

Making Australia a world-leading digital economy

The potential economic benefits of an ambitious digital reform agenda

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Key messages

The Government is aiming for Australia to become a leading digital economy by 2030

- ▶ The COVID-19 crisis has highlighted the role of digital technologies in supporting business continuity, delivering government services, and maintaining social connections.
- ▶ To foster economic recovery and ensure all Australians can benefit from digital technology, the BCA's Digital Economy and Telecommunications Working Group has developed a **digital reform agenda**.
- ▶ The agenda focuses on:
 - driving the uptake of technology across the economy
 - removing out-dated regulatory barriers
 - boosting the digital capability of small businesses and workers.

A stronger, more future-proofed economy

- ▶ High-level assessment of key elements of the proposed digital reform agenda indicates strong economic payoffs.

	What does it involve?	What gains are possible?
Tax and investment	Tax incentives to encourage investment in digital policy and services.	Up to \$37 billion in economic output over two decades, with potential gains accruing across all industries.
Regulatory reform	Removing regulatory impediments and ensuring more tech-friendly regulation.	Up to \$119 billion could be added to the economy over 20 years.
Human capital	Improve the digital knowledge pool and upskilling workers.	Human capital investment relevant to the digital economy could boost the economy by \$47 billion over 20 years. Most digital economy jobs created are not 'techy' jobs, but all types of jobs.

- ▶ There has been limited information on which to base estimates of the reform initiatives. The results should be viewed as exploratory or, at best, broadly indicative.

The context: Supporting our shift to a thriving digital economy

Digitisation presents Australia with a rich set of opportunities

Digital innovation is important for all Australians – it lifts productivity, improves living standards and helps us remain internationally competitive.

- ▶ The 'digital' and 'real' economies are converging and are increasingly indistinguishable.
- ▶ A strong Australian economy requires a thriving digital economy.

For businesses

- ▶ Enterprises embracing digitisation stand the best chance of success.
- ▶ Digitisation is much more than creating growth in the technology sector. Because digital technologies enable business adaptation (as we've seen during the COVID pandemic), the impacts go well beyond technology.
- ▶ All businesses – small, medium or large – must embrace the digital economy. This will be imperative to building and maintaining a competitive edge.

For current and future workers

- ▶ Our digital future will demand different capabilities – the digital maturity of Australia's workforce needs to be lifted.
- ▶ A new skills journey with targeted upskilling and professional development is needed to encourage better use of digital technologies.

For our community

- ▶ Digitisation enables people to access jobs, markets, information and social networks.
- ▶ To maximise these advantages, especially as technology accelerates, the community needs confidence that their information is being handled appropriately and securely.

The Prime Minister has set an ambition for Australia to become a leading digital economy by 2030.

The Government's Digital Technology Taskforce has identified five focus areas for digital reform.

- ▶ Moving more businesses to the digital frontier
- ▶ Creating a digitally capable and inclusive Australia
- ▶ Building Digital Trust
- ▶ Digital-first Government
- ▶ Lifting sectors through digital technology.

A potential digital reform agenda has been developed by the BCA's Digital Economy and Telecommunications Working Group.

- ▶ The agenda aims to inform the Government's Digital Australia Strategy.

See link to strategy [here](#).

The potential: Assessing the digital transformation reform agenda

Three reform packages to support a thriving digital economy

Key elements of the BCA's digital economy recommendations have been grouped into three discrete reform packages.

