A plan for a stronger Australia

Volume two

Business Council of Australia

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A plan for a stronger Australia

Volume two

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Foreword

Having listened and talked to people across the country, we believe we share many of the same aspirations that define the identity and character of Australians.

Every single Australian deserves to have access to rewarding, meaningful and fulfilling jobs that provide them with a sense of purpose and the ability to get ahead.

We want Australians to keep more of what they earn so they can spend their money on the things that matter to them. This means they can do more for themselves, their families, and have a better life.

Australians deserve to have their voices heard on the type of country Australia is and the future they want. The Business Council wants all Australians, wherever they live, to be part of the national conversation, not excluded from it.

We have heard clearly that some parts of the business community have let Australians down and we know business has to earn back their trust.

Business is responsible for generating most of Australia's economic activity and employs 11 million of the 13 million working Australians.

We are invested in Australia's success. We strongly believe we have an obligation and a responsibility to set out the conditions that we argue will strengthen the nation, and make Australians better off because businesses can thrive.

We want an Australia where aspiration, ambition, hard work and endeavour are encouraged. Where effort, risk taking and enterprise are rewarded. And, where innovation, imagination and invention are fostered.

The Business Council joins with all Australians in striving for the nation to continue to be an inclusive, fair, tolerant, outward looking and cohesive society with a strong safety net for the most vulnerable.

There is nothing more important to human dignity than a society where people are free to make choices and to live their lives how they want.

If Australians are to achieve these aspirations, the size of the economy must grow.

Ensuring businesses are strong and vibrant is the key to this growth. Businesses must have an environment that enables them to compete, expand, hire more workers, pay higher wages, and grow their supply chains.

This means:

- removing the burden of unnecessary red tape
- building and planning infrastructure that improves the quality of life in the cities and regions

- delivering a competitive and fair company tax system that encourages investment, and a personal tax system that rewards effort
- encouraging workers and managers to reach workplace agreements that suit both their needs and enable businesses to grow
- ensuring any policy responses to corporate failings do not overreach or harm the economy
- ending the policy paralysis on energy and climate policy
- reshaping post-secondary education and training so all Australians can continue to learn throughout their lives and have access to the skills they need to stay in work, and
- embracing technology in a way that allows Australians to remain working now and into the future.

Australia's economy has many strengths, but the nation must build on these solid foundations to unleash the next wave of economic growth.

These national priorities are the best way to drive improved living standards now and into the future.

Many Australians have told us that no matter how hard they work, they feel they are unable to make up ground on their mortgages, even with historic low interest rates.

They feel they cannot get on top of their bills, and they worry they won't have the skills to keep pace with changes in their workplaces.

Let's unlock Australia's promise, and let's make the nation a better place to live, work and do business.

We believe economic growth must be turbocharged so all Australians can get ahead.

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Introduction

Australia is a wonderful place to live.

Australians have enjoyed almost three decades of consistent economic growth that has delivered high and rising living standards.

The nation's good times were not just down to luck, but to successive governments, businesses and communities making the right decisions.

In this election year, Australia now finds itself at a turning point.

The Business Council has been listening to Australians across the country as part of our Strong Australia initiative where chief executives from our largest companies join local employers and community leaders in the regions to hear about the issues that matter most to them.

Over the past 12 months, we've travelled to Adelaide, Broadmeadows, Penrith, Gladstone, Busselton, Toowoomba, Geelong, Townsville, Cairns, and Hobart with more events planned this year.

The Business Council also commissioned two major pieces of in-depth research, hearing from more than 2,350 Australians nationwide.

Overwhelmingly, Australians are worried about the future. They want a forward-looking plan that will put Australia back on track and allow them to get ahead.

While Australians tell us they feel let down by some parts of the business community, they also understand the role of business and its contribution to their lives.

Businesses are made up of working Australians, customers, suppliers, shareholders and the communities they operate in.

Employers don't sit on the sidelines of the economy – they are at its centre. Employers – businesses – are responsible for supporting and creating most of the jobs in Australia.

Business employs 11 million of the 13 million working Australians, and is responsible for 80 per cent of all economic activity in Australia.

Given our stake in the success of Australians, the Business Council believes it has a responsibility to outline the actions we believe will improve the lives of Australians and make Australia a stronger country.

This requires creating the environment where Australians can succeed because employers are doing well, delivering more and higher-paying jobs, while offering attractive returns to shareholders, including the millions of Australians with superannuation accounts.

Without a growing economy and a strong budget, Australians will have fewer choices. There would be less money to spend on the services Australians want and need, including a safety net for the nation's most vulnerable citizens.

Growing the economy and maintaining a strong budget are the foundations, but work is also needed now on three critical areas.

Action must be taken to:

- ensure we can sustainably increase wages
- tackle entrenched disadvantage so Australians who are trapped in a cycle of poverty and welfare can get ahead
- end the decade-long policy dysfunction on energy and climate change to help reduce electricity prices and ensure Australia has secure, stable and reliable energy while reducing emissions.

Action here will help reverse the community's fatigue on reform, building confidence for the next wave of initiatives to deliver a more resilient Australia.

Australia also needs to strengthen its institutional processes to make sure we are not only doing the right things, but that we are doing them in the right way.

In talking with Australians, we also understand the business community must act on the message that Australians feel let down.

Business is taking steps to learn the lessons, fix problems, and earn back the trust of Australians.

Engaging in a blame game against business will not deliver action to lower electricity prices, increase wages, reduce congestion in Sydney and Melbourne, or revitalise regional centres.

We want to join all sections of Australian society to get Australia back on track, including politicians, unions, the broader business community, educational institutions, and charities.

In 2019, the Business Council will continue to promote the measures that we believe will make Australia more resilient and strengthen the nation's ability to respond to challenges, and call out the policies that threaten to hold Australia back.

The Business Council stands for good policy.

In the pages that follow, the Business Council outlines over 100 separate ideas designed to:

- grow our economy more rapidly, with higher productivity and faster wages growth
- strengthen our budget
- make Australia more competitive
- make Australia a better place to live
- respond to the challenge of entrenched disadvantage
- do our part on climate change while preserving energy security and keep prices as low as possible
- ensure our workplaces have the flexibility to respond to the change that is all around us.

We also outline ideas on:

- infrastructure
- regional development
- Australia's post-secondary education and training system to ensure all Australians can share in Australia's promise.

None of the individual ideas (see pages 151 to 160 for the complete list) are ends in themselves.

Rather, collectively they can make Australia a better place to live, work and do business. For all Australians.

Table of Contents

Australia’s national imperatives

Australia's national imperatives

Having listened to Australians through our Strong Australia events[1] and community research, the Business Council believes there are a number of common goals Australians share.

Every working age Australian deserves to have access to rewarding, meaningful and fulfilling jobs that provide them with a sense of purpose and the ability to get ahead.

Australians deserve to have their voices heard on the type of country Australia is and the future they want for themselves and their families. The Business Council wants all Australians, wherever they live, to be part of the national conversation, not excluded from it.

Aspiration, ambition, hard work and endeavour should be encouraged, as well as reward for effort, risk taking and enterprise. Innovation, imagination and invention should be fostered. As a nation we should protect those in need. Australia also needs to tackle entrenched disadvantage to ensure all Australians have the opportunity to achieve their potential.

As the economy is impacted by technological change and workers need to adopt new skills, it is imperative that Australians have access to quality and affordable education and skills development across their working lives.

Everyone should have access to a universal high-quality health system, and first-class infrastructure that makes life easier. This includes ensuring our cities and regions are well planned, liveable and affordable.

Australia should be an energy superpower with reliable, affordable and secure power at home while also maximising export opportunities.

And Australia should be a nation that acts on climate change and accepts our international obligations as set out in the Paris Agreement.

To achieve these goals we need to be a nation with high and growing income per person. This means higher wages, with the best way to deliver more money into people's pay packets being to improve our productivity.

As a result, the ideas in this document are focused around growing the economy faster, competitiveness and jobs.

- A more rapidly growing economy gives Australia and Australians greater capacity to provide for their families, communities and for the future each and every year.
- To grow Australia's economy, we must be competitive, and open to investment and trade.

1 Strong Australia is a Business Council initiative where chief executives from our top companies join local employers and community leaders to hear about the issues that matter most to them. Over the past 12 months, we have travelled to Adelaide, Broadmeadows, Penrith, Gladstone, Busselton, Toowoomba, Geelong, Townsville, Cairns, and Hobart, with more trips planned this year.

- Competitiveness must be achieved in conjunction with, and as a result of, the creation of well paid, meaningful jobs.

The Business Council does not want people working harder for less. Rather, the Business Council wants to ensure companies have the right environment to expand, innovate and invest so people can work more effectively.

