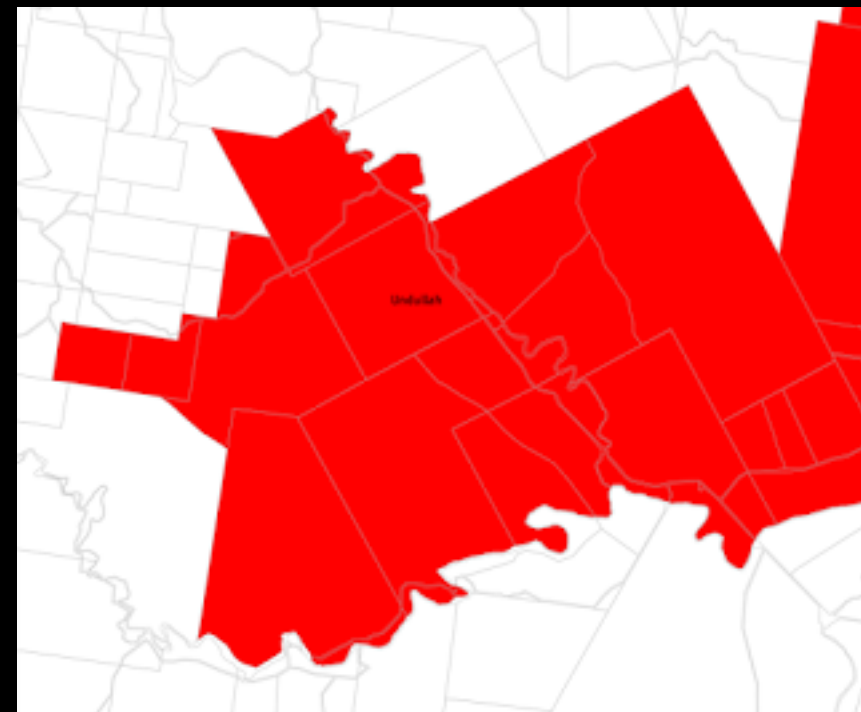
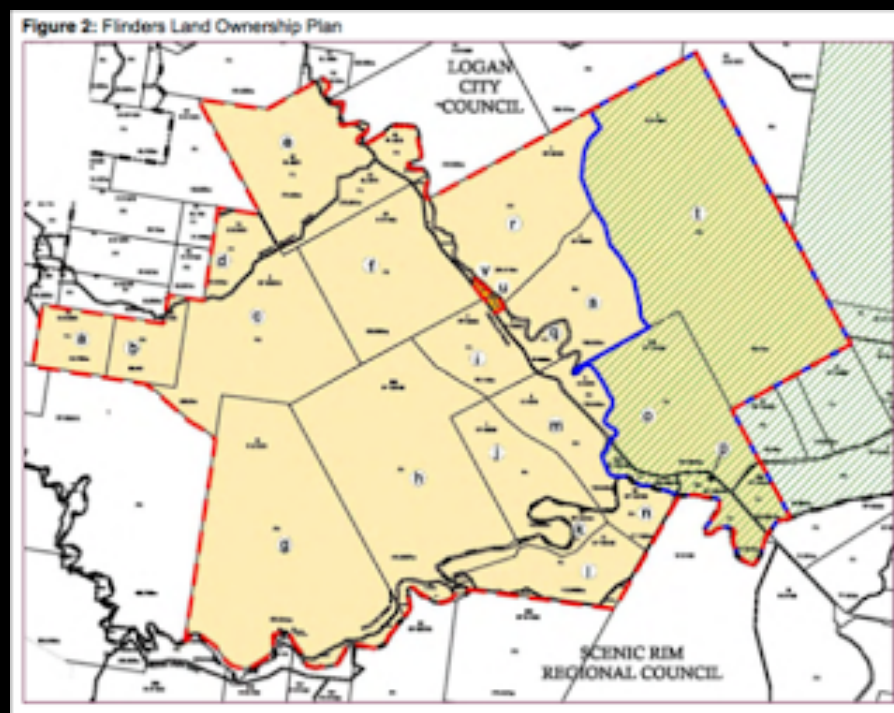
MORE

The ACT government spent more than \$30 million in recent years buying up rural leases. What the public was not told is that, between five and 15 years earlier, the government sold these same properties to its rural tenants, receiving only \$831,710 for the land and government-owned improvements. The territory was able to repossess the previous leases with three months' notice but sold the leaseholders 99-year leases with renewal rights – the closest you can get to outright land ownership in the ACT.