1 Tax and investment

Tax incentives and grants to encourage investment and support digital growth:

- ▶ Digital skills training
- ▶ Services to assist digital transformation
- ▶ Digital infrastructure
- ▶ Encourage the uptake of smart technology
- ▶ Accelerate the rollout of 5G

2 Regulatory reform

Remove regulatory impediments and streamline and modernise policy requirements:

- ▶ Move towards more 'tech-friendly' - or at least 'tech-agnostic' - regulation
- ▶ Support transition to cashless society
- ▶ Policy guidance and support to modernise procurements practices

3 Human capital

Upskill workers and help Australians develop stronger digital skillsets:

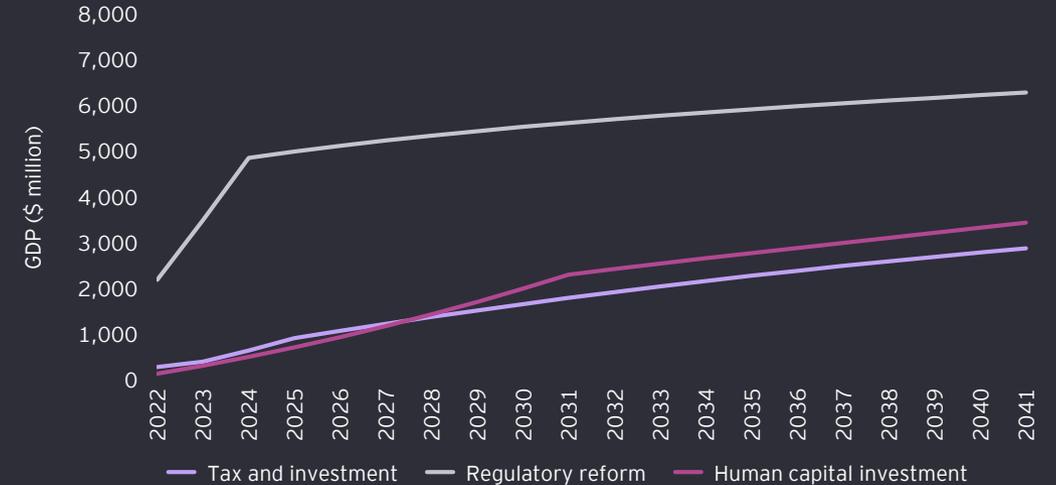
- ▶ Work with industry and education providers to encourage digital learning
- ▶ Digital apprenticeships
- ▶ Courses focused on digital upskilling
- ▶ Encourage talented Australians to return home

A digital reform agenda could help drive economic growth

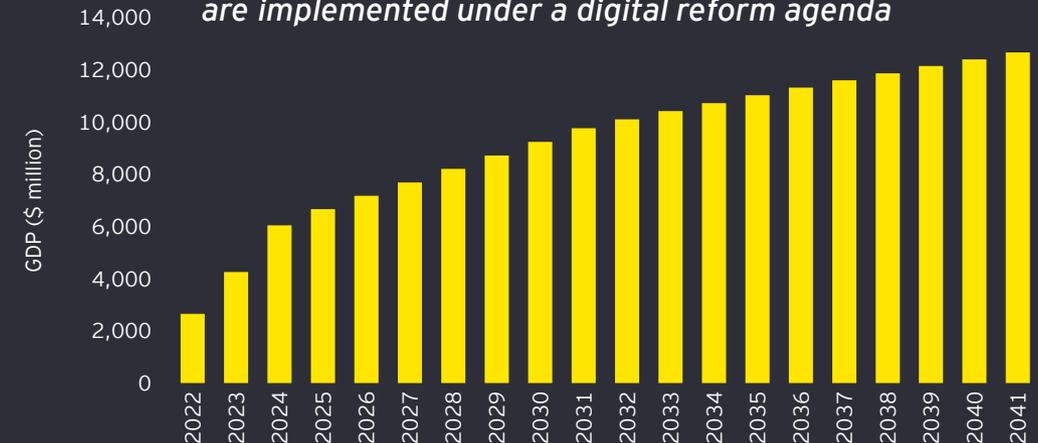
Through targeted digital reform there is potential to stimulate economic activity.

- ▶ Regulatory reform in the digital space can induce large productivity gains for the private sector and government.
- ▶ Tax incentives can help spur technology investments and deepen Australia's capital base.
- ▶ Investment in human capital to make Australians more digitally enabled will improve workplace productivity and drive growth.

The economic payoff under the three digital packages



The economic benefits are larger if all three packages are implemented under a digital reform agenda



The 20-year economic payoffs could be ...