An economy with greater productivity means the benefits can be shared by all Australians through lower prices, higher wages, higher profits and better shareholder returns. Better shareholder returns and higher profits also benefit the over 15 million Australians with superannuation accounts.

Our experience through the 1990s and early 2000s shows that when we have strong productivity growth we see faster real wages growth, faster Gross Domestic Product (GDP) growth and more rapid increases in living standards.

To build on the foundations of Australia's success we must have a competitive, modern and fair tax system that encourages investment.

As a nation, we need to remove the hurdles that prevent Australian businesses and workers from competing with the rest of the world.

The business community joins with all Australians in striving for the nation to continue to be inclusive, fair, tolerant, outward looking and a cohesive society with a strong safety net for the most vulnerable.

To achieve those goals, a number of national priorities need to be tackled.

- Australia needs to create an economy that can produce faster wages growth. We agree with Australians that wages growth needs to be faster.
- Australians should keep more money in their pockets after the essentials and taxes are paid. Energy should be more affordable. Taxes should be as low as possible.
- Australians need an education and training system that allows for lifelong learning and reskilling to equip them for the future.
- To strengthen the economy Australia must become a more attractive destination for investment. That will in turn lift productivity growth and hence create the basis for sustainable growth in real wages.
- Too often, entrenched disadvantage reaches across generations. While a strong and growing economy provides a foundation to tackle the challenge of entrenched

disadvantage, a comprehensive policy response is also needed to engage with the complexities and multiple dimensions of the issue. For this reason, we repeat our call for a Productivity Commission inquiry into entrenched disadvantage.

This document outlines the Business Council's ideas to respond to those, and other, challenges. It offers a range of policy ideas for both the short, medium and long term.

There are, after all, some actions we can take right now that will yield results quickly. For example, the Australian Competition and Consumer Commission (ACCC) and the Finkel Review have collectively put forward 106 recommendations, many of which would see lower power prices. Many of those would yield immediate results and put money back in the pockets of Australians.

For half a decade, workers on enterprise bargains have seen faster wages growth than has been the case across the broader economy. Making it easier to negotiate and conclude enterprise bargains should therefore lead to faster wages growth. In the more medium term, we know that the way to sustainably grow wages is through faster GDP and productivity growth. That in turn means lifting investment and making Australia a more competitive economy. It also means making sure our education and skilling system is set up to help young people prepare for their future and for lifelong learning.

Personal income tax cuts also put money back in the pockets of Australians. By making the delivery of government services more efficient, there does not need to be a choice between lower taxes or better services. A stronger economy with faster growth also generates more revenue to fund essential services and provide scope for lower taxes.

A strong and growing economy

A rapidly growing economy is a strong economy. Economists usually talk about growth in an abstract sense. Rates of growth, real per capita Gross Domestic Product (GDP)[2] growth and rising living standards. But what do we really mean by 'growth'? What are the practical benefits of a growing economy?

A growing economy is simply an economy that gets larger each year.

- Growing economies create jobs.
- Growth in an economy over time underpins higher living standards. We enjoy services and an amenity of life unimaginable to our grandparents. We can get fresh food in any season at almost any time of the day or night, withdraw cash from anywhere in the world 24/7 without having to wait for a bank branch to open, be warm when it's cold and cool

2 That is, growth per person after inflation. This tends to approximate increases in our living standards over time.

when it's hot, access the world's knowledge with a keystroke and stay in touch with our families and friends whenever we want.

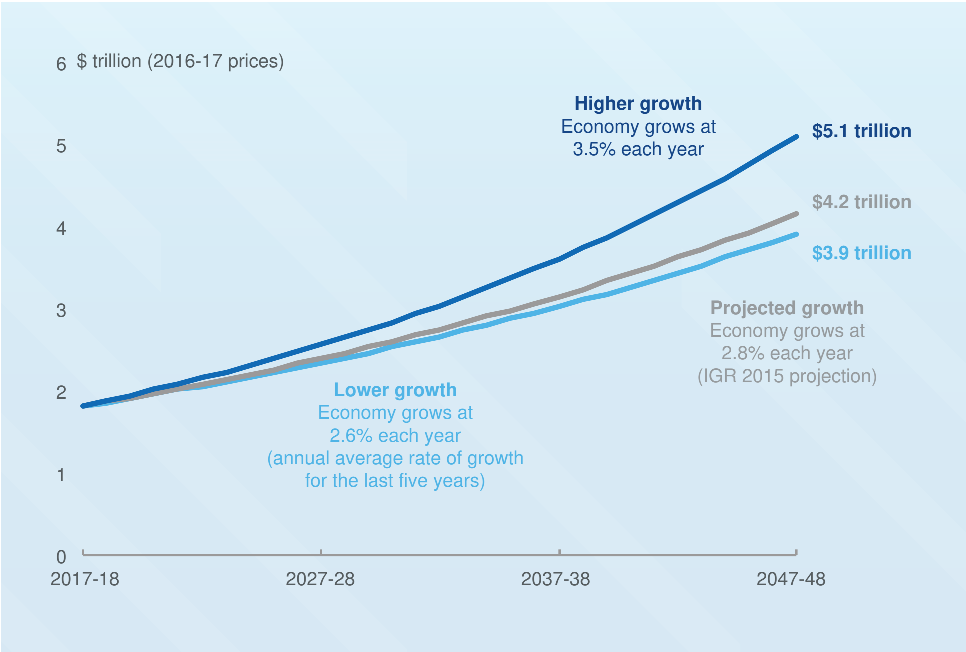
- Economic growth has reduced child mortality and lifted hundreds of millions of people out of extreme poverty around the globe.

The other way to think about this is to consider the alternative. What's the alternative to growth? Stagnation or decline.

- Fewer jobs. Lower wages.
- Less revenue for governments to spend on services like health and education.
- No growth over time means fewer advances that make our lives easier, safer and healthier. No modern cars or mobile phones. No modern health care. Income levels that stagnate.

A lot of our challenges can be solved by growth. The more growth, the more money that flows into government budgets. That makes it easier to fund services like health and education and balance the budget at the same time. A growing economy makes it easier to make sure everyone gets ahead.

Figure 1: Three different growth scenarios



Source: ABS cat. no. 5206.0, 2015 IGR and BCA calculation

The former Reserve Bank of Australia Governor, Glenn Stevens, made those points back in 2015:

> 'we are unavoidably and inexorably being led to the question: how do we get more growth? The fiscal policy debate, usually framed as "when will we get back to surplus?" is actually about: how do we get more growth? Other discussions, so often framed as about "fairness" – that is income distribution – might be better framed as: how do we grow the pie? That isn't because distribution doesn't matter. It's because distributional issues surely get easier with growth but much, much harder in its absence.'[3]

That quote from the former RBA Governor highlights that growth does support fairness. Indeed, the Business Council's agenda is about fair and sustainable growth. This is not an agenda for growth at any cost.

- Fair growth means making sure all Australians benefit. This is something that the Productivity Commission has found to be true over the past few decades.
- Fair growth also means making sure that workers are paid fairly and are treated with respect in the workplace.
- Sustainable growth means having regard for our environment, doing our part to combat climate change and making sure growth today does not come at the expense of growth in either the short, medium or longer term.

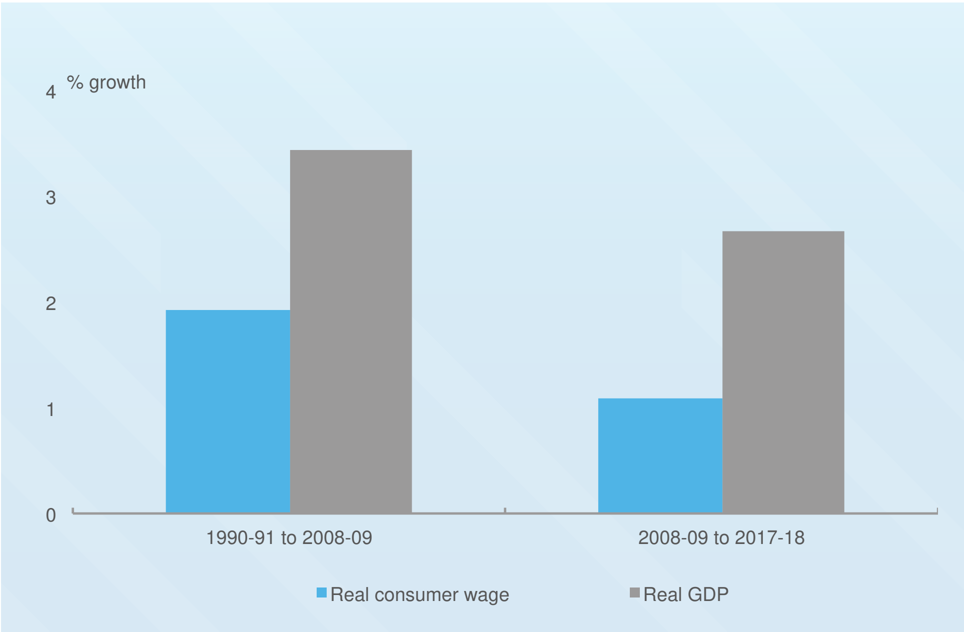
Growth, particularly growth that has at its source innovation and invention, is part of the solution to sustainability. It's more fuel efficient cars, more efficient use of electricity, a lower energy intensity and the ability to manage environmental change.