O'Reilly, B. 2016. Why did the ACT throw away tens of millions of dollars in bizarre rural land sales. Canberra Times. Accessed at <http://www.canberratimes.com.au/comment/why-did-the-act-throw-away-tens-of-millions-of-dollars-in-bizarre-rural-land-sales-20170613-gwq9oy>

LOBBYISTS OWN QUEENSLAND PLANNING

- ▶ Approx. **\$100 million** gain. Lie: MIT campus. Myth: housing shortage. Relationships, lobbyists, no donations.



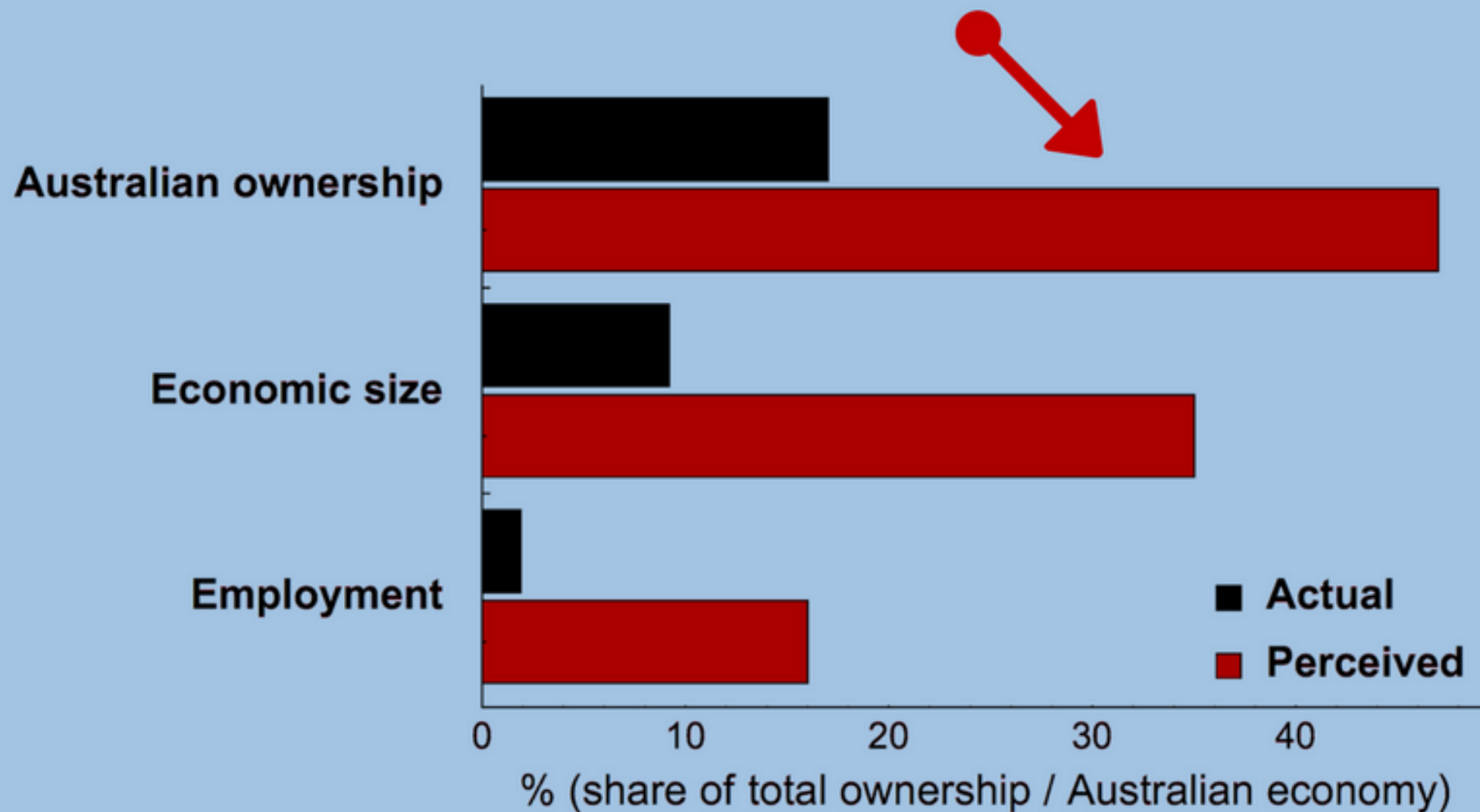
Murray, Cameron K. 2016. Lobbyists own QLD planning. Fresh Economic Thinking. Blog. Accessed at <http://www.fresheconomicthinking.com/2016/10/lobbyists-own-qld-planning.html>