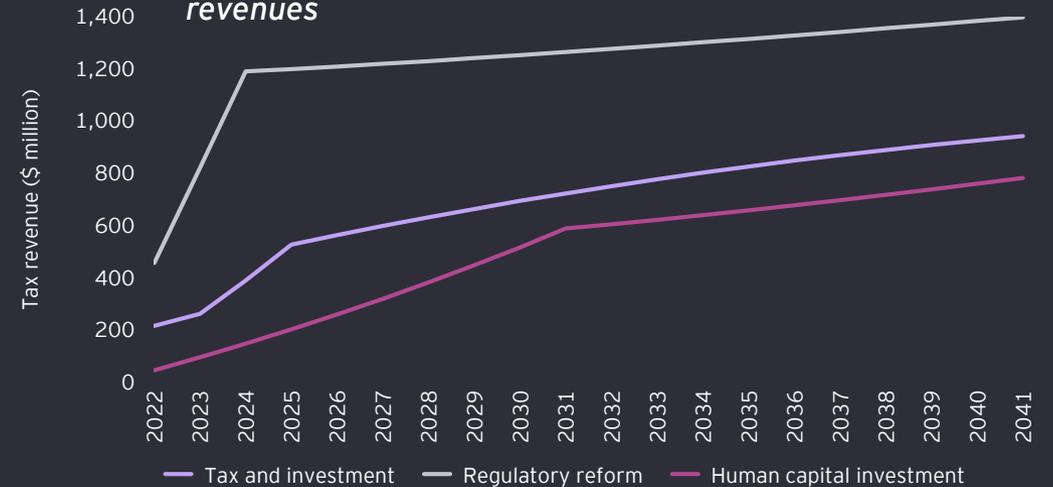
- 1 Tax and investment \$33 - \$37 billion
- 2 Regulatory reform \$97 - \$119 billion
- 3 Human capital \$35 - \$47 billion

A stronger economy provides more tax revenue

By driving investment and economic activity, the proposed reforms can also help grow the tax base.

- ▶ Regulatory reform generates strong increases in tax revenue, through enhanced private sector productivity and increased government investment.
- ▶ If all three scenarios were implemented as a integrated digital reform package, tax revenue could be between \$41 and \$56 billion higher over 20 years.

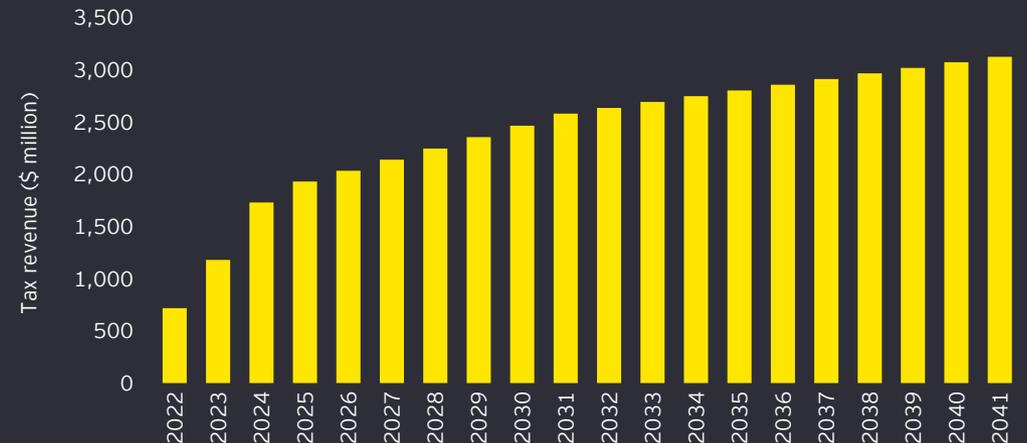
The digital reform packages increase government tax revenues



The 20-year tax impacts could be ...