Growth helps us manage all manner of change. Take changes in our workplaces. The stronger growth is, the more jobs we will create – even if we lose jobs in other parts of the economy. The more growth there is, the more tax revenue we have to support retraining and upskilling.

For those into hard numbers and targets, the past few decades show that Australia needs to get and keep GDP growth above three per cent.

3 Glenn Stevens, *'Reform' and Economic Growth*, Remarks to the National Reform Summit, 26 August 2015.

Figure 2. Average real GDP and real wages growth, past 27 years



Source: ABS cat. no. 5206.0

Australia has had a remarkable 27-year run of economic growth. That is, we have not had a recession, as other countries have. For the first two-thirds of that run, GDP expanded by an average of 3.4 per cent a year. We ended with budget surpluses, a federal government with no net debt, greater community services, and a mixture of tax reductions and targeted increases in welfare support. Wages growth exceeded inflation, with real wages rising by an average of 1.9 per cent a year over that period. (Real wages mean wages after taking into account the impact of inflation. Real wages growth above zero means that wages are rising more than the cost of living.)

The past nine years have seen GDP growth average 2.7 per cent a year. This is not as fast as we could have grown. As a result, we have had a run of federal budget deficits – although a surplus is now in prospect – and debt has grown to uncomfortable levels. Reflective of a softer overall pace of economic growth, real wages growth has averaged just 1.1 per cent a year. That’s about a halving in the pace of real wages growth.

The purpose of a growth target is not an end in itself. Rather, it provides the means to deliver on what we want as a nation:

- The economy is creating enough jobs to provide employment for all Australians who want to work.

- Real incomes are growing and people are getting ahead.
- People have access to education and training that allows them to maintain the skills that will be relevant to the future of work.
- We can provide the world class health care we need and expect.
- We can own our own homes, pay down debt and save for our retirement.
- We can support the vulnerable in our society and provide a social safety net.

A focus on growth means the Business Council's perspective is framed around 'more for all'. It is not framed around a view that improvement in one aspect of our economy or nation has to come at the expense of something (or someone) else.

To illustrate that point, if economic growth averages 3.5 per cent over the next 36 years, the average real income for an Australian would grow from around $75,000 today to around $160,000 a year in today's dollars. This is about $40,000 higher than the average income per person of $122,000 predicted in the last Intergenerational Report (IGR).

Being competitive with the rest of the world

Given the benefits of growth, it seems natural to ask – how we achieve a faster pace of growth than we have in the most recent past. And given how central business is to growth, how do we create the conditions that allow businesses to invest, succeed and continue to create jobs in Australia?

Aside from occasional and lucky increases in the price of our exports (which we cannot control), faster growth in real (that is, after inflation) incomes per person can only be sustainably increased by producing more output per person. This doesn't mean working harder for less. It means growth driven by investment and innovation.

It is growth driven by innovation and investment that will create a competitive Australian economy, able to compete with the best in the world.

It means unshackling the Australian economy from excessive rules and redesigning regulation to ensure it remains fit for purpose and does more good than harm. It means ensuring the tax burden is minimised – not by reducing services, but by ensuring governments don't waste money. It means making sure how we work reflects our individual circumstances.

It's this sort of growth agenda that will ensure our exporters can compete on the world stage. Because if our exporters can't mix it with the best in the world, we won't have an economy strong enough to fund the world class services Australians expect from their governments.

In a modern economy, being competitive is also about more than exports. Consumers are increasingly living in a borderless world. Shopping at a US retailer no longer requires getting on a plane; it can be done from home. These changes in our economy cannot be undone or stopped. Therefore, being competitive and having a competitive economy is not just about exports. Rather, it reaches across the breadth of our economy and across both goods and services (from tourism, to retailing, and business-to-business services).

Free and open markets are at the heart of all this. Competitive, open markets and private enterprise are central to growth.

To be successful, businesses must produce what people want to buy – including consumers in export markets and consumers at home – at prices they are willing to pay. Competing with other businesses for customers means that any business must continually innovate to produce better goods and services at competitive prices to survive.

This process of continual improvement ultimately drives economic growth, as businesses – new and old, small and large – vie for customers. It creates better-paying jobs and delivers benefits to all Australians.

Business is central to this process.

Strong jobs and skilling for the future

Through the Business Council's Strong Australia events, Australians have told us they are worried about changes in the way they work. Australians rightly want to know their jobs are safe, and that there will be jobs for their children.

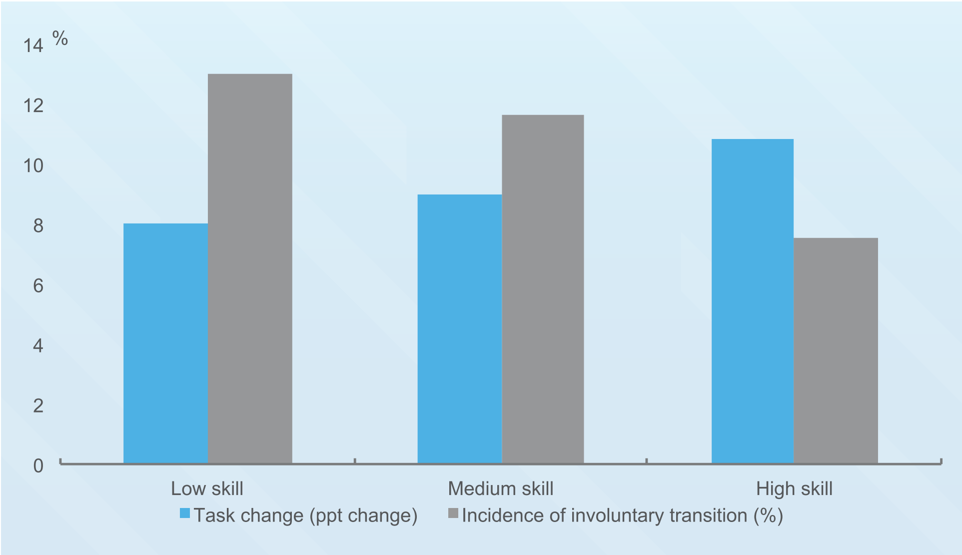
There is good news. Work done by economic consultants AlphaBeta for the Business Council estimates that the rate of job loss due to automation is no higher today than at other times in the past 50 years. Their analysis also shows the percentage of workers experiencing an involuntary job change has almost halved over the past two decades.

Of course, this does not diminish the shocking impact that losing a job can have on individuals and their families.

A strong economy and a workplace relations system with a strong safety net that also acknowledges the different circumstances of different employees and employers provides the right foundation to protect jobs.

But to be competitive and strong we also need a highly skilled workforce, with the right skills. And an ability to update and change our skills as our working lives progress.

Figure 3. Task change and incidence of involuntary transition by skill level



Source: AlphaBeta

Australians could be working for more than 50 years and the idea that they will stay in one job or industry, or that their schooling and first qualification will keep their skills current, is at odds with that reality.

We need to adopt a new approach to help young people prepare for their future, but we also need to adopt a new approach for people already in the workforce.

For this reason, the Business Council wants to make lifelong learning a reality, not a slogan, with a Lifelong Skills Account that allows people to access a variety of modules and certificates, so they can keep pace with task change and stay in the workforce.

The post-secondary education and skills system is our greatest asset as rapid technological and digital change alters the tasks and capabilities required to stay in work and lead successful and fulfilling lives.

Our research also shows that over the last five years, workers in low-skilled jobs had the lowest rate of task change but the highest rate of retrenchment. Workers in high-skilled jobs were the reverse: with the highest rate of task change and the lowest rate of retrenchment.

The more we adopt innovation and the more task change in our jobs, the more certain we are that we can keep people in work, keep jobs in Australia and increase incomes. This is why an innovative, flexible and productive economy is critical to Australia's future.

Forces shaping our economy and our society

Forces shaping our economy and our society

Our economic environment is being shaped and framed by major forces, including the:

- ongoing economic shift toward Asia
- impact of demographic change and population ageing
- increasing emergence of 'disruption' as a new and dynamic element of innovation.

Understanding these forces and their impacts must serve as a guide to policymaking over coming years. They are, after all, part of our reality. Many of them are also beyond our control, with the job of national leadership over the next decades being to ensure we are resilient to these forces.

