BALANCING ACT
FISCAL AND POLICY PRIORITIES TO SUPPORT GROWTH

HOW CAN WE ATTAIN FISCAL BALANCE AND FOSTER LONG-TERM INVESTMENT?
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EXECUTIVE SUMMARY

Australia’s governments now face a difficult balancing act between responsible fiscal management and investing in Australia’s future growth. Significant challenges remain in successfully managing a sustainable recovery, especially given that this has not been done well in the past.

In this submission to the 2010–11 Budget, the BCA is calling for a shift in the emphasis of fiscal policy away from settings that support demand management to a renewed focus on expanding Australia’s productive capacity. This will entail a withdrawal of the stimulus, a return of the Budget to surplus and a strengthening of Australia’s long-term fiscal and economic growth prospects.

The economic outlook is significantly improved from this time a year ago. Australia posted positive growth through 2009, driven by a rebound in confidence, and indications are that the expansion will continue into 2010 and beyond. Strong business investment will be an important driver of growth.

It is increasingly clear, however, that Australia will emerge from the downturn without the spare capacity that usually follows periods of low growth or recession. As such, it is likely that Australia will be absorbing this investment during a period of rising capacity constraints and potentially at a time of full employment. In this environment, fiscal policy must work in concert with the expected economic recovery.

AGAINST THIS BACKGROUND, THE BCA ADVOCATES THAT THE 2010–11 BUDGET SHOULD INCLUDE:

1. A convincing plan to put the Budget back to surplus through expenditure control and not through higher tax levels.
2. A clear articulation of how the government’s 2 per cent cap on real growth in spending will be implemented and achieved.
3. New policy measures directed to containing growth in the government’s largest spending programs to ensure their long-term sustainability.
4. Commitment to reform the revenue side of the Budget to support growth by shifting to taxes that are less volatile and have less harmful effects on growth.
5. Evidence that the government remains committed to a commercially sound approach to long-term infrastructure development, involving rigorous cost–benefit analysis and greater transparency around funding decisions.
ECONOMIC OUTLOOK

There have been two fundamental developments with Australia’s economy over the past twelve months – the speed with which confidence rebounded, and a subdued increase in the measured unemployment rate (as businesses reduced employees’ working hours as an alternative to labour shedding). While both developments are extremely welcome, they have a number of different implications.

The rebound in confidence – especially business confidence – augurs well for Australia’s growth prospects and for the investment outlook. Business investment is a key driver of the business cycle and is an important determinant in expanding the supply capacity of the economy. With ongoing support from China and demand elsewhere in Asia for Australia’s energy-related exports, there is a good prospect of significant increases in investment in Australia, led by the resources sector. Reflecting this, a deterioration in Australia’s current account position is expected.

The better-than-expected performance in the labour market has implications for the ability of the economy to grow at above trend rates of growth. In contrast to previous periods of economic downturn, whereby the economy has emerged with significant spare capacity (i.e., reflecting high unemployment rates), that situation will not occur on this occasion. Along with a comparatively low unemployment rate of 5½ per cent (as at December 2009), survey measures of capacity utilisation have rebounded to be above historical averages.

Taken together, these developments suggest that it may be difficult for the economy to record above-trend rates of growth in the near term and, indeed, that capacity constraints could be encountered relatively soon. This highlights a critical need for policymakers to address key supply-side issues. In the BCA’s view, this needs to be done through the pursuit of policies directed to improving workforce participation, education and training and the provision of infrastructure.

A further important objective of policy should be to support an overall business environment that is conducive to attracting and retaining private sector investment. Given the central role investment plays in Australia’s economy, the government’s fiscal and regulatory policies need to be set with this aim in mind.
EXECUTIVE SUMMARY

FISCAL PRIORITIES FOR 2010–11 AND THE NEAR TERM

After a temporary yet necessary period of deficit budgeting, the fiscal position must begin to return to a sustainable setting. It is clear that the return of the Budget to a sustainable position will require discipline and difficult decision making on behalf of the government.

The magnitude of the challenge is reflected in the change to the expenditure side of the Budget as a consequence of the economic crisis – Commonwealth expenditure as a percentage of GDP was 24 per cent in 2007–08 but will rise to an estimated 27.8 per cent in 2009–10.

Lessons from history demonstrate that deficits arising from economic downturns can be persistent (usually prevailing for at least five years) and the eventual return to surplus is typically built on higher taxation levels. This time around, the government has indicated that the revenue side of the Budget will support a return to surplus solely through the work of the automatic stabilisers and not through a permanent increase in the level of taxation.

The 2 Per Cent Expenditure Growth Cap

The heavy lifting required to return the Budget to surplus will need to occur through savings measures and reduced spending. Critically, the government has committed itself to budgeting for real spending growth of less than 2 per cent in the years in which the economy is projected to grow at above-trend rates. The government has set itself to do this from 2011–12.

This is good policy. We agree with the strategy outlined by the government that in Australia’s case a return to surplus should be achieved by curbing expenditure growth, not raising revenues.

While the proposal to limit growth in government expenditures to 2 per cent in real terms is welcome, to date few details have been provided on how this might be achieved in practice.

Past experience demonstrates that a 2 per cent expenditure target is difficult but doable – real expenditure growth was below 2 per cent in only nine of the past 26 years when growth was above trend.

Should the economy fail to achieve above-trend rates of growth in the coming years, the BCA remains of the view that the 2 per cent spending cap is an appropriate starting point for policy. This recognises the central importance of returning the Budget to surplus. Of course, some flexibility would be warranted should signs emerge of an unexpected and material slowing of the economy.
Given future pressure on government spending programs, taking action to control expenditure now will alleviate the need for harsher action later.

For illustrative purposes, and to demonstrate the extent of the 2 per cent growth challenge, should health and defence spending grow in real terms by 5 per cent and 3 per cent respectively, all remaining non-health and defence spending programs would have to be constrained to grow by just 1.3 per cent in real terms.

Succeeding with the 2 per cent growth challenge will not be possible unless controls are imposed on the big drivers of spending.

Last year’s budget papers contained a table that outlined the top 20 Commonwealth Government programs by expenses in 2009–10. Given their magnitude, accounting for more than 60 per cent of outlays, it is in those areas that the government’s focus must be.

Of the top 10 programs, 3 relate to payments to the states and territories, with the remainder providing government services to seniors, families, the sick and unemployed. Four of the top 10 programs (together providing payments of almost $70 billion) have specific means-test arrangements attached to program eligibility.

Means testing is fundamental to reduce the cost of the major social benefits programs. Success at containing the growth in spending needed to underpin fiscal responsibility will be very much dependent on the government being prepared to make difficult structural savings decisions, including around tightening eligibility requirements and modifying the means testing arrangements.

**Reassessing Unspent Stimulus Funds**

In its Mid-Year Economic and Fiscal Outlook, the government noted that ‘as the economy recovers, the government is committed to taking action to return the Budget to surplus in a timely fashion’.

The temporary design of the stimulus measures will do this as a matter of course as these items wind down over the next few years. Nevertheless, the pick-up in the economy offers an opportunity to reassess funds not yet approved under the stimulus program.

The government has already made some amendments to the Nation Building and Jobs Plan package, taking into account the changing needs of the economy, labour market conditions, the level of demand for programs and value-for-money considerations.

While most of the stimulus monies have been approved, it is understood that there is still funding to be approved under some programs, for example under the Homeowner Insulation Program and the Building the Education Revolution initiatives. Given the strength in the economy and especially the labour market, it would now be prudent to cease any further approvals for spending under the Nation Building and Jobs programs and re-submit them for approval via the Expenditure Review Committee process. This will allow them to be assessed against competing spending priorities within the government’s fiscal rules in order to determine whether they should continue.

**SUCCESS AT CONTAINING THE GROWTH IN SPENDING WILL BE DEPENDENT ON THE GOVERNMENT BEING PREPARED TO MAKE DIFFICULT STRUCTURAL SAVINGS DECISIONS**
EXECUTIVE SUMMARY

Reforming Revenue

The BCA's submission to the Henry tax review argued that Australia should pursue bold tax reform to support economic growth in an increasingly competitive world environment. Our tax system must be restructured to minimise distortions that deter Australian savings and investment, support the attraction and retention of foreign capital investment and increase productivity and workforce participation.

The essence of the BCA's position is that tax reforms arising from the Henry review should reduce the reliance on corporate income tax (and capital income taxes more broadly), increase the reliance on the least distortive taxes (notably consumption and property taxes) and not increase taxes on labour income.

Previous work done by Access Economics for the BCA shows how sensitive various revenue heads are to a typical slowdown in the economy. This work shows that company tax receipts are the most sensitive, followed by personal income tax receipts. In comparison, indirect taxes are significantly less sensitive (reflecting the fact that over the past 25 years growth rates in real consumer spending have typically exhibited less volatility as measured by rates of standard deviation).

Bearing this in mind, a case can be made that the Budget deficit would now not be as large if the revenue side of the Budget was not so reliant on taxes that are more sensitive to the economic cycle.

Sustainable Fiscal Policy in the Long Term

Added to the near-term fiscal challenges are the looming demographic challenges that will place additional pressure on the tax and transfer system and government expenditure.

The government has committed to releasing the third Intergenerational Report (IGR) before the 2010–11 Budget, and again the BCA is awaiting this report with interest. The government has flagged that the population projections for Australia out to 2049 are expected to be significantly higher, at over 35 million, compared with the estimate projected in the last IGR.