MINING

- ▶ “One peculiar aspect of mining is that it does not really matter much to the wealth of the population when the stuff is dug up or how difficult it is to dig up, as anything left in the ground can simply be sold a generation later. Barring price changes and inflation, it is not all that important if mining is delayed.”
- ▶ **\$20 billion** per year in profits that could have been shared with a Norwegian-style tax system.
- ▶ Entrenched staff rotation of at all levels

GAME OF MATES

MATES CREATE MYTHS ABOUT HOW
ECONOMICALLY IMPORTANT THEY ARE



GAMEOFMATES.COM

BANKING

- ▶ Bank profits in 2015 were **\$30 billion**, or 2% of GDP.
- ▶ Rotation of staff mostly hidden at low levels: APRA; lobby groups. But visible at senior levels: Anna Bligh; Mike Smith (former ANZ CEO made **\$88 million** now Big 4 ambassador).
- ▶ Grey gift in the form of super-profits from shared monopoly on basic public service, and public guarantees.
- ▶ **\$15 billion** are super-profits (\$1,500 per household)

SUPERANNUATION

- ▶ "...the government compels employers to take 9.5 per cent of their workers' wages and hand this over to the "financial services" industry, then looks the other way while these fat cats rip off the mugs the government has delivered into their hands. (Gittins, 2015)"

SUPERANNUATION

- ▶ Fund Mate's risky projects, and hidden insurance packages.
- ▶ Fees - 1.2% vs 0.1% in Denmark. **\$20 billion** a year.
- ▶ Tax breaks for contributions - **\$28 billion** tax expenditure.
- ▶ "If you mandate total transparency, James and his friends would simply subtly change the superannuation rules every year, send every worker thousands of pages of material in total transparency, safe in the knowledge that almost no one is going to read any of that information."

TRANSPORTATION

- ▶ “The myth that worked so well...was that government debts would have to be paid by future generations and future Bruce’s should be free of such obligations.”
- ▶ Analysed 38 largest transport projects since 1992, showing that PPPs miss traffic forecasts by 40%, whereas public projects exceeded forecasts by 6%.
- ▶ Conflict between profit (revenues) and social benefit (trips)
- ▶ **\$42.8 billion** of benefits forgone from \$60.5 billion spend.

TAXES, HEALTH, PHARMACIES, TAXIS, EDUCATION AND MORE

- ▶ In 2013–14, 40% of the biggest 1,539 companies in Australia paid no taxes at all.
- ▶ **\$6 billion** per year. Industry whistle-blower George Rozvany estimates the true losses are **\$50 billion** per year.
- ▶ **\$1 billion** per year from family trusts.
- ▶ **\$6 billion** per year from CGT discount.
- ▶ **\$10 billion** from removing inheritance taxes.

TAXES, HEALTH, PHARMACIES, TAXIS, EDUCATION AND MORE

- ▶ **\$1.3 billion** extra to pharmaceuticals compared to NZ
- ▶ **\$1.6 billion** in tax expenditure and \$5 billion in rebates for private health insurance.
- ▶ “For every dollar in reduced subsidy (rebate) to private health insurance, the additional cost to the public hospital system is just \$0.40, providing a \$0.60 overall saving. On the total \$5 billion in rebates, that’s a \$3 billion saving each year.”