It is important, however, to view these forces positively. The rise of Asia represents an enormous opportunity for Australia. We have established comparative advantages in mining, agriculture and parts of the services sector (as just some examples). Our endowments combined with the rapid increase in the size of major Asian economies is an unambiguous positive for Australia. In some of our regions, our comparative advantages are increasingly in high skill or premium products, such as aquaculture in Tasmania.

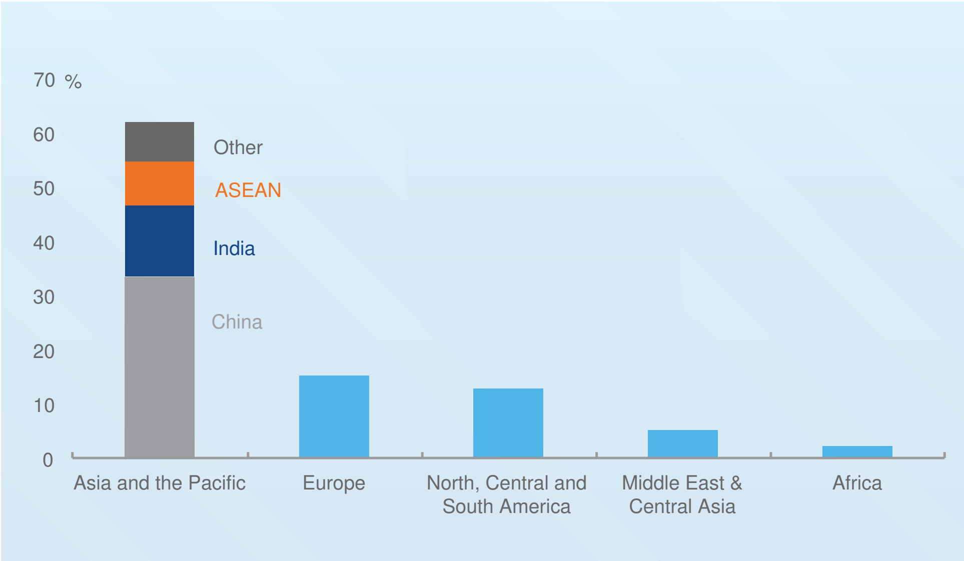
While the pace and scale of technological change makes us all wonder about how many jobs and tasks could be automated in the future, the ageing of the population gives rise to questions of the opposite type. Namely, will there be enough workers to support an older population? Thinking about innovation and disruption together with demographic change suggests that one might in fact be part of the solution to the other.

Economic shift to Asia

The major structural shift in the global environment has been the ongoing rise of Asia.

The changes here are profound. Millions of people have been lifted out of poverty (thanks to free and open trade and well-functioning markets) and life expectancy has risen. Asian culture has been exported to the world and the people of Asia have become rapid adopters of technology. Unburdened by legacy systems, in some cases Asia's economies have the opportunity to 'leap-frog' much of the developed world when it comes to the adoption of new technology.

Figure 4.Contributions to global growth, 2018



Source: IMF, Regional Economic Outlook: Asia Pacific, May 2018

Asia is now the major contributor to global economic growth and increasingly the centre of global economic weight. Asia contributed over 60 per cent of world economic growth in 2017 – more than half of which came from China.[4]

Australia continues to benefit from its proximity to Asian markets. Trade and investment with Asia has been a large part of Australia's economic success. Two-thirds of all trade Australia does is with Asia – with this proportion having grown from 45 per cent 30 years ago.[5]

While Australia's established investment relationships continue to be mainly with the US and the UK, Australia also benefits from a range of foreign investment from Asia, led by Japan. The largest Asian economies have invested more than $500 billion in Australia. Asia is now a fast growing source of foreign investment into Australia, ultimately creating jobs in Australia.

Australians are also making significant investments across Asia, whether it is our large businesses expanding in Asian markets or superannuation funds diversifying their portfolios by investing outside Australia – Australia has made around $390 billion worth of investment in the largest Asian economies.[6]

4 IMF, *Regional Economic Outlook: Asia Pacific*, 2018.
5 DFAT, *Trade time series data*, https://dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data.aspx.
6 Major Asian economies: Brunei, Cambodia, China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Republic of Korea, Singapore, Taiwan, Thailand and Vietnam. DFAT, International Investment Australia 2017.

The rise of Asia's middle class, with its increasing economic weight, presents opportunities for Australia. As incomes rise, Asian consumers are likely to demand a wider range of goods and services. For example, Australia hosted 1.3 million Chinese tourists who spent $11.5 billion during their time in Australia over the year to September 2018. This is up from 350,000 visitors in 2007-08, and the first time China has nudged above New Zealand to bring the most tourists to Australia in a year.[7] Australia's free trade agreement with China is also unique in obtaining commitments on commercial associations between law firms. In addition to guaranteeing existing access for Australian law firms in China, the FTA guarantees that Australian law firms can establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone.

That said, success in services exports is not guaranteed. Other countries are vying for opportunities to engage with the booming Asian middle class. This again underscores the need for Australia to be competitive and innovative. Increasingly, it also suggests that to underpin the high incomes Australians rightly expect, we need to move into higher value-add services and diversify our services exports base. That should not come at the expense of our two powerhouse services export sectors of education and tourism. Rather, it highlights that a more diverse set of services exports will deepen Australia's links with Asia and provide a greater range of opportunities for Australia and Australians.

As the 2012 *Australia in the Asian Century* White Paper noted succinctly:

> 'Over the past 50 years, Australia's trade with Asia as a share of our total trade has risen dramatically. Our financial, political and cultural links have deepened. We have strong relationships and close friendships with countries across the region.
>
> But Australia's success will be based on choice, not chance.'

This document – *A plan for a stronger Australia* – and the ideas in it, speak to the choices in front of Australia.

Of course, the opportunities Asia presents and the shifting of global economic gravity toward Asia is not confined to China. India, for example, represents an enormous opportunity for Australia. The Varghese Report *An India Economic Strategy to 2035* highlights the scale of India's potential for Australia. The report finds that by 2025, one-fifth of the world's working age population will be Indian. By 2030 there will be over 850 million internet users in India. By 2035 India's five largest cities will have economies of comparable size to middle income countries today.

7 Tourism Research Australia, *Latest international visitor survey results*, https://www.tra.gov.au/International/international-tourism-results; Tourism Research Australia, *Time series data for international visitors to Australia*, https://www.tra.gov.au/International/international-tourism-trends.

The 2017 Foreign Policy White Paper stated that 'within the next 15 years, four of the world's five biggest economies in purchasing power parity terms are likely to be in Asia: China, India, Japan and Indonesia'. Reflecting the increasing importance of India, the 2017 White Paper also increasingly referred to the 'Indo-Pacific' region.

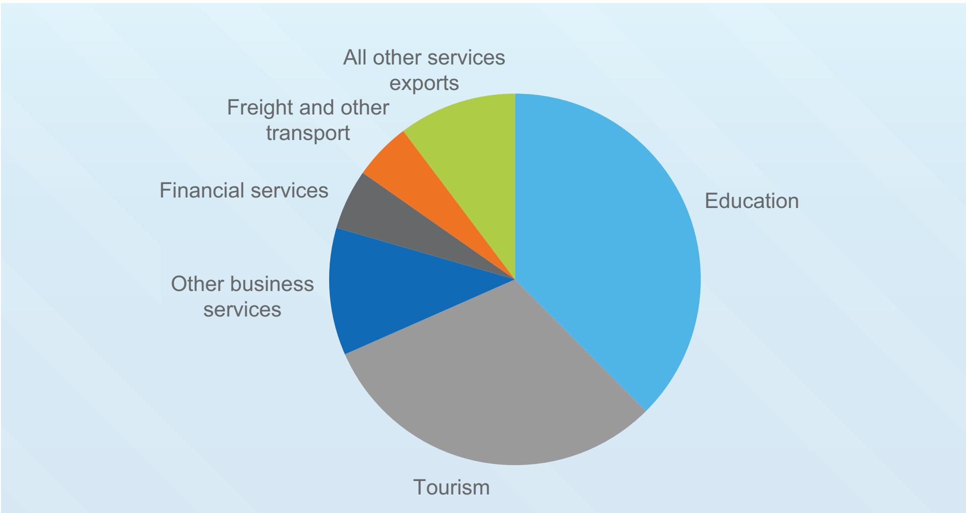
Closer to home, we already share deep links with New Zealand, but there remains greater scope to realise the benefits of those links and to broaden our engagement with the economies of the Pacific. Indonesia, as noted above, could become one of the five largest economies in the world in purchasing power parity terms by 2030. The recent signing of the Indonesia-Australia Comprehensive Economic Partnership Agreement provides scope for Australia to share in Indonesia's growth over the coming years.