- 1 Tax and investment \$13 - \$15 billion
- 2 Regulatory reform \$22 - \$27 billion
- 3 Human capital \$8 - \$11 billion

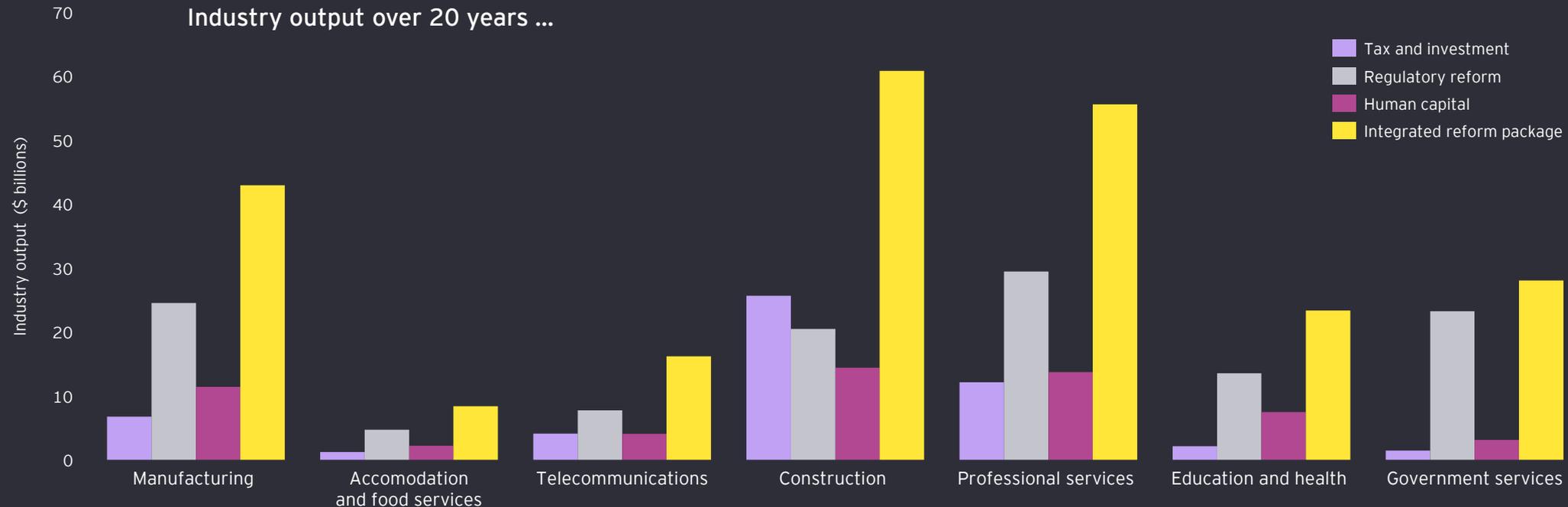
More tax revenue if all key reforms are implemented



Benefits will flow throughout the economy

Digital reform helps lift the performance of all sectors in the economy.

- ▶ Over the long-term, these initiatives can help grow existing industries and develop emerging industries.
- ▶ Reforms can support capital intensive industries as well as services.
 - The professional services sector and the construction sector are both big winners from these proposed reforms, with large increases in industry output.



*Professional services includes finance and insurance, real estate services and other business services

The approach:
What's in the reform
agenda and how has it been
modelled

Three scenarios capture key BCA recommendations

1 Tax and investment

- ▶ Tax incentive, grants program or voucher scheme of up to \$10,000 for small to medium enterprises (SMEs) to invest in digital skills training, infrastructure, and services. This includes e-invoicing, accounting and human resources services, cyber security, learning and development opportunities, or retaining consultants or other outside expertise to improve their digital skills and services.
- ▶ 20 per cent investment allowance to be applied to purchases of services to support digital transformation.
- ▶ Amend the Research and Development Tax Incentive to make clear that software development is eligible.
- ▶ Require all new and upgraded infrastructure to be embedded with smart technology and ensure that access to connectivity (e.g. mobile coverage) is factored into the planning stage - including relevant funding where necessary.
- ▶ Continue a focussed program of strategic policy initiatives, co-investment, funding, and regulatory reform to ensure Australia stays at the forefront of global 5G rollout and adoption.