Part 2—Applications not involving cancellation of existing approval

| Item | Kind of application | Requirements |
|------|--|--|
| 13 | New pharmacy (at least 1.5 km) | <ol style="list-style-type: none">1. The proposed premises are at least 1.5 km, in a straight line, from the nearest approved premises.2. The Authority is satisfied that, at all relevant times, there is:<ol style="list-style-type: none">(a) within 500 m, in a straight line, from the proposed premises:<ol style="list-style-type: none">(i) at least the equivalent of one full-time prescribing medical practitioner; and(ii) a supermarket with a gross leasable area of at least 1 000 m²;or(b) within 500 m, in a straight line, from the proposed premises a supermarket with a gross leasable area of at least 2 500 m². |
| 131 | New pharmacy (at least 10 km) | The proposed premises are at least 10 km, by the shortest lawful access route, from the nearest approved premises. |
| 132 | New additional pharmacy (at least 10 km) | <ol style="list-style-type: none">1. The proposed premises are:<ol style="list-style-type: none">(a) located in the same town as an approved premises; and(b) at least 200 m, in a straight line, from the nearest approved premises; and(c) at least 10 km, by the shortest lawful access route, from any approved premises other than the approved premises mentioned in paragraph (b).2. The Authority is satisfied that, at all relevant times, located in the same town as the proposed premises are:<ol style="list-style-type: none">(a) at least the equivalent of 4 full-time prescribing medical practitioners practising; and(b) one or 2 supermarkets which occupy a combined total gross leasable area of at least 2 500 m². |

TAXES, HEALTH, PHARMACIES, TAXIS, EDUCATION AND MORE

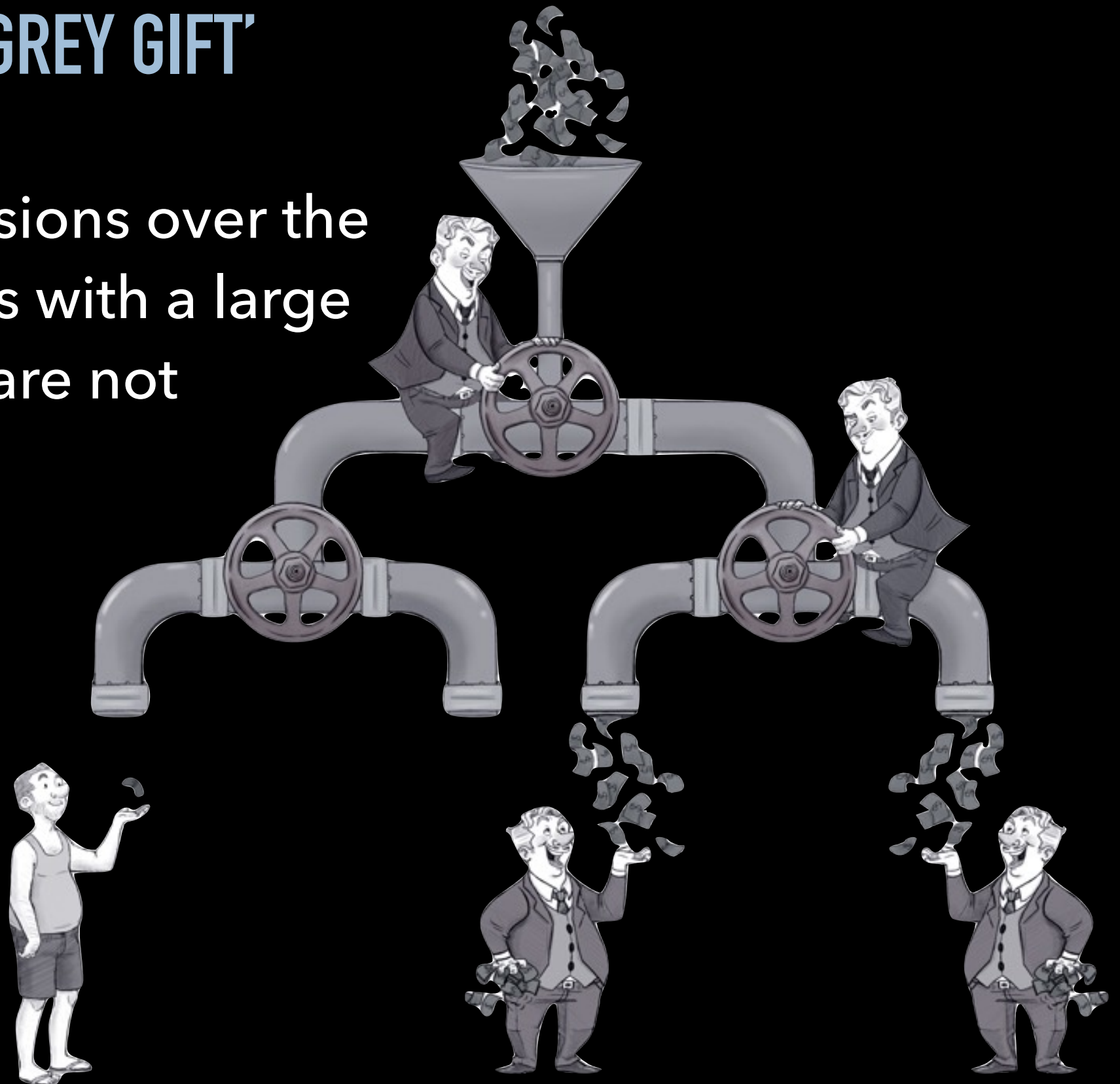
- ▶ "State regulations ensure that new quotas of taxi licences are created only if they do not depress the market price of existing tax licences. Because of this, the value of taxi licences was around \$6 billion in 2014, yet it is purely a private monopoly created for the benefit of a handful of major taxi-licence-owning Jameses (Murray, 2014; Deloitte, 2013). About 16% of the cost of every taxi ride goes to James!"