Australia also needs to ensure that we remain focused and committed to not just trade and investment with Asia, but deeper people-to-people links and a greater cultural understanding.

Three key points should guide our ongoing engagement with Asia:

- Asia will not just be a customer, but also an economic competitor when it comes to investment opportunities and capital flows (again underscoring the need for Australia to be a competitive economy).
- We must broaden how we view the opportunities Asia presents and our view of what constitutes the Asian region.
- We must deepen our cultural links with Asia, which has beneficial strategic as well as economic impacts.

Figure 5. Share of total services exports, 2018



Source: ABS cat. no. 5302.0

Demographic change

Australians are living longer, healthier lives than ever before. A girl born in Australia in 2019 is likely to live until she is almost 85 years old, 20 years longer than a girl born 100 years ago. She will be in full health for almost 90 per cent of her life.[8] This is a remarkable achievement and one we should celebrate.

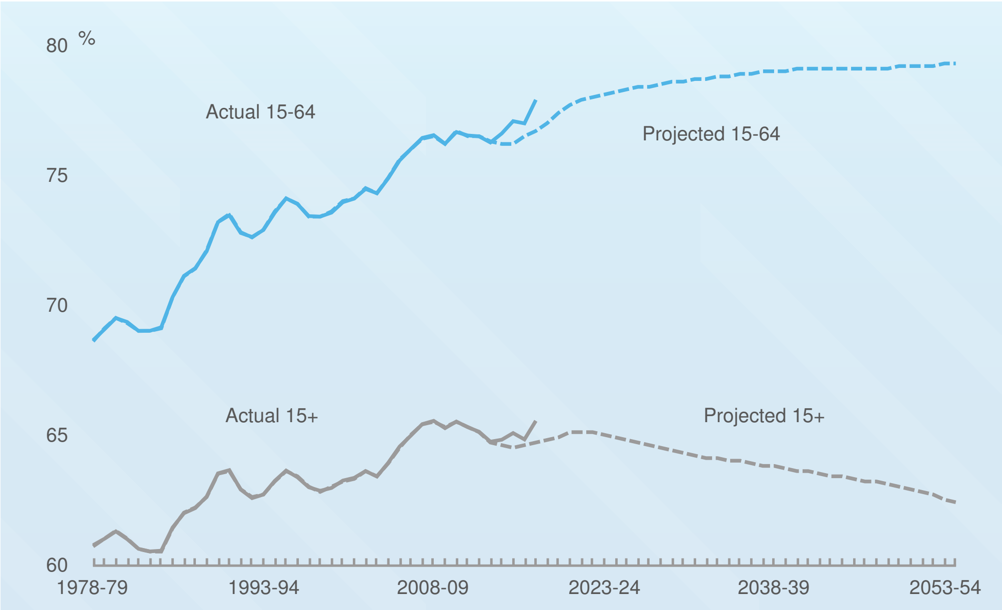
These changes, driven by major advances in medical science and technology, together with the large 'baby boomer' generation beginning to retire, are reshaping our society and our workplaces. Already, more than 400 people turn 75 in Australia every day. People will be spending more time in the workforce; it's quite likely their third or fourth careers will look very different to the start of their working lives. Older Australians are also increasingly living more active lives.

The 2015 *Intergenerational Report* (IGR) outlines the scale of demographic change likely to occur in Australia. It estimates the number of people aged 65 and older will more than double over the next 40 years. This will shift the structure of Australia's population. There will only be 2.7 people aged 15 to 64 years for each person over 65 years old in 2055, down from the current 4.5 people and 7.3 people in 1975.[9]

Over the next 40 years, labour force participation is projected to rise in some age groups, while it will remain steady in others. In particular, the participation rates of women and people aged over 65 are projected to rise over time – increasing the diversity of our workplaces. However, because people aged 65 and over are still likely to have a much lower participation rate than younger people, the proportion of the total population that is participating in the labour market is expected to decline as the population ages.[10]

8 ABS, cat. no. 3302.0.55.001; ABS, cat. no. 3105.0.65.001; AIHW, *Health-adjusted life expectancy in Australia: expected years lived in full health 2011*, 2017.
9 Australian Government, *2015 Intergenerational Report: Australia in 2055*, 2015.
10 Australian Government, *2015 Intergenerational Report: Australia in 2055*, 2015.

Figure 6. Historical and projected participation rates



Source: 2015 IGR, ABS cat. no. 6202.0

The ageing of Australia's population carries with it significant policy implications. An older population will weigh on government pensions, aged care services and health costs over the long term, while there will be a smaller proportion of workers to fund it. This is not an insurmountable challenge, of course. It does, however, underscore the need to plan ahead and have an innovative and productive economy that creates wealth to enable us to meet those challenges.

Innovation and disruption

One of the defining features of our current period is the pace and scale of innovation. As an example, it took television 13 years to reach 50 million users. While it may not be comparing apples with apples, Facebook reached 50 million users in one year, while Pokémon Go reached 50 million users in just 19 days.

At home, technological advances have liberated many people from menial and mundane tasks. Technological breakthroughs have changed lives – from the veterans who can now walk because of high-tech artificial limbs, to the children who can hear with a Cochlear implant, and the Australians who are alive today thanks to the coronary stent. Technology and innovation are expanding our horizons.

Innovation is an important driver of productivity and economic growth. Economies and real incomes grow when businesses invest in people and capital and innovate to produce goods and services more efficiently, or to develop new ones. Encouraging growth and economic resilience requires a business environment that incentivises risk-taking and entrepreneurship, and encourages investment, innovation and job creation in Australia. Investment drives innovation and innovation drives investment. The two work together.

Innovation encompasses much more than invention. It can also come from new business models and the adoption of new production processes that reduce costs. Adopting innovation enables businesses to improve their competitiveness, create high-quality jobs and generate greater value. Innovation is essential for responding to rapid changes in global supply chains.

Technology and digitisation have facilitated new business models and fragmented global supply chains, changing the buyer–seller relationship and the types of products on offer. More goods and services are becoming tradeable, with opportunities to buy and sell to almost anyone with internet access. In the case of e-products, companies do not have to be physically set up in a country to offer services to the people in that country. Share economy services between individuals challenge traditional business, tax and regulatory structures. Innovating is essential to successfully transition the economy through these disruptions.

It is also important to remember that some of Australia's 'traditional' industries are some of our most technologically advanced and innovative. Mining is a case in point. The simplistic 'new' and 'old' economy rhetoric (with high tech services the 'new' and sectors like mining the 'old') fails to capture the world-leading innovation being undertaken by Australia's mining companies. Innovation reaches all the way through a modern economy and touches all industries. The simple fact is that a nation cannot succeed in a digital and technology driven world without an economy capable of innovation, adaption and change.

This means policies, including taxation and regulation, must adapt to ensure Australian businesses are not left behind and that we capture the promise of technology and innovation. Indeed, McKinsey & Company estimates that embracing digital technologies could add up to $250 billion to the Australian economy by 2025.[11]

To mobilise Australia's innovation system, the Business Council has previously identified five critical areas for action:

- Creating an environment and culture that incentivises innovation and enables risk taking.
- Collaboration. This includes drawing on external expertise, and sharing information, knowledge and experience to leverage opportunities in a globally connected world.

11 McKinsey, *Digital Australia: Seizing the opportunity from the Fourth Industrial Revolution*, May 2017.

- Human capital and skills. This includes educating and training our citizens to think creatively, to problem solve and to apply their skills productively.
- Knowledge infrastructure. This includes providing support for institutions and organisations which create and renew knowledge, and ensuring that knowledge is disseminated so that it can be leveraged, translated and practically applied. Investment and funding of basic research contributes positively to long-run innovation outcomes. As a result, we need to ensure we continue to invest in growing our stock of knowledge.
- Regulation. This includes assessing current regulation to see if it unduly discourages investment in innovation, or undermines the ability of firms and individuals to take risks or adapt to changing market circumstances. It also means making sure we don't stifle innovation through the creation of new regulations that harm our competitiveness in the digital economy.

In industry policy more generally, barriers that prevent new and emerging industries from locating in Australia or staying in Australia need to be removed. We also need to remove barriers that hold back our existing industries and prevent them from expanding.

Australia also needs to do more to lower the barriers and hurdles to adopting the innovation of others in our workplaces and homes; as well as doing a better job at commercialising our own research and development. On tax, given the importance of innovation to economic development, our tax system ought to drive greater domestic investment in research and development. A modern industry policy isn't about pretending that we can stop change, rather it's about adapting to and accepting change. It's about removing barriers to our success and focusing on our strengths.

Research conducted by AlphaBeta for the Business Council shows that the most significant impact of technology on our working lives will be in the way we perform the tasks that make up our jobs. Between 2011 and 2016, the average level of change in tasks within an occupation was almost 10 per cent. Australian workers now spend about half a day a week doing different tasks than someone with the same job in 2011. For example:

- accountants are spending less time computing data and more time resolving clients' problems
- registered nurses are spending less time recording patient histories, and more time monitoring patients
- product assemblers are spending less time assembling machinery and more time reviewing and learning.

