

FLAT WHITE

Policies for prosperity

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Grantlee Kieza's biography of Mary Reibey (1777-1855), the woman pictured on the \$20 note, provides a splendid account of how Australian pioneers' self-reliance and can-do approach to tapping the continent's latent wealth brought living standards 30-50 per cent above those of England within a generation.

Convicts and emancipists still comprised half of the adult population in 1850 (surely the world's highest proportion of felons) when the colonies became self-governing democracies.

As in Hong Kong, prosperity grew under a gentle autocracy. Contrary to later myths, transportees were not unfortunate victims of a distinctly harsh legal regime. Overwhelmingly, they were guilty of persistent theft or very serious property crimes (Mary Reibey herself was a rebellious middle-class teenager, who stole a horse, a crime which at that time brought the death penalty more or less everywhere in the world). Some 95 per cent of transportees stayed in Australia as free citizens, partly because of the cost of returning to Britain.

As Kieza dispassionately relates it, the Indigenous hunter-gatherers were obviously dispossessed, but they were not exploited; conflicts largely stemmed from their seizing settlers' property (or, if you prefer, reclaiming property they considered to be their own). A few thousand Indigenous people absorbed themselves into settler society, contributing to and enjoying the wealth created.

The success of pre-1850 Australia was notwithstanding high crime, resulting from frontier friction and settler lawbreakers. However, most former criminals sent to Australia in the 19th Century prospered. Many, like Mary Reibey, became successful merchants and farmers. Some, like Dickens's apocryphal Mr Micawber, corroborated redemptionist notions to become magistrates; others became prominent politicians.

19th Century government was largely invisible. Its share of national income is estimated at just 4 per cent compared with today's 40 per cent. While the greater part of today's government spending is on health, welfare, education, and infrastructure, most of this output is low-productivity, and much of the other spending actually yields negative returns by creating and managing the gargantuan enterprise-suffocating regulatory regime.

Prior to 1970, the growth of government featured labour and product market regulations (especially tariffs). The 55 years since then have seen accumulations of regulations – especially at the interface between the environment and the economy.

Labor is ushering in new draconian workplace regulatory changes and environmentally-oriented restraints on the lowest-cost energy, which is seeing investment diverted offshore, particularly in the mining industry. There is a whole portfolio of wealth-stifling regulatory measures.

Mining restraints that have extended the timeline for new mine developments from a couple of years 30 years ago to 10 or more years today and have involved a considerable increase in spending to please the regulatory authorities and to counter, sometimes unsuccessfully, specious grounds for arresting development.

Twenty per cent of the irrigation water from the Murray-Darling, which accounts for ~35 per cent of Australian agricultural output, has been diverted to serve contested environmental uses.

No-take fishing covers as much as 25 per cent of the Australian coast, with the objective of raising this to 30 per cent by 2030. With the world's largest sea resources, we actually import 70 per cent of the fish we eat.

About 24 per cent of Australia is out of bounds for farming or mining; although this includes little of the 15 per cent of the nation cleared for more intensive cropping or pasture, no further clearing is permitted on that land and 'remnant' patches of native vegetation must be protected.

Above all, we have the accumulation of measures ostensibly aimed at reducing 'greenhouse gas' emissions.

Starting with the Howard government's 2002 provisions requiring '2 per cent of additional energy' to be from wind and solar, the cost of energy subsidies has grown from a few hundred million dollars a year to over \$16 billion a year, due to the 'Capacity Investment Scheme' (which seeks to lock future governments into providing renewables subsidies for 20 years), excessive transmission spending to accommodate renewables and direct support through loans and on-budget subsidies.

Over the past two decades, in current dollars, over \$150 billion has been wasted on these measures, resulting in escalating electricity costs.

Twenty years ago, Australian electricity prices were in lockstep with those of the US (where the government-induced renewables malignancy was less pervasive), but as regulatory measures were ratcheted up, we now have electricity prices 80 per cent higher.

It would be impossible to return to the low-tax, low-regulatory regime of the 19th Century. But the upshot of the present regulatory regime is stagnation – average productivity has declined over the past seven years. Business investment, the key promoter of productivity, has fallen from around 18 per cent of GDP to 12 per cent – and much of that 12 per cent is in renewable energy, delivering negative gains in real income.

A new bonfire of regulations and sharply reduced government spending generally is vital if we are to raise living standards (and buttress our security). A start could be a program to build coal power

stations to double the existing capacity. This would cost about \$70 billion and offer electricity at a world-beating price of \$60-70 per MWh, half our current prices. Such a policy, of itself, would resolve the loss of secondary industry resulting from subsidies to renewables.