Using ABS population projections data, which appears to approximate the projection foreshadowed by the Treasurer, the BCA has undertaken some preliminary analysis on the rising age dependency ratio. As a purely illustrative exercise, it is estimated that the traditional retirement age of 65 years would need to increase to 73 years by 2049 in order to ensure that the age dependency ratio at that time is equal to its current proportion of 5 people of working age for every 1 retired.

While the BCA is not advocating that policy at this stage, it does serve to highlight the extent of the challenges that lie ahead.

On a separate but related issue, the ABS population projections suggest the number of Australians aged 65 or more will increase from the current 2.9 million people to an estimated 7.4 million people by 2049. This has obvious implications for the sustainability of the age pension. Going forward, Treasury modelling suggests that at that time – a time when Australia’s superannuation guarantee system has fully matured – almost three-quarters of the population aged over 65 years of age will receive a pension or part pension funded by the government.

This has obvious implications for the sustainability of the age pension. Going forward, Treasury modelling suggests that at that time – a time when Australia’s superannuation guarantee system has fully matured – almost three-quarters of the population aged over 65 years of age will receive a pension or part pension funded by the government.

While last year’s Budget contained welcome measures to improve the sustainability of the pensions system – and the proposal to progressively increase the qualifying age for the age pension to 67 years was a step in the right direction – more difficult decisions of a structural nature like this will be required.
Spotlight on Health and Infrastructure

Two of the more challenging areas of budget policy in the medium to longer term lie in the areas of health and infrastructure funding. Both are important not only because of their expected rising call on spending, but also because they will be fundamental in ensuring that Australia’s productive capacity is able to expand.

The architecture of Australia’s health system has not been designed to deal with the current pattern of disease, the need for greater coordination of care or to encourage efficiencies and innovation. It reflects past patterns of disease and expenditure.

For these reasons the BCA has advocated the development of a national health strategy. This overall health strategy needs to address the current and projected pattern of disease and its determinants and align services with demand in accordance with community preferences about access, cost and quality.

In this context, funding in a mixed public and private system represents a key lever for shaping and directing the health system, and can provide powerful incentives for both providers and individual users. Without changing these incentive and reward structures there is little likelihood of effecting systematic change.

The BCA contends that new funding arrangements for the healthcare sector warrant detailed consideration, with a view to incorporating more value-conscious patterns of health consumption.

Infrastructure quality and capacity will play a critical role in facilitating sustainable economic growth and future living standards for a substantially larger population. The challenge for all governments operating within fiscal constraints is to maximise the growth in productive capacity by getting the best value for money from infrastructure policy. That means ensuring to the extent possible better spending decisions – decisions that are taken within a higher-level planning framework – and ensuring that the broader economic and policy environment is conducive to private sector activity.

In the area of infrastructure, the 2010–11 Budget should set out a commitment to a robust and transparent framework that incorporates long-term planning horizons, and a rigorous assessment of the costs and benefits of infrastructure funding decisions. It should also promote policies that support greater private sector involvement in infrastructure investment. These commitments will build on improvements already made to meeting Australia’s infrastructure needs.

Structural Reform:
The BCA’s Broader Agenda

The BCA endorses the importance of pressing ahead with microeconomic reforms needed to enhance the supply side of the economy. As highlighted in this submission, the critical challenge for policymakers going forward is to bring forward reforms that will help expand Australia’s productive capacity over time.

In addition to the BCA’s close interest in the key reform areas of tax, infrastructure and health, discussed above, we continue to emphasise the need for ongoing structural reforms to our system of workplace relations and enhancements to our education and training base. In the area of federal–state relations, the success of COAG’s broader reform program – including delivery of a seamless national economy – will be critical to Australia’s growth prospects.
In marked contrast to the economic conditions that framed last year’s Budget, the Australian economy in 2010–11 is poised to return to a growth path that has substantial potential to deliver new jobs and rising incomes. It will be critical, however, to get the policy settings right so that the private sector is able to resume its position and take over from government as the primary driver of economic growth.

The emphasis of the 2010–11 Budget should therefore be for fiscal policy to be shifted away from demand management to stimulus withdrawal, involving a renewed focus on controlling growth in spending of major programs. Within this confine, it will be important to nevertheless promote policy measures targeted to expand the economy’s productive capacity.

The recovery in economic activity in the coming years is expected to be very much driven by a strong investment environment, with much of this investment occurring in response to emerging opportunities in the resources sector. Australia’s economy will need flexibility to accommodate the expected investment boom and to make sure we turn it to our advantage.

The flow of foreign funds into productive investment opportunities in Australia will produce cash flows and streams of tax revenues and other spillovers for the local economy. Australia will, however, be absorbing this investment during a period of rising capacity constraints and potentially at a time of full employment.

In these circumstances, the coming decade will be a very difficult one for public policy. There will be substantial pressure on both monetary and fiscal policy. Along with the near-term withdrawal of fiscal stimulus, an additional feature of the strategy must be to ensure that the Budget remains on a sustainable footing on a long-term basis. As we have known for a while, considerable challenges will come with an ageing population that could reach 35 million within the next 40 years.

Macroeconomic policy settings will have to be complemented by ongoing microeconomic reforms that promote open and competitive markets and that facilitate improvements in the human capital of our citizens and the quality of our workforce.
One of the most fundamental developments with Australia’s economy over the past 12 months has been the positive response to various policy stimulus measures and the speed with which the decline in confidence abated and then sprang back through the 2009 calendar year. As a consequence the economy has continued a moderate expansion.

The recovery in confidence in Australia has been highlighted both in the Mid-Year Economic and Fiscal Outlook (MYEFO) publication and by the Reserve Bank of Australia. The NAB survey measure of business confidence is around its highest level since 2003 while measures in other business surveys have also risen over recent quarters to be well above long-run averages.

The rise in confidence has also been seen across all industries and states.
FIGURE 1: GLOBAL ECONOMIC CONDITIONS

OECD INDUSTRIAL PRODUCTION
Percentage change on year earlier

MAJOR TRADING PARTNER GDP
Percentage change on year earlier

IMF GLOBAL TRADE IN GOODS AND SERVICES
Percentage change on year earlier

Source: IMF World Economic Database, OECD Main Economic Indicators.
While the RBA noted that interpreting the recent uptick in confidence is complicated by a lack of precedent – and that the recovery may partly reflect a sense of relief that threatened poor economic outcomes did not materialise – it is nonetheless clear that there were several interrelated factors that acted to shore up confidence. These factors included:

— The generally strong position of government finances and a healthy and well-regulated financial sector.
— The decisive actions of the Reserve Bank to lower interest rates by 425 basis points over an 8-month period.
— The provision of government guarantees to support the Australian financial system.
— The government’s fiscal policy stimulus delivered through four separate packages.2
— The strong bounce-back of China’s economy and a comparatively strong performance of Australia’s major trading partners elsewhere in Asia.

Over each of the first three quarters of 2009, Australia’s economy posted positive growth results, and indications are that the expansion will continue into 2010. Whereas last year’s Budget forecast that the economy would contract by around ½ per cent in 2009–10, economic growth in the order of 1½ to 2 per cent is in prospect for this year.

This will coincide with a modest expected recovery in the global economy. The IMF now forecasts growth of 1¼ per cent in advanced economies in 2010 and 5 per cent in emerging economies, driven largely by China and India.3

Importantly, not only has economic growth in Australia surprised on the upside, but the expected rise in Australia’s unemployment rate has been contained. Australia’s labour market has not displayed the weakness originally forecast. In the 2009–10 Budget, Australia’s unemployment rate was projected to rise to 8½ per cent in 2010–11. The Mid-Year Economic

![Figure 2: Business Confidence](image_url)

The extent to which Australia’s economy has succeeded in riding out the worst of the global financial crisis is clearly apparent through a comparison of our unemployment rate with that of the United States. Throughout the period from early 2003 to 2007 the unemployment rate of the two countries tracked lower, in lock step, both from around 6 per cent to around 4½ per cent. Following the onset of the global financial crisis, the unemployment rate in the United States rose rapidly by more than 5 percentage points to above 10 per cent, whereas (for the reasons outlined above) the rise in the unemployment rate in Australia to date has been limited to around 1¾ percentage points.

Along with the surprising snapback in confidence, one of the most distinguishing features of the recent economic slowdown has been the measured approach that businesses took to decisions on labour shedding. Figure 3 highlights several aspects of Australia’s recent labour market performance. Most notably, while employment growth came to an abrupt halt, this did not translate into a substantial increase in Australia’s rate of unemployment. Instead, in the face of economic uncertainty and a potential slowing in activity, many businesses reached agreement with their employees to reduce their working hours as an alternative to labour shedding. As a consequence, it was aggregate hours worked that bore the brunt of the uncertain outlook rather than a rise in joblessness. Indeed, it has been noted that while there has been little growth in employment over the past year, the rise in unemployment has been contained by greater flexibility in the labour market.4
FIGURE 3: LABOUR MARKET DEVELOPMENTS

AGGREGATE HOURS WORKED

Percentage change on year earlier

EMPLOYMENT GROWTH

Percentage change on year earlier

UNEMPLOYMENT RATE: AUSTRALIA VS UNITED STATES

As of 2022, the unemployment rate in Australia and the United States is shown over the years.

ECONOMIC CONDITIONS AND OUTLOOK

THE OUTLOOK

There are grounds for cautious optimism about Australia’s near-term economic outlook, and prospects in the medium term are good. This will, however, be very much reliant of the ability and willingness of the private sector to take on its rightful role in propelling the economy. Ultimately the economy must generate its own momentum driven by investment and productivity improvements.