Our research shows that over the last five years, workers in low-skilled jobs had the lowest rate of task change but the highest rate of retrenchment. Workers in high-skilled jobs were the reverse: with the highest rate of task change and the lowest rate of retrenchment. This highlights the importance of both skills and flexibility in protecting jobs.

To keep people working and to keep jobs in Australia, we need to embrace changes within our jobs and be ready to adapt. This means pursuing policy reform that:

- improves the competitiveness of Australia, as a destination for investment
- tackles badly designed regulation
- institutes a workplace relations environment where workers and managers can sit down together to manage change
- allows Australians access to education and skills training across their working lives.

It also means embracing technology to help us address the challenges of demographic change and population ageing.

A services based economy

Australia's industrial structure has evolved over time. At federation, Australia's services sector was almost 60 per cent of the economy, which was unusually large at the time and more in line with a modern industrial economy. The success of Australia's exporting sectors such as mining and agriculture helped deliver higher living standards for Australians, which in turn generated strong demand for services. That remains the case today. Additionally, the success of Australia's mining industry has, for example, brought about growth in a range of services that provide direct support to mining.

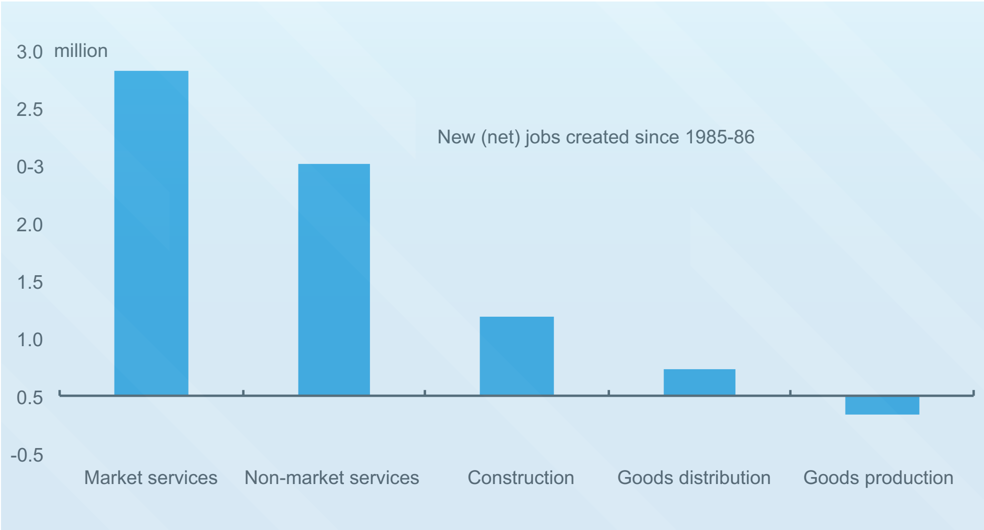
The services sector comprised a majority of employment in the mid-1980s, and its share of employment and output has continued to grow since then. There has, however, been a significant fall in the share of employment in the goods production sector. While the absolute number of those employed in the goods production sector has not fallen by much (there are 160,000 fewer people employed in this sector than 30 years ago), the reduction in the share of employment in the sector is stark – having fallen from 26 per cent in 1985-86 to 13 per cent in 2017-18.

Australia's services sector accounts for around 70 per cent of economic output and employment, but only around 20 per cent of Australia's exports. Education services are Australia's third largest export, after iron ore and coal, and provide enduring people-to-people links.

Many of Australia's financial and professional services companies are truly world class. With a highly educated and expert talent pool, Australia offers many countries an ideal partnership opportunity to build their own domestic capabilities through access to this talent. To realise this potential, Australia must reduce and remove regulatory impediments to trade in services, including through regional and bilateral free trade agreements.

Doing this will be key to creating the high skill, high wage and private sector driven employment opportunities that generate wealth in Australia.

Figure 7. Employment growth by sector since 1985-86



Source: ABS cat. no. 6291.0.55.003.

Note: Market services includes retail, accom. & food, profess. & scientific services, rental & hiring services, IT & communications, finance, admin. services, arts & rec., other services. Non-market includes health, aged & child care; education & training; public admin. & safety. Goods distribution includes wholesale trade, transport & storage. Goods production includes agriculture, mining, manufacturing, utilities.

Our economy

Our economy

The Australian economy could well be at a crucial turning point, with a significant slowing in economic growth over the second half of 2018. Widely watched barometers of business conditions – such as the NAB business survey – also weakened in the second half of 2018 as GDP growth slowed.

Whether or not this heralds the start of a more material downturn in the economy that is ultimately reflected in a higher unemployment rate is currently uncertain.

To date, business has helped to drive full time jobs growth and low unemployment figures. Business growth and the taxes businesses and their employees pay has improved the budget position. Those companies operating and selling offshore are producing export income for the country in an increasingly competitive global world.

Whether those positive trends can continue is uncertain. Not only did the Australian economy slow over the second half of 2018, growth appears to be slowing elsewhere around the globe, including in China. This means we can't necessarily rely on the rest of the world to kick start growth here.

Either way, it is clear that the pace of growth recorded over 2018 – of just 2.3 per cent – is simply not fast enough to generate the sorts of wage increases that Australians expect. It is also too slow a pace of growth to deal with a domestic or global shock to the economy.

While GDP and incomes growth are currently weak, Australia has nonetheless been fortunate enough to have had 27 years of growth without a recession. We need to remember, however, that we have created a lot of that fortune ourselves through governments, businesses and unions working together to create a more competitive and resilient Australia.

It is an achievement of which Australians should be proud. That run of growth has seen, come the end of 2018 and the start of 2019, the unemployment rate drop to around the Reserve Bank's estimate of full employment.

- For almost all of the 1980s and 1990s, the unemployment rate was between six per cent and 11 per cent. Since 2003, the unemployment rate has remained between four per cent and six per cent almost entirely.
- This considerably lower unemployment rate over the last 15 years has occurred at the same time as participation in the labour force has substantially increased. A greater share of Australians are in work or looking for work than ever before. While part-time employment has risen over the past several decades, this appears to largely reflect

cultural change in allowing people greater choice and control over how they structure their work.

The benefits of Australia's run of growth have also been shared by all income groups. That was the conclusion of the Productivity Commission: 'While growth is no guarantee against a widening disparity between rich and poor, we show that it has delivered for the average Australian household in *every* income decile significantly improved living standards.'[12]

Australians should be proud of what we have all managed to deliver on jobs and equality. According to the Productivity Commission, inequality has in fact declined over recent years and has only risen modestly since the 1980s. Importantly, the Commission found that sustained growth has delivered improved living standards across all income groups (as noted above).

Of course, that success does not mean Australia's economy is without its challenges. Indeed, while we have had a long run of unbroken growth, the last decade has seen – on average – a weaker pace of GDP growth and around a halving in the rate of real wages growth compared with the 1990s and early to mid-2000s. Weaker economic growth makes it harder to generate both jobs growth and wages growth at the same time. A stronger economy with robust growth in productivity makes both possible.

We have been able to achieve this in the past, and the Business Council believes we ought to strive to achieve this in the future.

Australia's current economic challenges include:

- GDP growth having averaged just 2.7 per cent over the past decade, with the Reserve Bank's most recent forecasts expecting growth to remain around this level for a number of years.
  - The most recent data shows the economy grew by just 0.4 per cent in the second half of 2018. That implies an annualised rate of growth of just 0.9 per cent. To place that in context, over the past thirty years GDP growth has averaged 3.0 per cent, while from 1994 to 2004 the economy grew at a blistering average rate of 3.7 per cent.
- Weak wages growth and an increasing cost of living, especially electricity bills.
- High levels of debt among Australia's households and a high level of government debt by historic standards.
- Concerns about increasing casualisation and the 'gig' economy, concerns that may reflect the pace of change we see all around us at work.

12 Productivity Commission, *Rising inequality? A stocktake of the evidence*, Research Paper, 2018.

- Australia's economy is also increasingly uncompetitive. Over the past seven years, Australia has slipped from 9th to 19th in IMD's world competitiveness ranking. This decline in our competitiveness ranking means we have slipped further behind the world's best when it comes to attracting talent, investment and capital.

The Business Council believes we can solve these challenges through a combination of investment, appropriate regulation and innovation that drives economic growth.