2 Regulatory reform

- ▶ Develop, in consultation with industry and the community, a set of overarching principles to underpin Government's policy actions in the digital economy.
- ▶ Accelerate micro-regulatory reforms to remove the barriers to a cashless, paperless, and virtual society across the states and territories. This agenda should be underpinned by national payments and an evidence base developed by the Productivity Commission.
- ▶ Reform procurement rules to properly account for wider economic benefits when considering value for money (e.g. domestic jobs created), rather than a strict focus on lowest cost.
- ▶ Provide policy guidance to support agencies moving away from large capital-intensive IT expenditure to modern procurement practices, such as supporting consumption of infrastructure as a service.
- ▶ Task the Office of Best Practice Regulation to identify where existing legislation and regulation contain technology-specific obligations that could be made tech-agnostic and establish processes to address this issue in new legislation.

3 Human capital

- ▶ Introduce a minimum digital literacy standard for students in primary and secondary education.
- ▶ Under the National Careers Institute, make technology, testing, tools, and programs available to students that help them to assess the alignment of different career options with their interests and aptitude.
- ▶ Work with industry partners, education and training providers, and state governments to pilot new digital micro-apprenticeships that incorporate work placements and course offerings tailored to participants and their employers.
- ▶ Expand and extend the funding of higher education short courses, including with a focus on in-demand courses that lead to digital careers through lifelong learning opportunities, such as cyber security and data analytics.
- ▶ Establish a \$10 million overseas advertising campaign that highlights Australia's natural advantages and strong management of COVID to attract skilled and high talent individuals to Australia.

Modelling the digital reform scenarios

The high level assumptions

- ▶ There has been limited information available to base these estimates and therefore, the results should be viewed as indicative.

Tax and investment inputs

- ▶ \$800 million annual increase in investment.
 - Yield from the 20% investment allowance.
 - Conservative estimate based on research from the Reserve Bank of Australia, EY Tax Analysis and National Accounts data.
- ▶ \$1115 million annual increase in investment, scaled in over three years.
 - Dividends from an accelerated rollout of 5G technology.
 - Conservative estimate based on research by the Department of Communication and Arts and ABS data.

Regulatory reform inputs

- ▶ \$1800 million annual productivity benefit to the private sector, scaled in over two years.
 - Benefits of transitioning to a cashless economy.
 - Conservative estimate based on research by Massi et al. (2019).
- ▶ \$880 million annual cost saving for government.
 - Improved efficiencies for government.
 - Conservative estimate based on research by the Institute of Public Affairs.

Human capital inputs

- ▶ 0.1% annual increase in labour productivity, scaled in over ten years.
 - Conservative estimate based on research by the Bureau of Communication and Arts Research on the labour productivity differential between firms on the digital frontier.

Approach to the economic analysis

EY has analysed the economic impacts of key recommendations identified by the BCA.

For modelling purposes, the recommendations have been grouped into three themes:

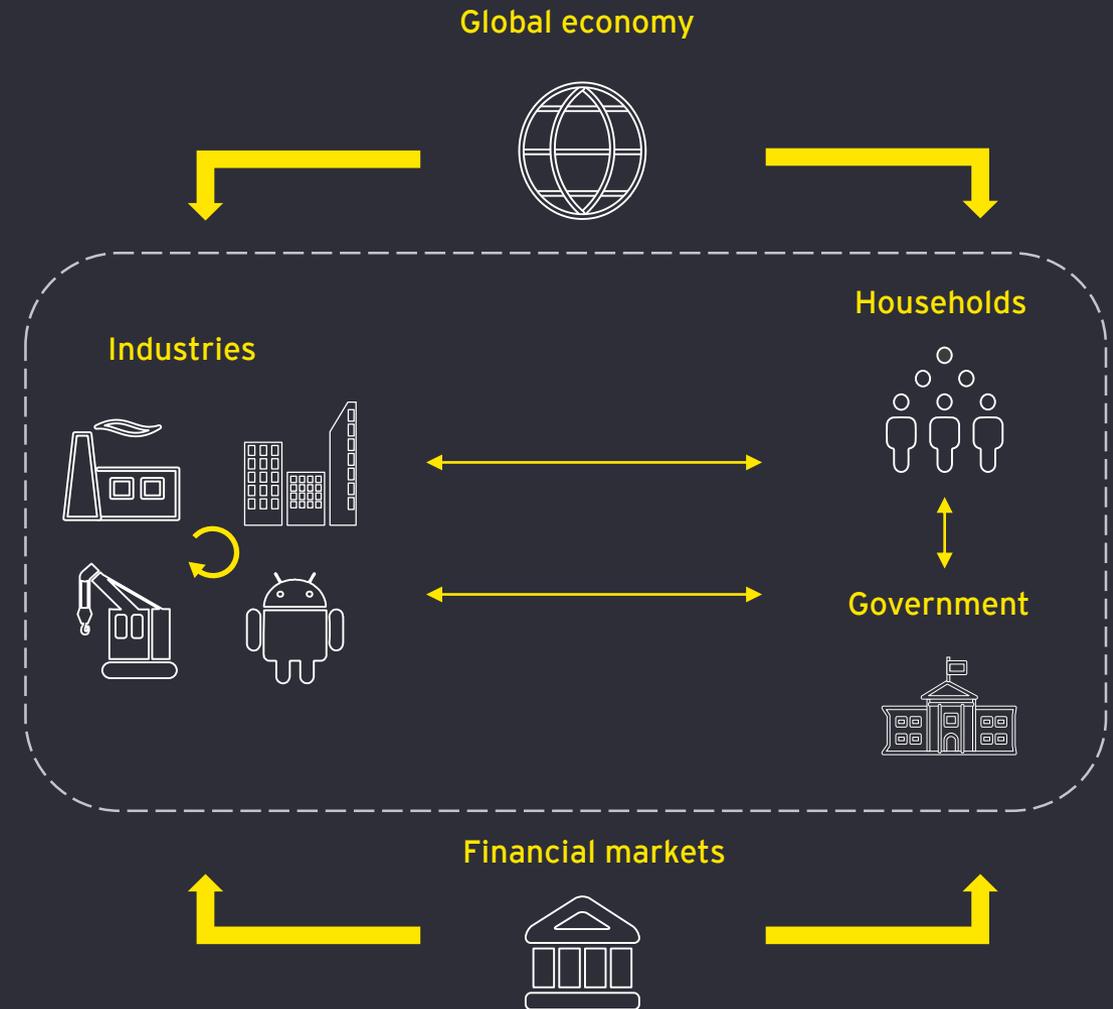
- ▶ **Tax and investment** – tax incentives to encourage investment in digital policy and services.
- ▶ **Regulatory reform** – removal of regulatory impediments and a move towards more tech-friendly regulation.
- ▶ **Human capital** – improve the digital knowledge pool and upskilling of workers.

Our CGE model

EYGEM is EY's in-house, state of the art Computable General Equilibrium (CGE) model. It is a large scale, dynamic, multi-region, multi-commodity model of the world economy.

The model provides a rich and realistic representation of how changes in one part of the economy flow through to other parts.

- ▶ **Comprehensive regional analysis** - The model contains 141 distinct regions, with the ability to disaggregate these into sub-national regions for highly granular economic analysis.
- ▶ **Rich sectoral detail** - All sectors of the economy are integrated into the model, with 65 discrete sectors. These can be further refined for specific industries.
- ▶ **Time dynamics** - Solving year-on-year over a flexible periods, the model can assess short term policy initiatives and decades-long reforms or investments.
- ▶ **Market tested and strong academic foundations** - A model has a lineage that has been applied globally across the public and private sector.



Sources

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