A number of factors have combined to support the household sector recently, including generally better-than-expected economic conditions, a stronger labour market, growing consumer confidence, a rise in equity markets through 2009, and strengthening housing prices. Household consumption expenditure made a solid contribution to growth in the September Quarter National Accounts, although with direct fiscal stimulus payments withdrawn and with interest rates rising there may be some tempering of consumer spending immediately ahead. Growth in household consumption expenditure in 2009–10 is expected to be below its historical average of 3 per cent although it could move nearer to that in 2010–11.

While business investment has been weak – falling through 2009 and detracting from growth in the most recent quarter – the signs are encouraging that a turnaround is in prospect. Moreover, notwithstanding the recent pull-back, business investment as a share of GDP continues to be at historic highs.

The importance of business investment both as a key driver of the business cycle and as a critical determinant in expanding the supply capacity of the economy is well understood. This was recently highlighted by the RBA, with the bank also identifying from its liaison visits the very good prospects of further significant increases in investment in the resources sector. In particular, new investment in liquefied natural gas plants and projects could plausibly increase investment in the sector from around ½ per cent of GDP currently to around 2½ per cent within the next four to five years, with LNG exports increasing to a similar share as coal and iron ore.

The RBA has also noted that periods with high levels of capacity utilisation tend to be associated with strong investment, albeit that investment booms can present challenges for macroeconomic management when the economy is operating at high levels of capacity.
For resources companies to implement their investment plans and for the resource sector to expand, the RBA rightfully notes that capital and labour will have to shift from other areas of the economy. A challenge for policymakers going forward will be dealing with a potential two-speed economy in Australia.

One of the key features influencing the near-term economic outlook will be the extent to which capacity constraints are encountered. Along with a rebound in business and consumer confidence, recent survey results indicate that measures of capacity utilisation are rising strongly. The NAB Business Survey results from October 2009 suggest that capacity utilisation rebounded strongly to now be above its historical average.

The fact that Australia is emerging from the recent downturn without the spare capacity that would typically arise from previous recessions is significant. Indeed at the time of last year’s Budget, Treasury estimated that given past experience coming out of the 1980s and 1990s recessions (whereby the unemployment rate rose by an average of 5 percentage points), the unemployment rate was expected to rise significantly to 8½ per cent and then fall by around a percentage point for two years from 2009–10. The unemployment rate was then expected to fall in each of the ensuing 4 years by one-half of a percentage point each year. The output gap was therefore projected to close by 2016–17. In other words, because of significant spare capacity in the economy, Treasury expected a six-year period in which Australia could enjoy above-trend growth.

The MYEFO acknowledged that with the downturn now forecast to be shallower, the rate of growth needed to bring the economy back to full capacity will be lower than previously projected, and the economy will return to its potential growth path in 2014–15.

However, with the unemployment rate potentially peaking at 5¾ per cent, the scope for declines in the jobless rate before reaching Treasury’s assumed non-accelerating inflation rate of unemployment of 5 per cent is much reduced. This has obvious implications for the capacity of the economy to record above-trend rates of growth for a sustained period.

**FIGURE 5: CAPACITY UTILISATION**

![Graph showing capacity utilisation from 1999 to 2010 with a 10-year average.](Source: National Australia Bank Monthly Business Survey)
By way of example, Access Economics has forecast that Australia’s economy will be growing at around 3¼ per cent to 3½ per cent from 2010–11 onwards. Indeed the likelihood that the economy will revert to trend so soon only serves to emphasise the importance of addressing key supply-side economic factors such as workforce participation, labour productivity and the provision of essential infrastructure.

**REVISITING THE CURRENT ACCOUNT DEFICIT**

With the slowdown in economic activity experienced through 2008–09, Australia’s current account deficit (CAD) narrowed significantly from 6¼ per cent of GDP to 3 per cent. As the economy strengthens and business investment picks up, the CAD is expected to widen, quickly returning to average levels recorded over the past decade. The MYEFO forecasts Australia’s CAD to be 5½ per cent in 2009–10 and 5¼ per cent in 2010–11. Access Economics has projected the CAD to reach 6¾ per cent in the latter year, which would be close to record highs.

Issues around the current account deficit and foreign borrowings and whether they constrain small, open economies like Australia have been debated for the best part of 30 years. Indeed, the BCA looked at the matter comprehensively in 1994 – essentially finding that the current account deficit is not, per se, a cause for concern if it helps us to fund a higher level of productive investment. However, that research found a large CAD can be a bad symptom if there are factors distorting the underlying saving and investment behaviour of the economy. The prediction at that time that a CAD of 4 per cent to 5 per cent of GDP would have quite manageable economic outcomes over the ensuing decade turned out to be essentially correct.

![Figure 6: Australia’s Current Account Deficit](source: ABS Cat. No. 5302.0 and 5204.0)
With economic activity in coming years expected to be underpinned by a strong investment environment — largely arising from opportunities in the resources sector — it is inevitable that there will be significant implications for Australia’s current account position. Recognising that there are typically uncertainties about the extent to which investment intentions are followed through, there are nevertheless grounds to support an expectation of higher realisation rates for projects coming on stream. For example, the RBA has noted important considerations around liquefied natural gas projects generally locking in multi-decade supply contracts with buyers ahead of project construction commencing.

Should a new resources investment boom occur, not only would mining and gas output soar, but Australia could conceivably face a current account deficit of 8 per cent or more. While an external deficit of this magnitude would clearly represent unchartered waters, it need not be cause for concern as long as the investment underpinning the CAD is productive and soundly based.

With the current account deficit essentially reflecting Australia’s net lending position, it is possible — and instructive — to use ABS Annual National Accounts Data to break the current account deficit into three component parts — being the net lending position of the household, business and general government sectors. (An overview of the link between the current account and national saving investment imbalance is outlined in Appendix A.)

Figure 7 provides an illustration of this break-up. In the 35-year period from 1960 to 1995 Australia ran an average current account deficit of around 2½ per cent of GDP. This typically comprised both the business and general government sectors being net borrowers (averaging 3 per cent of GDP and 2½ per cent of GDP respectively) while the household sector was typically a net lender averaging 3 per cent of GDP.

Over the past 15 years or so, the composition of Australia’s CAD has changed significantly. While the CAD over this period has averaged a higher 4½ per cent of GDP, the composition has changed. The business sector has continued to be a net borrower (equating to 2 per cent of GDP), while the general government sector has become a net lender amounting to ½ of one per cent of GDP (reflecting the sustained period of fiscal consolidation and general run of budget surpluses for both the Commonwealth and the states). Over the past 15 years or so the household sector has also shifted from being a net lender to being a net borrower (to the extent, on average, of 3 per cent of GDP).

The release of the FitzGerald report in June 1993 played a critical role in highlighting the need to address the major structural decline in public sector saving evident from the mid-1970s. From that time on there has been a clear trend towards smaller borrowing from the government sector.
In terms of maintaining the sustainability of the current account position, going forward it will be critical that its composition remains appropriate – that is, that the general government sector returns to a position of being a net lender with the business sector accounting for the bulk of net borrowings to exploit sound and productive investment opportunities.

If we are to attract investment that is well founded, it will be necessary to ensure that the overall environment is sound. As outlined below, a feature of the BCA’s submission to the Henry review was to highlight the need for reform to correct biases in the tax system that work against savings and investment decisions. The tax system presently impacts on savings and investment decisions as well as the efficiency of investment. By removing distortions across asset types, tax reform can improve the efficiency of investment within Australia, whether in housing, physical business assets, or infrastructure.

**FIGURE 7: SOURCES OF THE CURRENT ACCOUNT DEFICIT**

Per cent of GDP

Source: ABS Cat. No. 5204.0. Note: the ABS has advised that the Capital Account Net Lending estimates for the 2008–09 financial year include a statistical discrepancy.
FISCAL PRIORITIES FOR 2010–11 AND THE NEAR TERM

FISCAL STRATEGY

Only 18 months ago Australia’s economic policymakers were chiefly concerned with capacity constraints and productivity, and growing the supply side of the economy. Then as the world entered a sharp and sudden downturn during 2008, the fiscal priority for the 2009–10 Budget suddenly switched, appropriately, to an urgent need to support demand throughout the wider Australian economy.

A series of stimulus measures along with a significant drop in government tax revenues saw the fiscal position shift from a surplus of $19.7 billion in 2007–08 to a deficit of $27.1 billion in 2008–09. The deficit is estimated to widen further to $57.7 billion in 2009–10, or 4.7 per cent of GDP. Coupled with a large drop in official interest rates and other policies such as the bank deposit guarantee, government interventions played a significant role in preserving output and employment.

As outlined in the previous section, while there remain grounds for caution, it now appears that the worst effects of the downturn for Australia are over and we are seeing the start of a recovery. The need for public support for demand is waning as private sector confidence and spending return. Fiscal policy must now work in concert with the expected economic recovery by shifting the emphasis of policy away from demand management to a renewed focus on expanding the economy’s productive capacity.

Looking further ahead, Australia needs to take steps on the policy front to ensure that we continue to live within our means and ensure that living standards are maintained and improved to the greatest extent possible.

In this context the BCA considers that the fiscal strategy for the 2010–11 Budget should be to:

— Carry through on the government’s commitment to return the Budget to surplus, largely through expenditure restraint, thereby creating room for the private sector to expand.
— Help minimise the contribution of government to the current account deficit and net borrowings.
— Return the policy objectives of fiscal settings to supporting the supply side of the economy – to actively promote measures that support growth in workforce participation and productivity.