Figure 8. Historical unemployment rate

Source: ABS cat. no. 6202.0

A stronger economy – generating growth

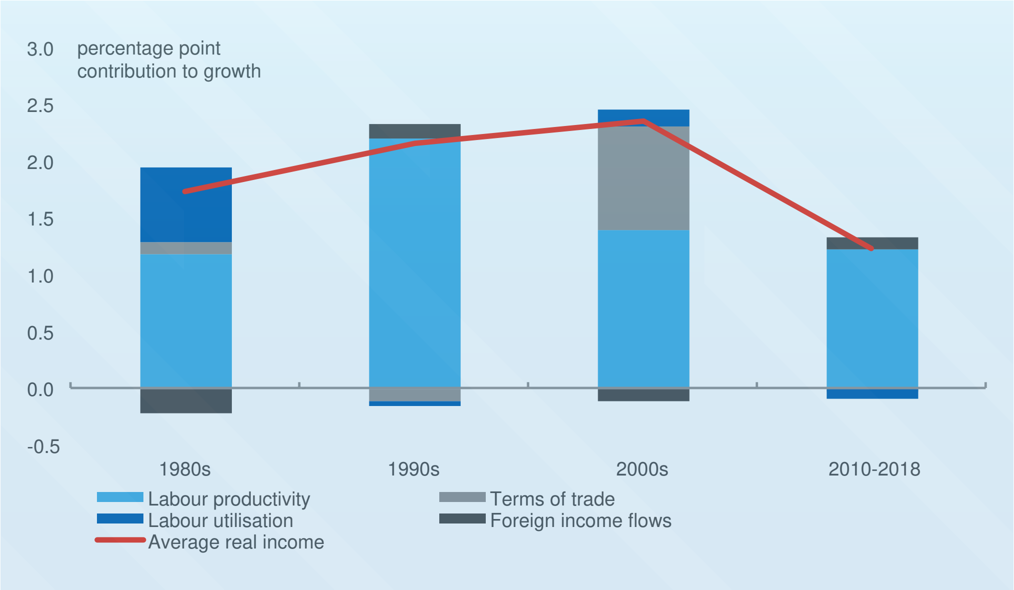
Australia has generated growth through different means over the past 40 years (as the following graphic shows).

Through the 1980s, growth in real incomes was generated by a combination of moderate growth in productivity and more people – predominately women – entering the workforce.

The 1990s saw Australia reap the rewards of economic reform, with very strong productivity growth generating strong incomes and real wages growth. With the early 1990s global recession and then the Asian financial crisis keeping a lid on commodity prices, generating higher incomes growth depended on productivity growth.

The following decade saw a different story. Productivity growth slowed, but incomes growth was held up by surging commodity prices as China's economy boomed.

Figure 9. Contributions to growth in average real per capita incomes



Source: ABS cat. no. 5206.0

Since 2010, commodity prices have trended sideways. As a result, they are no longer contributing to real incomes growth. With increases in labour force participation increasingly difficult to come by as the population ages, that leaves productivity growth as the sole driver of real incomes growth. However, with productivity growth having been soft since 2010, real incomes growth per capita has slowed.

It's this softness in productivity growth that is at the heart of the weakness in GDP, real incomes and real wages growth in Australia.

If we'd been able to maintain the same pace of productivity growth over the past eight years as we did through the 1990s, then it is fair to say that real incomes per person could be about $5,000 higher on average than they are today. Lifting productivity growth – everything else being equal – will raise GDP growth. This is the way to faster growth. The business community does not want people working harder for less. Instead we want to ensure companies have the right environment to expand, innovate and invest so people can work smarter and more effectively. An economy with greater productivity means the benefits can be shared with all Australians through lower prices, higher wages, higher profits and therefore better shareholder returns (including for the more than 15 million Australians with superannuation).

It's investment and innovation that drive productivity growth. The Business Council's policy agenda is about unleashing investment and innovation.

At the moment, however, investment spending remains weak. As a share of GDP, it is around the levels seen coming out of the 1990s recession.

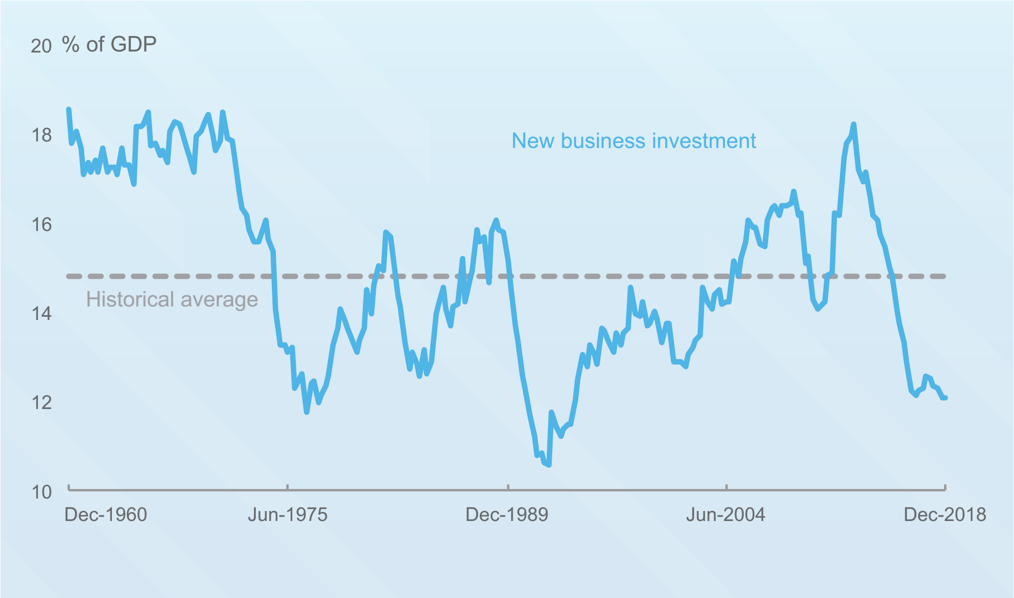
Given the crucial role that investment plays in delivering and sustaining strong productivity and GDP growth we need to kick-start investment spending and make Australia a 'first choice' investment destination. That will help turn around our weak productivity performance and lift wages growth.

The Treasury found in 2017 that larger businesses tend to be more productive and pay higher wages. The key is 'capital per worker', in other words how much investment the business has done over time.

> 'An examination of wage growth by business characteristics using the Business Longitudinal Analysis Data Environment (BLADE) suggests that higher-productivity businesses pay higher real wages and employees at these businesses have also experienced higher real wage growth. Larger businesses (measured by turnover) tend to be more productive, pay higher real wages and have higher real wage growth. Capital per worker appears to be a key in differences in labour productivity and hence real wages between businesses, with more productive businesses having higher capital per worker.'[13]

13 Australian Government the Treasury, *Analysis of wage growth*, 2017.

Figure 10. New business investment as a share of GDP



Source: ABS cat. no. 5206.0

Dealing with the cost of living

The cost of living is more than just inflation. At its heart, the cost of living is about how much money people have left in their pockets once taxes, housing and the essentials are paid for. And the essentials today include so much more than in the past – smartphones and internet access, for example.

As well as faster wages growth, the Business Council also believes Australians should keep more of their own money. That means making governments more efficient and less wasteful, so taxes are lower, while still providing the services Australians expect from government. Lower taxes increase household disposable income.

To help lower the cost of living, the Business Council also supports action on many of the ACCC's recommendations which are designed to cut power prices. If the ACCC's recommendations were adopted as a package, the average residential customer could achieve savings between $291 and $419 a year, depending on where they live. Only a lack of political leadership and goodwill has stopped Australians from seeing lower energy bills.

More generally, a competitive economy with free and open markets provides the greatest scope to lower the cost of living. Indeed, where markets are allowed to operate freely, consumers have seen only small price increases and, in some cases, falls. In fact, those items in the consumer price index basket where prices are set or substantially influenced by government have seen much larger increases than those items where prices are predominantly set by the private sector.

For example, the consumer price index shows that over the past five years:

- food prices have risen 5.6 per cent
- clothing and footwear prices have fallen 5.5 per cent
- in contrast, property rates and charges have risen 21.4 per cent.

As former Reserve Bank Governor Glenn Stevens put it:

> 'For most products, competitive markets will deliver the greatest choice at the lowest price to informed consumers.'
>
> Granted, there are various exceptions to the generalisation above. Where markets are "natural monopolies" or externalities exist, for example, regulation is called for. Good outcomes won't occur if consumers are not well informed. And so on.
>
> Nonetheless, I would venture that the biggest gains to prosperity over the past 25 years have come from more competition.'[14]

What if something goes wrong?

Just because Australia has enjoyed 27 years of growth doesn't mean, of course, that something can't go wrong. After all, as an open economy dependant on trade we are exposed to global trends. Growth doesn't just happen through luck, it needs to be refreshed and renewed through good policy, maintaining high quality institutions and a competitive business environment.