TAXES, HEALTH, PHARMACIES, TAXIS, EDUCATION AND MORE

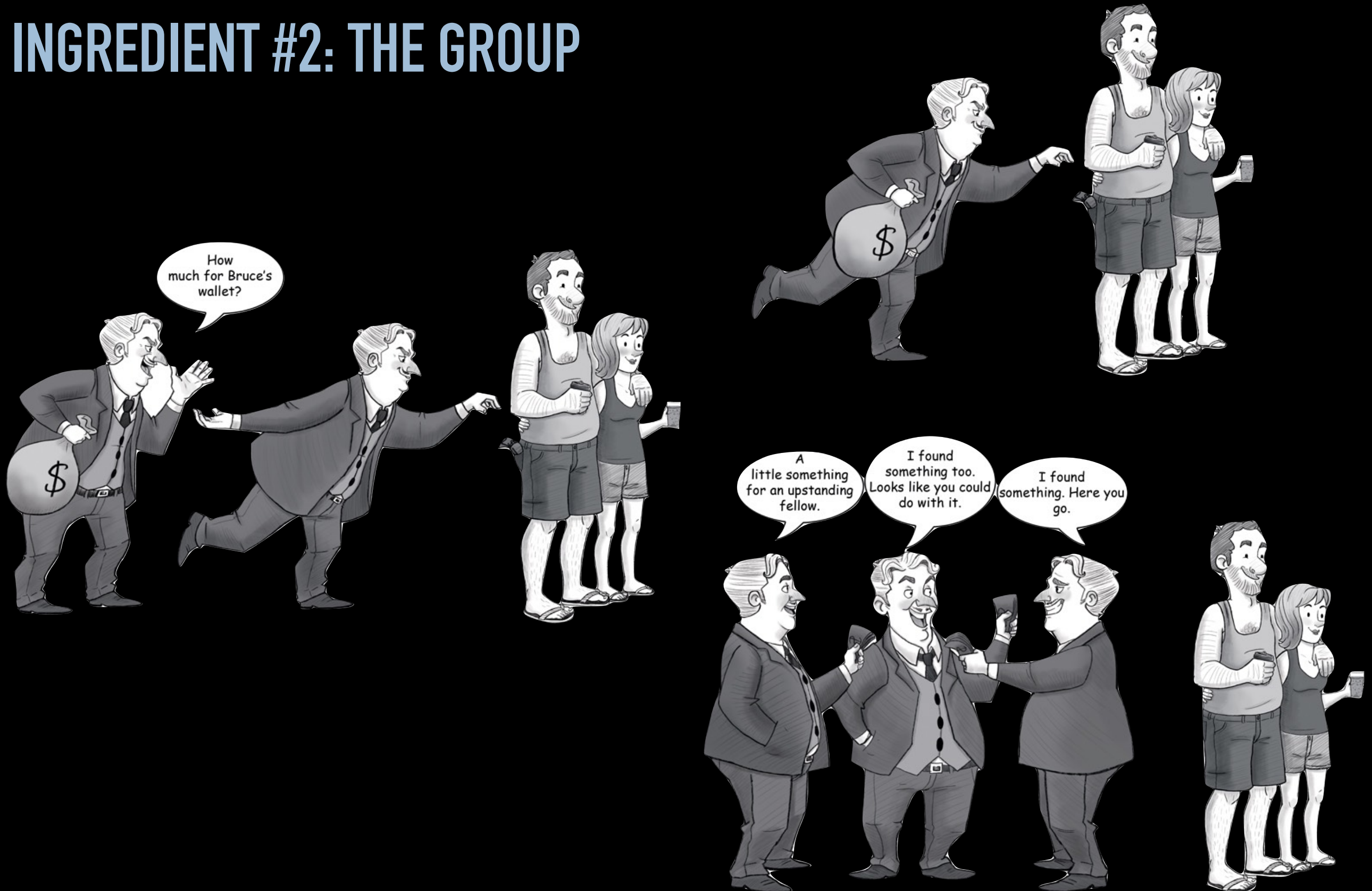
- ▶ "...despite being one of the wealthiest groups in the country, with 70% of farming households falling in the top 20% of the country's wealthiest, the slogan "every family needs a farmer" is widely recognised and repeated."
- ▶ **\$1 billion** in drought relief and farm tax breaks in 2007-08.