THE IMPORTANCE OF RETURNING THE BUDGET TO SURPLUS

A critical learning from the recent downturn is that surplus budgeting and a strong balance sheet should be a long-term strategic priority for Australian governments. It was the strength of Australia’s public finances that allowed a significant policy response to the recent downturn. A strong fiscal position also supports growth over the longer term by avoiding crowding out private activity and limiting the government’s contribution to the current account deficit and borrowing costs (see Exhibit 1).
In a mid-sized, open economy like Australia with a large current account deficit, a poor fiscal position can affect business competitiveness by raising the costs of doing business, particularly through higher taxes or, as a consequence of higher interest rates, an increase in the cost of capital. Deficits also limit the capacity of future budgets to support productivity enhancing investments by requiring tax revenues to be directed towards the payment of interest on the debt generated to fund the deficit as well as the repayment of the debt itself.

At the height of the global financial crisis the IMF identified an ‘important lesson’ – in many countries budget deficits had not been reduced sufficiently during the boom years.


Sustained fiscal discipline is an important element of a macroeconomic policy to support growth. By maintaining a surplus on average over the economic cycle and keeping net debt levels low, governments avoid crowding out private investment and consumption and take pressure off long-term interest rates. And, as we have seen, a strong fiscal position offers insurance against future downturns by giving governments the freedom to act quickly and substantially as necessary. IMF research has concluded that stimulus policies are more effective in countries which enter a downturn with low initial debt levels.

Short-term fiscal stimulus is more effective policy action when it is coupled with a commitment to long-term fiscal discipline. Without this commitment, expansionary fiscal settings can raise long-term real interest rates and thus offset the effects of the stimulus on GDP over time. Public expectations for long-term financial responsibility are heightened by the expected pressures on expenditures from health spending and other costs associated with the ageing of the population. This makes it all the more important that governments manage public expectations by delivering on their commitments to fiscal responsibility.


EXHIBIT 1
WHY SURPLUS BUDGETING?

Sustained fiscal discipline is an important element of a macroeconomic policy to support growth. By maintaining a surplus on average over the economic cycle and keeping net debt levels low, governments avoid crowding out private investment and consumption and take pressure off long-term interest rates. And, as we have seen, a strong fiscal position offers insurance against future downturns by giving governments the freedom to act quickly and substantially as necessary. IMF research has concluded that stimulus policies are more effective in countries which enter a downturn with low initial debt levels.

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At the height of the global financial crisis the IMF identified an ‘important lesson’ – in many countries budget deficits had not been reduced sufficiently during the boom years.

Australia is fortunate that there has, to date, been a bipartisan commitment to surplus budgeting over the course of the cycle. The current economic and fiscal environment will provide a serious test. Indeed, the government’s actions over the coming years to return the Budget to surplus will determine whether fiscal responsibility becomes a permanent feature of the policy fabric.

Fiscal responsibility has gained strong public acceptance in Australia and the public understands the importance of fiscal discipline. This gives the government the implicit support it needs to make decisions to bring expenditure under control. Australia cannot afford any backsliding on responsible spending and budget management.

The fact that Australia went into the period corresponding with the global economic downturn with a strong fiscal position allowed the government to respond to the downturn quickly and substantially in late 2008 and early 2009 with a series of fiscal stimulus policies.

We should not, however, take Australia’s record of surplus budgeting for granted. As Figure 8 shows, a comparison to the UK and US reveals that Australia could easily have gone down a different path altogether. While economic growth was broadly comparable in all three countries during the early to mid-2000s, only the Australian budget position was consistently in surplus. The UK and US, by comparison, ran deep deficits over that period that raised the level of net public debt. When the downturn hit, Australia was in a far stronger position to respond.

**FIGURE 8: ECONOMIC GROWTH AND FISCAL POSITION – AUSTRALIA, UNITED STATES AND THE UNITED KINGDOM**

DEFICIT EXIT STRATEGY

After a temporary yet necessary period of deficit budgeting, the fiscal position must begin to return to a sustainable setting. That is, to a position where revenues exceed recurrent expenditures over the medium term and government debt is stabilised and paid down.

The IMF has stated that a return to pre-crisis debt levels is a ‘reasonable goal’ for a fiscal recovery strategy. In Australia’s case that will require the repayment of over $100 billion in public debt over time, representing a significant challenge.

In the immediate term, it is clear that the return of the Budget to a sustainable position will require discipline and difficult decision making on behalf of the government. The BCA has high expectations that the 2010–11 Budget will mark the beginning of a return to a strong surplus based on the government’s public commitments to fiscal responsibility to date.

EXHIBIT 2
THE ECONOMIST MAGAZINE ON UNSUSTAINABLE GOVERNMENT STIMULUS

‘Investors (along with this newspaper) would like to see governments unveil clear plans for reducing ... deficits over the medium term, with the emphasis on spending cuts rather than tax increases. But politicians are nervous about the likely reaction of electorates, not to mention the short-term economic impact of fiscal tightening, and are proving reluctant to specify where the cuts will be made.’


IT IS CLEAR THAT THE RETURN OF THE BUDGET TO A SUSTAINABLE POSITION WILL REQUIRE DISCIPLINE AND DIFFICULT DECISION MAKING ON BEHALF OF THE GOVERNMENT
The government has therefore made a commitment to return the Budget to a structural surplus through savings measures and reduced spending as the economy recovers and is forecasting a return to surplus in 2015–16. Critically, the government has committed itself to budgeting for real spending growth of less than 2 per cent in the years in which the economy is projected to grow at above-trend rates. The government has set itself to do this from 2011–12.

This is good policy. We agree with the strategy outlined by the government that in Australia’s case a return to surplus should be achieved by curbing expenditure growth, not raising revenues. Expenditure levels continued to grow during the boom years (including through higher transfer payments) and more recently during the slowdown (through specific stimulus measures). Hard work is now required to get spending back to a long-term sustainable growth path.
The full extent of the challenge attaching to the 2 per cent real growth target is magnified when considering established trends and commitments made in relation to some areas of existing government spending.

Over the past few years, real growth in health outlays at the Commonwealth level has been just over 5 per cent per annum. With the health budget representing around 16 per cent of total outlays, should growth in health spending continue at this rate it would be necessary to contain spending growth elsewhere to less than 2 per cent. The challenge will be even harder after taking into account the government’s commitment in its Defence White Paper to maintaining average real growth in underlying defence funding of 3 per cent per year until 2017–18.

For illustrative purposes, should health and defence spending continue to grow by 5 per cent and 3 per cent respectively, all remaining non-health and defence spending programs would have to be constrained to grow by just 1.3 per cent in real terms if aggregate spending growth overall was to be contained to 2 per cent.

**TABLE 1: MEETING THE 2 PER CENT REAL GROWTH TARGET: ILLUSTRATIVE EXAMPLE**

<table>
<thead>
<tr>
<th></th>
<th>2011–12 $ billion</th>
<th>2012–13 $ billion</th>
<th>% change Nominal</th>
<th>% change Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>56.6</td>
<td>60.9</td>
<td>7.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Defence</td>
<td>19.8</td>
<td>20.9</td>
<td>5.5</td>
<td>3.0</td>
</tr>
<tr>
<td>All Other Spending</td>
<td>282.0</td>
<td>292.8</td>
<td>3.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Total Spending</td>
<td>358.5</td>
<td>374.6</td>
<td>4.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: BCA calculations. Assumes inflation of 2.5 per cent.
Indeed, succeeding with the 2 per cent growth challenge will not be possible unless controls are imposed on the big drivers of spending. Last year’s budget papers contained a table that outlined the top 20 Commonwealth Government programs by expenses in 2009–10. Given their magnitude, accounting for more than 60 per cent of outlays, it is in these areas that the government’s focus must be. The 10 largest of these programs are reproduced in Table 2 below.

Of the top 10 programs, 3 relate to payments to the states and territories with the remainder providing government services to seniors, families, the sick and unemployed. As highlighted in the table, 4 of the top 10 programs have specific means-test arrangements attaching to program eligibility.

Means testing is fundamental to reduce the cost of the major social benefits programs and is essential to assisting with fairness and integrity of the overall tax and transfer systems.

**TABLE 2: TOP TEN COMMONWEALTH PROGRAMS BY EXPENSE 2009–10**

<table>
<thead>
<tr>
<th>Program</th>
<th>$ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Assistance to States</td>
<td>41.8</td>
</tr>
<tr>
<td>Seniors’ Income Support</td>
<td>29.3</td>
</tr>
<tr>
<td>Family Tax Benefit</td>
<td>17.4</td>
</tr>
<tr>
<td>Medicare Services</td>
<td>15.0</td>
</tr>
<tr>
<td>Disability Support Pension</td>
<td>11.6</td>
</tr>
<tr>
<td>National Healthcare SPP</td>
<td>11.2</td>
</tr>
<tr>
<td>Unemployment Benefits</td>
<td>8.9</td>
</tr>
<tr>
<td>Government Schools Payment to States</td>
<td>8.6</td>
</tr>
<tr>
<td>Pharmaceutical Benefits</td>
<td>8.4</td>
</tr>
<tr>
<td>Higher Education Support</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: Budget Paper No. 1 2009–10, Statement 6, Table 3.3.
Success at containing the growth in spending needed to underpin fiscal responsibility will be very much dependent on the government being prepared to make difficult structural savings decisions including around tightening eligibility requirements and modifying the means testing arrangements.

While the BCA is calling for further attention to be paid to reforming these large programs, it is the case that they have received considerable attention. Over the past 5 years or so, each of the top 10 programs have been reformed in some way.