INGREDIENT #1: THE 'GREY GIFT'

- ▶ Discretionary decisions over the allocation of things with a large private value, but are not priced
- ▶ The 'currency' of grey corruption



INGREDIENT #2: THE GROUP



INGREDIENT #3: SIGNALS

- ▶ “Every potential James who has a grey gift at their disposal faces a dilemma when choosing who to favour: Are they part of the group, or do they want to become part of it, by having the desire and ability to reciprocate? Or will this person end up spoiling the fun by exposing the Game?”
- ▶ **Covert signalling** - With the right type of ambiguity, the message communicated will be different depending on who receives it.
- ▶ **Burning money** - Costly signals are credible signals.

INGREDIENT #4: THE MYTHS

- ▶ “James needs a plausible story that shows why it is good for society for him to control grey gifts, and how society benefits when he gives these gifts to his Mates. James hides behind these myths, using them like an umbrella to protect him from cleansing rains of serious public scrutiny.”
- ▶ Role of think-tanks, lobbyists, industry groups, media ownership.
- ▶ Never survive even rudimentary scrutiny - housing supply, public debts, responsible drug sales, etc.

INGREDIENT #4: THE MYTHS

- ▶ “Random anger emerges at anything that looks like money and the establishment. Wild conspiracy theories emerge from people who know just enough to know that they are being fleeced, but who cannot quite see the individual elements of how this happens and thus latch onto a story of grand conspiracies, missing the reality that James’ Game is an emergent characteristic of the natural human tendency to form groups through reciprocal trades in favours.”

WHAT TO DO

1. **Sell or tax grey gifts.**

- Auction mining rights periodically. Tax planning gains or sell rights to build higher density. Sell to banks public insurances.

2. **Create public competitors**

- In banking. In transport.

3. **Add randomness to decision-making**

- Juries to decide new plans, or appointment of heads of government departments.

WHAT NOT TO DO

- 1. Focus on political donations**
 - They are just one way to join the Mates.
- 2. Focus on transparency**
 - There is enough transparency to write a book! And still many of the favours are not illegal.
- 3. Focus on getting the 'right' people into politics**
 - Everyone will be seduced eventually.
- 4. Create private monopolies (like land titles office)**