A major overhaul of arrangements around payments to the states and territories was achieved in 2008, while changes to the delivery of Medicare services and unemployment benefits were pursued by the previous government. Important decisions were also taken by the current government in last year’s Budget, including tightening withdrawal rates around pensions, freezing indexation of family payments income thresholds and changing indexation of family payments for a 3-year period (to the CPI as opposed to wages) were clear steps in the right direction.

Notwithstanding the fact that these reforms have been pursued, there is further to go. It unavoidable that more difficult policy decisions along these lines will be required. The recommendations of the Henry review in the area of reforms to the transfer system will be of critical importance – both in helping to assist with the fiscal sustainability challenge but also in influencing workforce participation decisions.

**REASSESSING UNSPENT STIMULUS FUNDS**

The budget estimates for the next few years already build in a significant contraction in real expenditure growth reflecting the declining profile of the stimulus spending under the Nation Building and Jobs Plan. This gives the government a useful head start towards achieving its expenditure growth target.

The MYEFO document notes that ‘stimulus will be progressively withdrawn as a more sustained recovery in private sector activity takes hold.’

The temporary design of the stimulus measures will do this as a matter of course as these items wind down over the next few years. Nevertheless, the pick-up in the economy offers an opportunity to reassess funds not yet approved under the stimulus program.

The government has already made some amendments to the package after taking into account the changing needs of the economy, labour market conditions, the level of demand for programs and value-for-money considerations. For instance, funding was shifted from social housing commitment to the schools program and the low emission assistance plan for renters was cut in August 2009.

While most of the stimulus monies have been approved, it is understood that there is still funding to be approved under some programs, for example under the Homeowner Insulation Program and the Building the Education Revolution initiatives. Given the strength in the economy and especially the labour market it would now be prudent to cease any further approvals for spending under the Nation Building and Jobs programs and resubmit them for approval via the Expenditure Review Committee process. This will allow them to be assessed against competing spending priorities within the government’s fiscal rules in order to determine whether they should continue.
BUILDING PRODUCTIVE CAPACITY

Bringing the Budget back into surplus via expenditure constraint will need to be accompanied by a recasting of revenue and expenditure settings to support growth. With private sector demand growing in strength, revenue and expenditure settings should support growing Australia’s productive capacity through their impact on population, participation and productivity.

Spending priorities should be reoriented towards building productive capacity via investments in skills and education, and critical economic infrastructure to support productivity growth.

The quality of the investments we make in our education and skills training systems are critical for lifting the productive capacity of the workforce and encouraging workforce participation. Higher education and vocational education and training systems need to be responsive to the changing demands of students and businesses as they in turn respond to changing price and wage signals. Institutional and teacher quality are important drivers of education outcomes.

Investments in infrastructure in particular should be accompanied by a cost–benefit analysis to ensure that scarce economic resources are being diverted to their most productive use (see Exhibit 4). This theme is discussed in more detail in the ‘Spotlight on Health and Infrastructure’ section of this submission.

EXHIBIT 4
SHOULD CAPITAL INVESTMENTS BE EXCLUDED FROM THE FISCAL SURPLUS RULE?

There is a legitimate debate as to whether, when setting fiscal rules over the cycle, capital investments made by governments should be included or excluded. A recent IMF paper found that 25 per cent of countries that adopt a form of ‘fiscal rules’ exclude capital expenditure from those rules. The argument in support is that capital investments increase productive capacity and support future growth.

However, as the IMF paper observes, excluding capital expenditure also raises ‘serious concerns’ as it weakens the link between the fiscal rule and gross debt, not all capital expenditure is productive and other items such as expenditure on health and education may raise productivity by more. Governments may also seek to circumvent the rule by transferring current expenditure to the capital account.

While there may be a case for governments to debt finance some capital investments, the BCA expects that this should only occur where there is a rigorous and publicly available cost–benefit analysis in support of the investment.

Successfully resetting the expenditure side of the Budget will require robust and transparent expenditure review processes. The BCA has consistently called for governments to raise the quality of spending by making more rigorous assessment of expenditure items against their economic and social objectives.

The BCA continues to call on the government to commit to a comprehensive and regular (5-yearly) review of all spending similar to the 1996 National Commission of Audit. There should also be more transparency with regard to spending assessment within government to demonstrate that the best processes are in place to identify where better expenditure decisions could be made.

REVENUE ASPECTS

The 2010–11 Budget offers an opportunity to begin to realign the revenue side of the Budget to better support growth. Australia’s future growth will be stronger with tax settings that encourage private investment and higher savings and increased employment.

The BCA’s submission to the Henry tax review argued that Australia should pursue bold tax reform to support economic growth in an increasingly competitive world environment. Our tax system must be restructured to minimise distortions that deter Australian savings and investment, support the attraction and retention of foreign capital investment and increase productivity and workforce participation.

A further discussion of issues relevant to the Henry review is contained in the next section. The essence of the BCA’s position is that tax reforms arising from the Henry review should:

- Reduce the reliance on corporate income tax, and capital income taxes more broadly.
- Increase the reliance on the least distortionary taxes – consumption and property taxes.
- Not increase taxes on labour income.

Previous work done by Access Economics for the BCA\(^4\) shows how sensitive various revenue heads are to a typical slowdown in the economy. This work shows that company tax receipts are the most sensitive, followed by personal income tax receipts. In comparison, indirect taxes are significantly less sensitive (reflecting the fact that over the past 25 years growth rates in real consumer spending have typically exhibited less volatility as measured by rates of standard deviation).

Bearing this in mind, a case can be made that the budget deficit would now not be as large if the revenue side of the Budget was not so reliant on taxes that are more sensitive to the economic cycle and the terms of trade. Moreover, this consideration should be kept in mind in terms of securing a less volatile revenue base for the future.

Variations in the business cycle and commodity price fluctuations are an unavoidable feature of our economic system. Given the impossibility of eradicating this volatility, there is merit in having a tax system that, to the extent possible, minimises the exposure of revenues to potential instability. Ensuring the tax mix is not disproportionately weighted to company tax and resource rent taxes (both offshore and onshore) will be important considerations.

The government has an opportunity to set Australia on a new growth path by fundamentally reforming the tax system. The Henry review and the government’s initial response is expected to be released before the 2010–11 Budget, and an opportunity exists in the Budget to formalise selected reforms. In anticipation of its findings, the BCA encourages the government to commence now on growth-oriented tax reform.
Reports on a regular basis has been a very useful development from a public policy perspective. Not only have these reports focused on fiscal pressures, but they have highlighted the potential for an ageing of the population to lead to slower economic growth.

The ‘3Ps’ framework involving population, participation and productivity has provided a useful and widely accepted construct in which to consider long-term drivers of growth. Under this framework, growth in real GDP in the longer term (i.e., potential trend growth) can be decomposed into the net impact of productivity growth, employment growth and changes in the number of hours worked.

Table 3 outlines the growth in economic aggregates and growth projections contained in the first two Intergenerational Reports.

### TABLE 3: GROWTH PROJECTIONS FROM PAST INTERGENERATIONAL REPORTS

<table>
<thead>
<tr>
<th></th>
<th>IGR 1 (May 2002)</th>
<th></th>
<th>IGR 2 (April 2007)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prod.</td>
<td>Empl.</td>
<td>GDP</td>
<td>Prod.</td>
</tr>
<tr>
<td>2010s</td>
<td>1.75</td>
<td>0.6</td>
<td>2.3</td>
<td>1.75</td>
</tr>
<tr>
<td>2020s</td>
<td>1.75</td>
<td>0.2</td>
<td>2.0</td>
<td>1.75</td>
</tr>
<tr>
<td>2030s</td>
<td>1.75</td>
<td>0.1</td>
<td>1.9</td>
<td>1.75</td>
</tr>
<tr>
<td>2040s</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1.75</td>
</tr>
</tbody>
</table>

Employment reflects projected combined growth in the number of people of working age and the average number of hours worked. Productivity reflects average output produced per hour worked.
As the Treasurer has noted, over the next 40 years it is projected that the number of young people and the number of people of traditional working age will both increase by around 45 per cent, while the number of older people aged 65 to 85 years will more than double. The number of very old people aged 85 and over will increase by more than four and a half times.

These trends most obviously show up in an increasing age dependency ratio. Estimates of the age dependency ratio using the ABS population projections are outlined in Table 4. These projections on the rise in the age dependency are slightly lower than those outlined in IGR 2, but nonetheless confirm the trend is moving in a direction that will bring substantial challenges to policymakers.

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**TABLE 4: POPULATION PROJECTIONS AND DECLINING AGE DEPENDENCY RATIO**

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected Population (millions)</th>
<th>2009</th>
<th>2019</th>
<th>2029</th>
<th>2039</th>
<th>2049</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0–14</td>
<td></td>
<td>19.1</td>
<td>18.4</td>
<td>17.7</td>
<td>17.0</td>
<td>16.7</td>
</tr>
<tr>
<td>15–64</td>
<td></td>
<td>67.4</td>
<td>65.0</td>
<td>62.8</td>
<td>61.8</td>
<td>61.3</td>
</tr>
<tr>
<td>65–84</td>
<td></td>
<td>11.7</td>
<td>14.5</td>
<td>16.9</td>
<td>17.4</td>
<td>17.4</td>
</tr>
<tr>
<td>85+</td>
<td></td>
<td>1.8</td>
<td>2.1</td>
<td>2.6</td>
<td>3.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Age Dependency Ratio (%)*

- 20.0
- 25.5
- 31.1
- 34.3
- 35.9

No of working age per older Australian**

- 5
- 4
- 3¼
- 3
- 2¾

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* Australian aged over 65 as a proportion of Australian aged 15–64
** Number of Australians aged 15 to 64 for every person aged 65 or over

Source: ABS Cat. No. 3222.0.
A further illustration of the demographic challenge can be seen from the illustrative age structure pyramids estimated by the Bureau of Statistics for Australia’s population in 2009 and 2049, as outlined in Figure 9.

Using this data – and as a purely illustrative exercise – it is possible to determine by how much the traditional retirement age (of 65 years) would need to be increased by 2049 in order to ensure that the age dependency ratio at that time is equal to its current proportion of 5 people of working age for every 1 retired person.

This calculation suggests that if the retirement age was increased to 73 years that would have the effect of restoring the age dependency ratio in 2049 to its 2009 level.

While the BCA is not advocating that policy, it does serve to highlight the extent of the challenges that lie ahead.
FISCAL CHALLENGES ASSOCIATED WITH THE AGEING POPULATION

The 2007 Intergenerational Report highlighted how an increase in real government spending per person over the period to 2047 was expected to result in an increase in government spending as a share of GDP of around 4½ percentage points. Taking account of a starting position of a surplus of 1 per cent of GDP, a ‘fiscal gap’ of 3½ per cent of GDP was projected by 2047.

The last IGR noted the importance of focusing on the efficiency and effectiveness of government spending, including the potential use of market-based mechanisms in managing spending pressures.

The BCA has previously noted that many of the longer-term challenges associated with ageing of the population were well articulated in the IGR, and that these messages needed to be reiterated and brought to bear in budget decisions.

Previous Intergenerational Reports have highlighted particular spending pressures in the areas of health, the age pension and aged care.

In the area of health, non-demographic factors – including factors to do with technology – have been a key driver. The listing of new medicines on the Pharmaceutical Benefits System (PBS) and greater use of diagnostic procedures were identified as likely to generate the greatest cost pressures in future.17 While policy issues to do with health are discussed in greater detail in the next section, there have been recent successes in stemming the growth in the PBS, which was previously identified as the area of health spending likely to grow the fastest (and faster than Australian government spending on hospitals and medical benefits).

Previous reforms to increase patient co-payments and safety net thresholds, as well as reforms to reduce the cost of generic medicines and the changes from August 2008 involving further price cuts and changes in the dispensed price formula, have had some success in containing this area of spending. The OECD18 has found that Australia has one of the lowest average retail pharmaceutical prices.

Figure 9 highlights the substantial projected increase in the number of Australians who will move into the over-65 age group. In 2007 the IGR2 noted that the number of people of eligible age pension age will double by 2047. Again this fact is borne out in the most recent ABS population projections, which (under the Series B projections) suggest that the number of Australians aged 65 or more will increase from the current 2.9 million people to an estimated 7.4 million people by 2049.

The fact that the aged pension is means tested (with both income and assets tests) will partly offset the growth in numbers as there is likely to be a decline in the average rate of pension paid. While the proportion of pensioners receiving a full pension will decline, the proportion with a part pension will increase significantly.

As outlined above, the 2009–10 Budget contained welcome measures designed to improve the sustainability of the pensions system. The proposal to progressively increase the qualifying age for the age pension to 67 years is a most definite step in the right direction – albeit that the transition to this higher age will not be reached until the year 2023.

The more immediate reform – which took effect from September 2009 – to increase the rate at which the pension is withdrawn, from 40 cents of each additional dollar of private income to 50 cents in the dollar, is likewise supported. Even with this tightening, today the arrangements will allow eligible pensioners the capacity to earn in excess of $38,000 per year in private income and still be able to access a part pension.

This has significant implications going forward. Indeed looking out 40 years – to a time when Australia’s superannuation guarantee system has fully matured – almost three quarters of the population aged over 65 years of age will receive
The Henry review provides a timely opportunity to make better use of our tax-transfer system to deal with many of Australia’s longer-term challenges including on the policy front.

The BCA’s submission to the Henry review, *Unrealised Gains: The Competitive Possibilities of Tax Reform*, outlined the growing body of research in support of taxation settings that are most likely to support economic growth. This included research from the OECD that concluded that growth oriented tax reform should involve shifting the revenue base from income taxes to less distortive taxes such as recurrent taxes on immovable property or consumption.\(^20\) OECD surveys also point to the view that faster economic growth is associated with lower shares of capital taxation in the overall revenue mix. A tax system which recognises this reality can be expected to create fewer disincentives to saving, investment, entrepreneurship and work.

Our submission highlighted how over the past decade, an increasing number of countries have sought to change the structure of their tax systems consistent with this emerging consensus on the taxes that are more supportive of growth. The BCA’s assessment is that Australia has not kept pace with these developments. Notwithstanding several rounds of taxation reform, Australia’s tax system remains too reliant on those taxes which are more harmful to growth.

In future it will be imperative that options in this area continue to be explored with a view to harnessing potential to improve Australia’s overall workforce participation levels.

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**a pension or part pension funded by the government.** As outlined in the Harmer Pension Review Report,\(^{19}\) Treasury modelling suggests that by 2050:

- 28.3 per cent of the population aged over 65 will receive a full pension;
- 45.3 per cent of the population aged over 65 years will receive a part pension; and
- 26.4 per cent of the population aged over 65 years will not receive any pension income at that point (although some may at a later point in their retirement).

The Harmer review also contained a useful discussion of issues around growth in the number of Australians receiving the Disability Support Pension (DSP), finding that notwithstanding strong employment growth over the past 15 years, the number of people receiving this pension has increased. Moreover, the level of workforce participation of these pensioners while in receipt of these payments is low.

Many people on disability support pensions may have a capacity to do some work but few do so. The Harmer review highlighted how, despite many disability support pensioners having workforce potential, the current approach to the payment is largely conceived around the pension being a passive source of income.

In addition, the fact that the disability support pension is paid at a rate that is some 47 per cent higher than the unemployment benefit ($671.90 per fortnight versus $456 per fortnight) means that there is a strong disincentive for DSP recipients who may have some work capacity to test the labour market.

In future it will be imperative that options in this area continue to be explored with a view to harnessing potential to improve Australia’s overall workforce participation levels.
It is clear that if our tax system is to support growth in future we must give strong consideration to reducing the tax burden on the income base. Australia’s current taxation practices suggest we have considerable scope to make this transition. Not only does Australia collect most of its tax revenue from income, the collection of taxes on income has increased in recent years while there has been a corresponding fall in the amount of tax collected from consumption.

As highlighted in our Henry review submission, Australia’s reliance on broad-based consumption taxes is lower than the OECD average. Australia’s use of ‘general’ consumption taxes as a proportion of total revenue (13.2 per cent) is below the OECD average (18.9 per cent) and Australia has the equal 3rd lowest VAT rate in the OECD.21

Australia should therefore increase its reliance on broad-based indirect taxes over the medium to longer term, and the best means of doing that would be through further consideration of broad-based consumption taxes.

The BCA has expressed its strong disappointment that the GST, such a fundamental element of the existing tax architecture, was left off the list for consideration by the Henry review. Any government serious about dealing with the long-term challenges must give appropriate consideration to the conclusions of the OECD and others that consumption taxes have a critical and central role to play in growth-oriented tax reform.
In focusing on health reform, the BCA considers that there should be two fundamental aims. The first is to improve the health of all Australians to underpin future social and economic prosperity. This is essential as the health of the population and workers affects the size and productivity of the workforce. The health of the population is also a key driver of health costs.

The second aim is to improve the effectiveness and efficiency with which our healthcare system operates. With the healthcare system – both public and private – accounting for 10 per cent of GDP, the efficiency with which the sector utilises resources will have a significant impact on the Australian economy.

The architecture of Australia’s health system has not been designed to deal with the current pattern of disease, the need for greater coordination of care or to encourage efficiencies and innovation. It reflects past patterns of disease and expenditure.

For these reasons the BCA has advocated the development of a national health strategy. This strategy needs to address the current and projected pattern of disease, the need for greater coordination of care or to encourage efficiencies and innovation. It reflects past patterns of disease and expenditure.

The BCA has embraced the concept that health is everybody’s business. In dealing with the issues, the BCA considers that they need to be tackled through the lens of economic reform and productivity improvements. Health matters need to form a vital strand of the broader microeconomic reform agenda. The focus needs to be on improving the performance of the healthcare sector by urgently addressing market and systems failures.

Two of the more challenging areas of policy in the medium to longer term lie in the areas of health and infrastructure funding. Both are important not only because of their expected rising call on the Budget, but also because they will be fundamental to ensuring that Australia’s productive capacity is able to expand.

FIT FOR THE JOB: A NATIONAL HEALTH STRATEGY

As outlined above, the 2007 Intergenerational Report indicated that Australian government spending on health is one of the main areas likely to grow both in real per person terms and as a proportion of GDP over the next 40 years (from 4 per cent of GDP to an estimated 7.3 per cent of GDP).

In considering the challenge, we should not lose sight of the fact that it may be desirable for the healthcare share of GDP to increase if that is what our citizens want. The revealed preferences of consumers may see a voluntary shift in consumption patterns as people with rising incomes decide to take up improvements in the effectiveness and value of medical treatments that permit them to live better and longer.

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HEALTH MATTERS NEED TO FORM A VITAL STRAND OF THE BROADER MICROECONOMIC REFORM AGENDA
Health Funding

Funding in a mixed public and private system represents a key lever for shaping and directing the health system, and can provide powerful incentives for both providers and individual users. However, without changing these incentive and reward structures there is little likelihood of effecting systematic change.

Current funding and financing arrangements are complex and largely reflect historical patterns of expenditure, disease and models of care. According to estimates done by PricewaterhouseCoopers:

— only 1.7 per cent of health expenditure is directed toward prevention and health promotion;
— 82 per cent of health expenditure is directed to care and service provision (including hospital, dental, medical services, medicines and capital); and
— 4.5 per cent of health expenditure is directed to ongoing care and follow-up through community health services.23

While the Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits System (PBS) are key elements in ensuring the universal coverage of healthcare, their construction is highly complex and specific. They create powerful incentives because they fund particular types of treatment and the MBS rewards volume and episodic care.

The PBS process for admitting new pharmaceuticals has received strong support for its independence and focus on economic costs and community-rated benefits, however, the process of incorporation of new MBS items lacks transparency. Moreover, both processes tend to be cumulative, with few items being removed or replaced to encourage the latest in best practice or more cost-effective treatments.

EXHIBIT 5
OBJECTIVES OF A NATIONAL HEALTH STRATEGY

The objectives of a national health strategy are to:

— Improve the health of Australians and reduce the overall burden of disease.
— Improve the quality, efficiency and effectiveness of healthcare services.

This should be done by reducing and better managing the demand for health services in Australia by:

— Promoting a healthy population and preventing ill health and injury.
— Promoting value-conscious consumption of health services by patients or their agents using price and outcomes data.
— Managing demand through reforming queuing mechanisms.

It should also be achieved by reconfiguring the provision of services to better match health needs and improve efficiency by:

— Improving quality and safety for patients.
— Rebalancing the system to meet current and projected health needs, including in relation to facilities, transport, systems, workforce, culture and innovation.
— Improving current efficiency and reducing patient waiting times.
— Setting up the system for continual improvement.
Another issue with current arrangements is that funding tends to flow to providers (hospitals, institutions and private clinicians) rather than to patients. Patients do not experience the costs of the system even when they have private health insurance, and total costs are rarely transparent. There is therefore little immediate incentive to minimise costs, for example through greater prevention.

**New Funding Arrangements**

The BCA contends that new funding arrangements for the healthcare sector warrant detailed consideration. These changes would be intended to incorporate new patterns of care and more value-conscious patterns of health consumption.

The following financing principles, many of which were proposed by the National Health and Medical Research Commission, are intended to help accelerate the reconfiguration of service provision and individuals’ behaviour. They include:

- A combining of federal and state funding to reduce the plethora of programs.
- Separation of purchasing from provision decisions. (In other sectors in Australia and health sectors internationally this has encouraged both price competition and importantly, innovation.)
- Purchasing on the basis of the mix of services and treatments projected by a mix of geography and patient group – to reorient the system to new patterns of prevention, early detection and treatment.
- Patient-based funding for chronic care services.
- Case-mix funding for acute inpatient and ambulatory settings.
- Purchase price to be determined on the basis of best clinical practice within an efficient environment.
- Bonuses to be paid for outcomes achieved (including volume, low re-admission, and effectiveness of treatment) – to accelerate the improvement of quality and safety improvements.

- Purchasing from accredited providers only, to protect the quality of the system.
- Transparency in costs per treatment and co-payments by patients for ongoing treatment (subject to a safety net).
- Patient co-payments should be indexed on a ‘CPI plus’ basis to ensure that their indexation does not fall below the increasing costs of medical services over time.
- Coverage across all health-related services – to acknowledge the holistic nature of physical and mental health requirements.

In addition to an overhaul of health funding arrangements along the lines outlined above there are a number of other elements which are essential to a better national health system. The BCA will be saying more about these issues over the coming months, including the need for a concerted efficiency drive entailing specific efficiency targets. Other areas requiring attention include the need to foster a more competitive market for private health insurance, further policies designed to increase the supply of medical practitioners, and a closer examination of arrangements for health care for catastrophic injury cases.

**GROUNDWORK FOR GROWTH: THE INFRASTRUCTURE CHALLENGE**

A key priority for Commonwealth and state budgets will be to support the development of Australia’s infrastructure in future years. Infrastructure quality and capacity will play a critical role in supporting the level and sustainability of economic growth and future living standards for a substantially larger population.

We start from a position that there is a significant amount to do. With some estimates of Australia’s priority infrastructure needs ranging from $450 billion to more than $700 billion, it will be necessary to consider a greater utilisation of alternative infrastructure financing options as well as policies which support private infrastructure investment directly.
The costs of poor infrastructure decisions are not always immediately apparent but become evident over time. If infrastructure policies are inadequate and decisions are taken to invest in projects with low or negative economic and social returns, this effectively holds back the growth of the economy and will ultimately act to lower living standards.25

The government’s approach to infrastructure, including through Infrastructure Australia (and the Infrastructure Australia Act) sets out a sound basis for dealing with the challenges. As outlined in the 2008–09 Budget Papers: ‘Where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost–benefit analysis including ex-post evaluation and review.’26

Following on from these developments, an important and necessary debate on infrastructure provision is currently underway in Australia. The BCA’s 2009 Groundwork for Growth report identified policy recommendations for all governments to better utilise existing infrastructure assets and to lay the groundwork for sustainable growth by planning for the infrastructure to support it.

The report identified that there has been a significant catch-up in infrastructure spending in Australia. Investment in economic infrastructure – electricity, gas and water supply, transport and storage and communication – has increased as a per cent of GDP from 3.6 per cent in 2000–01 to 5.1 per cent of GDP in 2007–08. This represents an 8.3 per cent real growth rate over that period.26

These commitments occurred toward the end of a long period of relative fiscal strength. In addition, substantial funds were allocated toward infrastructure investment under the government’s stimulus packages, albeit only 14 per cent of the overall stimulus spending can be identified as economic infrastructure.

The Groundwork for Growth report identified the need for a common goal across Australia’s governments to support economic growth and the institutional and governance arrangements required to develop Australia’s economic infrastructure.

It advocates three key areas requiring renewed focus, including:

— Policy reform – efficient national infrastructure markets and improved pricing signals for efficient infrastructure use and investment.
— Better planning – long-term, integrated planning practices that are rigorous and transparent and designed to ensure that scarce resources are allocated to projects with the highest net benefit.
— Monitoring progress – regular reviews of Australia’s infrastructure needs and performance against agreed service quality measures.

The report also provides a number of recommendations on reforms that are specific to key sectors – including freight, transport, urban and rural water, electricity and communications – with a view to ensuring the provision of essential infrastructure to business and the community.

These recommendations are reproduced in Exhibit 6.

The report also calls for a greater role for the Productivity Commission and for it to be tasked with undertaking a regular audit of Australia’s infrastructure.
Future public spending on infrastructure is likely to be constrained by the position of the Commonwealth Budget and the proposed 2 per cent cap on real expenditure growth. Funds set aside for infrastructure investments from past budgets such as the Building Australia Fund have now largely been allocated.

The challenge for all governments operating within fiscal constraints is to maximise the growth in productive capacity by getting the best value for money from infrastructure policy. That means ensuring to the extent possible better spending decisions – decisions that are taken within a higher level planning framework – and ensuring that the broader economic and policy environment is conducive to private sector activity.

In the area of infrastructure, the 2010–11 Budget should set out:

— A commitment to a robust and transparent framework that incorporates long-term planning horizons, and a rigorous assessment of infrastructure funding decisions.

— Policies that support greater private sector involvement in infrastructure investment.

Despite the welcome public commitment to cost–benefit analysis, there is some way to go in following through on this undertaking.

In the case of spending announced under the Nation Building and Jobs stimulus package, many projects suffered from a lack of supporting analysis. Clearly a mitigating factor was the need for rapid action and a lack of developed pipeline projects at the time. However, the OECD has

| EXHIBIT 6 |
| REQUIREMENTS FOR SECTORAL REFORM |

| FREIGHT: | the Council of Australian Governments (COAG) to develop a national freight implementation plan. Pricing and regulatory reforms to be accelerated. Develop a freight project pipeline. |
| URBAN TRANSPORT: | Federal and state governments to work on urban transport plans and improve urban transport planning and project assessment. |
| URBAN WATER: | Undertake cost–benefit analysis of all available supply options. COAG to commit to well-functioning water markets. |
| RURAL WATER: | Provide greater transparency and detail on water buyback and infrastructure objectives. Improve the efficiency of rural water markets. |
| ELECTRICITY: | Complete the remaining reform agenda, including smart meter rollout, location pricing and retail price caps. Carefully manage the impact of climate change policies on future electricity supply. |
| COMMUNICATIONS: | Set market and regulatory frameworks to support long-term productivity gains in a cost-effective manner. Use the implementation study to assess the net benefits of the NBN. |

noted that the recovery in Australia’s economy now affords an opportunity to revise those projects and conduct a detailed analysis to determine whether unallocated funds should still be spent.27

Infrastructure Australia has provided the government with a list of national investment priorities within a framework for project selection. However, the analysis underpinning those lists has not been publicly released. The government can demonstrate both leadership and goodwill by using this year’s Budget to publicly release Infrastructure Australia’s cost–benefit analysis of major projects.

In a similar vein, a strong case exists for the government to finalise and publicly release the implementation study associated with the National Broadband Network (NBN). The BCA has previously raised a number of issues around the net benefit of the NBN, the government’s role as owner and regulator of the NBN and on the future market structure. These questions require answering through that study. Failure to do so may make it more difficult to ascertain the productivity benefits from the NBN and may make it harder to obtain an appropriate level of private sector involvement in the project.

Given the broader capacity constraints that may emerge in Australia’s economy in the coming years, cost–benefit analysis around the NBN project would assist in helping to answer questions and set priorities. It would help to determine whether the considerable resources required to deliver the project over the next decade might be better deployed in meeting our other economic infrastructure needs – such as roads, rail, ports and mobile communications networks – to drive productivity and growth.

Private Sector Participation in Infrastructure Investment

At a time when public funds are constrained, governments will increasingly need to look to private sector participation in major economic infrastructure projects. The Productivity Commission28 has outlined a growing acceptance of ‘user-pays’ principles along with recognition that there are generally greater incentives for efficiency in the private sector as one reason for increasing private involvement.

In discussing the characteristics of good investment practice, the commission has highlighted the efficiency aspects of investment, funding and in particular financing decisions. The commission has noted that while the major financing task is meeting upfront investment costs, the central efficiency issue is which financing vehicle – by better aligning incentives – is able to best manage project risk.

Public–private partnerships (PPPs) are well understood arrangements for transferring construction and operational risks to private partners while government retains regulatory and demand risk. Reflecting their importance and potential, COAG endorsed the ‘National Public Private Partnership Policy and Guidelines’ in November 2008.

Public–private partnerships do require careful and skilful negotiation and development to avoid potentially large transaction costs and excessive contingent liabilities falling on government. They also carry a higher risk premium on private borrowings than public borrowing. As a consequence, a PPP project needs to result in a lower project risk to government or efficiency cost savings to make it worthwhile. Furthermore, as there can be substantial costs related to the design and tendering of PPPs, they will typically be more suitable for large-scale projects.
Infrastructure Australia has identified 10 of its 12 ‘international gateway’ priority pipeline projects as being suitable for private sector involvement. If public financing constraints are delaying commenced of these types of projects then alternative models along the lines of PPPs need to be strongly considered. The BCA Groundwork for Growth report also outlined a number of issues relevant to the role of the private sector in financing projects.

Steps that governments can take to improve infrastructure projects include a better balancing of the risks that they transfer to constructors and private sector owners. They should also seek to streamline and make more consistent approvals processes including through standardised bid documentation, truncated selection processes and less burdensome probity arrangements.

In the area of taxation, it is essential that distortions are removed from the system that bias investment systems. As outlined above, this will be an important area for the Henry review. The BCA would not, however, support the provision of tax incentives to support private financing for its own sake, as that has the potential to create new distortions.

For example, there appear to be few advantages of a return to arrangements involving the issuance of infrastructure bonds (specific-purpose bonds). The Productivity Commission has noted that the inability of governments to avoid contingent liability and the potential for cost savings from central borrowing along with the privatisation of a significant number of infrastructure service providers saw the phase-out of specific-purpose bonds in Australia by the mid-1980s. While the tax-exempt status of these bonds lowers the interest cost, the commission suggests that this does not fully offset the foregone tax revenue.

As outlined above, an important factor influencing infrastructure investment is to get the regulatory settings right. One prominent area will be arrangements which update Australia’s National Access Regime. Providing regulatory certainty for potential investors in infrastructure is a critical requirement, so it will be vital to get the balance right between the interests of infrastructure investors and the competition benefits for those seeking access to infrastructure assets.

**Infrastructure Quality and Capacity Will Play a Critical Role in Supporting the Level and Sustainability of Economic Growth and Future Living Standards for a Substantially Larger Population**
The challenge for policymakers going forward is to bring forward reforms that will help expand Australia’s productive capacity over time.

In addition to the BCA’s close interest in the key reform areas of tax, infrastructure and health, discussed above, we continue to highlight the need for ongoing structural reforms in a number of other areas.

In the area of workplace relations, competitive pressures, new technologies and changing consumer demands mean that employers and employees will be continually looking for greater workplace flexibility. As emphasised earlier in this submission, a distinguishing feature of Australia’s emergence from the economic slowdown was the extent to which the labour market operated in permitting employers and employees to agree to reduce hours as an alternative to job losses. It is essential that sufficient flexibility in the workplace relations system is retained in future because of the benefits such an arrangement can deliver.

Treasury has noted that a country’s public policy framework plays a number of important roles in improving productivity. These roles extend across both macroeconomic stability – promoting growth and price stability – and providing an appropriate microeconomic framework.

In relation to the latter, Treasury has further noted that policy institutional and regulatory frameworks can have a positive influence on productivity by promoting open and competitive markets so that resources are allocated to their most productive use. ‘Ultimately improvements in productivity come from the decisions of thousands of firms in many industries in developing and adopting new products and processes and changing management, organisation and work arrangements. The government can best promote productivity growth by ensuring that the environment in which firms operate facilitates sound decision making’.29

The BCA endorses the importance of pressing ahead with microeconomic reforms needed to enhance the supply side of the economy. As highlighted in this submission, the critical
Furthermore, at a time of rising capacity constraints, enterprise-based agreement making should remain as the core of the workplace relations system. It should be supported by the availability of a wide range of options for agreeing employment terms and conditions, including statutory individual contracts. One of the pressing challenges is to ensure that new ‘Fair Work’ system enables scope for productivity improvements and high levels of employment.

An effective system of federal–state relations is also critical to progressing Australia’s microeconomic reform agenda. Given the nature of many of the policy reforms in question, results will not be possible without the cooperation of the states and territories.

The BCA was a strong supporter of the previous National Competition Policy arrangements which were ultimately very effective in delivering strong outcomes. The extent to which this can be replicated under the new framework – including through the provision of incentive and reward payments to states – will be an important factor in COAG’s overall success from here.

A priority for COAG must be to progress the competition and regulation reforms under the National Partnership on the Seamless Economy. These are important and longstanding reform actions in the areas of transport, energy, infrastructure and regulatory harmonisation, and it is critical for Australia’s growth prospects that they be given higher prominence and urgency. As noted by the Treasury Secretary, ‘the case for governments facilitating the development of highly efficient national markets for key business inputs in a country as remote and geographically fragmented as ours is overwhelming’.

COAG’s broader reform program, with its particular emphasis on developing Australia’s ‘human capital’, has the potential to lift the productivity growth rate over the long term. Successful implementation of the agenda will require a sustained commitment by all governments to delivering real outcomes. A clear prioritisation of the most important reforms, a streamlined and effective bureaucratic structure and a strong commitment to regular evaluation and transparent reporting of progress will support the realisation of COAG’s aims and, most importantly, delivery of outcomes.

Another important area of structural reform is the need to improve our performance in better developing and applying the knowledge and skills of our people. There is an ongoing need to pursue reform of the skills and workforce development system with a view to ensuring that training is of a high quality and the skills learned are relevant to the current and emerging needs of business.
The identity linking a country’s saving and investment performance and its current account position is a helpful construct within which to consider various policy issues. The identity is easily derived and is outlined below. Four key economic identities set the scene.

The current account deficit is equal to a country’s exports minus its imports minus its net transfers abroad (the net income deficit and net unrequited transfers).

**CAD = X – M – NTR**

A country’s Gross Domestic Product (as measured on an expenditure basis) is equal to consumption, plus investment, plus government spending plus net exports (exports minus imports).

**GDP = C + I + G + (X – M)**

Gross National Product is equal to Gross Domestic Product minus net transfers abroad

**GNP = GDP – NTR**

A nation’s disposable income is equal to Gross National Product less taxes, and is in turn equivalent to consumption plus private saving.

\[(GNP – T) = (C + S)\] thus \[GNP = C + S + T\]

Bearing these identities in mind it is possible to establish the link between the CAD and the saving investment imbalance

**CAD = X – M – NTR**

**GNP = GDP – NTR**

**GDP = C + I + G + (X – M)**

**GNP = C + I + G + (X – M) – NTR**

**GNP = C + I + G + CAD**

**CAD = GNP – (C + I + G)**

**CAD = (C + S + T) – (C + I + G)**

**CAD = (S + T) – (I + G)**

**CAD = (S - I) + (T - G)**

**CAD = [S + (T – G)] – I**

**CAD = Private Saving plus Government Saving minus Investment**
NOTES

2 The 2009–10 Budget Papers list the stimulus packages as the $10.4 billion Economic Security Strategy announced on 14 October 2008, the $15.2 billion COAG Funding Package announced on 29 November 2008, the $4.7 billion Nation Building Package announced on 12 December 2009, and the $42 billion Nation Building and Jobs Plan announced on 3 February 2009.
3 Reserve Bank of Australia, Statement on Monetary Policy, November 2009, p. 2.
5 Dr K. Henry, Post-Budget Speech to the Australian Business Economists, 19 May 2009.
8 Dr V.W. FitzGerald, National Saving: A Report to the Treasurer, 1993.
12 Commonwealth of Australia, Mid-Year Economic and Financial Outlook 2009–10, p. 27.
13 Access Economics, ‘How at Risk is the Budget to the Economy?’, February 2008, incorporated as part of the BCA 2008–09 Budget Submission.
18 Dr J. Harmer, Pension Review Report (the Harmer review conducted as part of the Australia’s Future Tax System Review), February 2009.
19 OECD, Going for Growth, 2009, p. 143.
20 OECD, Consumption Tax Trends, 2008.
21 See, for example, Dr H. W. Brock, ‘US Health Care Reform’ profile, Strategic Economic Decisions, September 2009.
24 Treasury submission to the House of Representatives Standing Committee on Economics Inquiry into Raising the Level of Productivity Growth in the Australian Economy, August 2009.