In fact, we have rarely been as exposed to the global cycle as we are now. Federal net debt is at its highest level as a share of GDP in over 50 years and the RBA cash rate is at a record low. We have an unfavourable combination of a budget that is only now getting back into surplus, an historically high level of government debt, record low interest rates and very high levels of household sector debt.

14 Glenn Stevens, '*Reform' and Economic Growth*, Remarks to the National Reform Summit, 26 August 2015

Of course, Australia does retain a AAA credit rating. However, a comparison with the position prevailing just prior to the Global Financial Crisis (which progressively impacted the global economy through 2008) shows how little policy ammunition we have to deal with the next global (or domestic) shock:

- The cash rate is 1.5 per cent today, compared with 7.25 per cent then.
- Net debt is now 19.2 per cent of GDP, versus no debt then (in fact we had 3.4 per cent of GDP in government 'savings').
- The budget is currently in deficit in (0.2 per cent of GDP) versus a 1.7 per cent of GDP surplus then.

Put simply, we have much less capacity now than we have had in the past to deal with a sharp slowdown in China, a debt crisis in Europe or a future recession in the United States. This isn't scaremongering: the global economy went into recession in the mid-1970s, the early 1980s, the early 1990s, the early 2000s and the late 2000s. Things do go wrong.

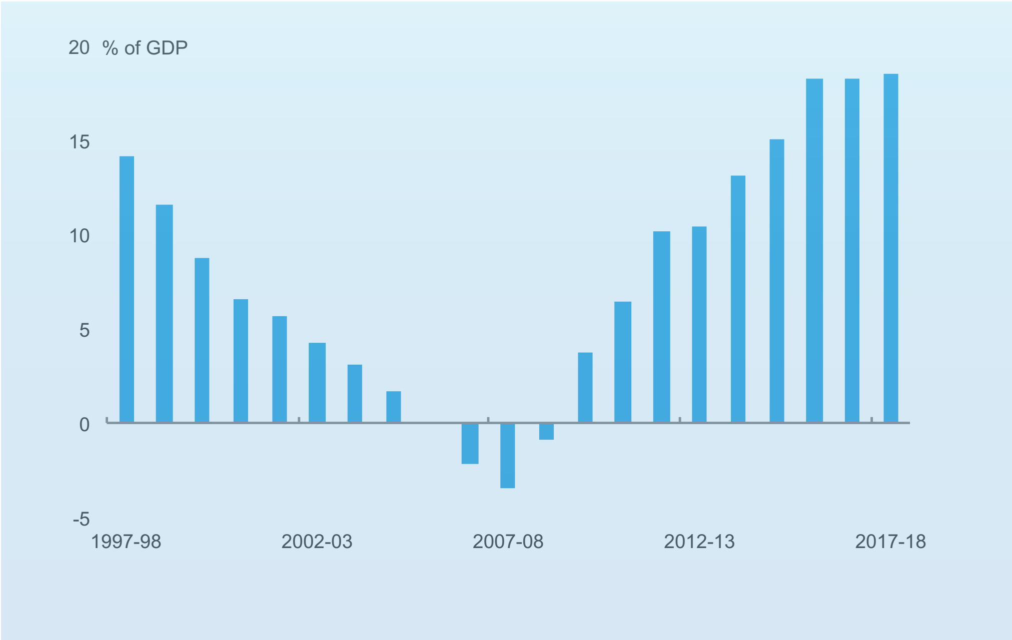
Put this all together and it becomes clear that a stronger, more resilient Australia is one with less government and household sector debt.

For households, creating the conditions to sustainably deliver faster wages growth will make it easier to pay down debt and provide a buffer between mortgage payments and spending on essentials. Getting regulatory settings right in the banking sector will also be crucial in ensuring a credit crunch does not see even more wealth wiped off household balance sheets.

For Australia, getting government debt down as quickly as possible will go a long way to reducing our overall debt levels as a nation. That's why it is important the budget gets back into surplus and stays there.

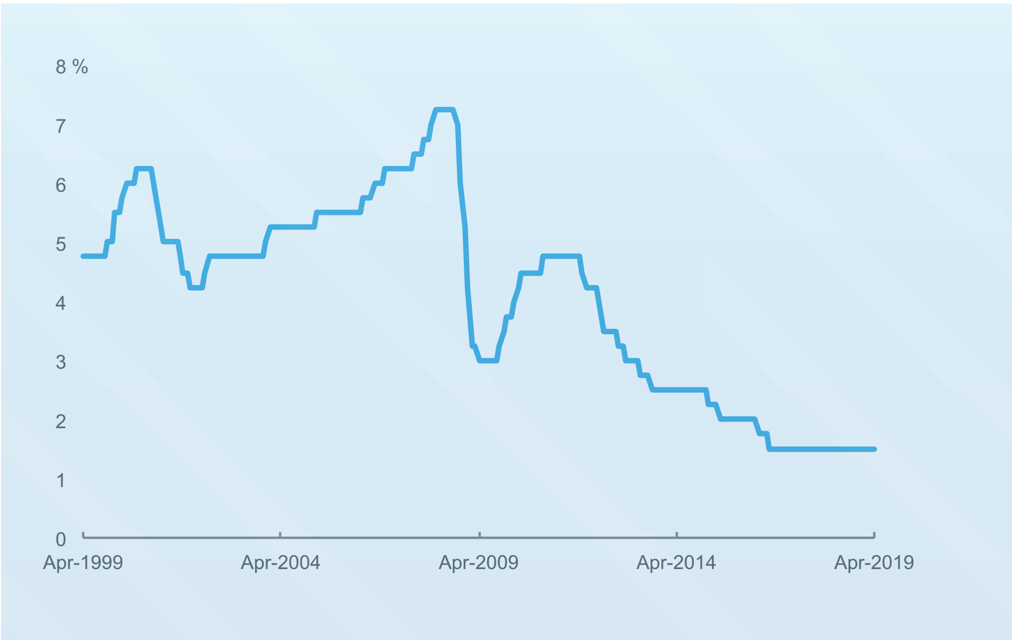
Getting the budget back into surplus and reducing debt will enable Australia to rebuild its economic firepower and help us respond to global shocks or a potential domestic slowdown. The best way to get the budget into the black and keep it there is through strong economic growth. Strong growth and a strong budgetary position go hand in hand.

Figure 11. Federal net debt



Source: Budget 2019-20

Figure 12. Cash rate



Source: RBA cash rate statistics

Wages

Wages

Australians have seen weak wages growth for several years now. Indeed, for some Australians, wages growth has not kept up with increases in the cost of living. For others, modest increases in wages have been eaten away by taxes and cost of living increases.

The real consumer wage rose just 1.2 per cent through the year to December 2018, while real wages defined as the wage price index less the rate of inflation were up just 0.5 per cent over the same period.

Getting to the heart of weak wages growth and coming up with the right solutions is therefore of real importance to Australians.

The current pace of wages growth is too low, and we need to put in place the preconditions to lift wages growth. A rapidly growing economy and strong productivity growth will be the key to lifting wages and incomes.

In this document the Business Council outlines a range of ideas that will – together – make the Australian economy and workplace relations system capable of delivering faster wages growth.

Responding to weakness in wages growth

For half a decade, workers on enterprise bargains have seen faster wages growth than has been the case across the broader economy. Making it easier to negotiate and conclude enterprise bargains should therefore lead to faster wages growth.

Fundamentally we know that the way to sustainably grow wages is to increase productivity. That in turn means lifting investment and making Australia a more competitive economy. It also means making sure our education and skills system is set up for lifelong learning.

Personal income tax cuts also put money back in the pockets of Australians. By ensuring an efficient delivery of government services, lower spending growth does not have to come at the expense of the services all Australians want and need. A stronger economy with faster growth would also generate more revenue to fund essential services.

The ideas throughout this document are framed around addressing these (and other) issues.

It is also important to understand what is not behind weak wages growth. After all, an incorrect diagnosis of the problem could lead to the wrong solutions.

For example, the Reserve Bank Governor recently noted that the weakness in wages growth is not stemming from the industrial relations system.[15] And a detailed Federal Treasury paper

15 Philip Lowe quoted by John Kehoe, 'Something deep and structural going on' with low wages growth says Phil Lowe, *Australian Financial Review*, 6 March 2019.

examining the reasons for weakness in wages growth found that there has not been a shift in the share of income going to profits at the expense of wages. In the Treasury's words: 'the labour share of income has been steady in recent decades.'[16]

Ultimately, to achieve both stronger wages growth and a lower unemployment rate it appears that GDP growth above 2.75 per cent is necessary. Higher productivity will help in lifting GDP growth. This underscores the Business Council's focus on higher productivity and faster economic growth as the means by which we can solve many of our challenges.

It is ultimately faster economic growth driven by faster productivity growth that will enable wages to rise more rapidly.

The Business Council's plan for increasing wages is therefore:

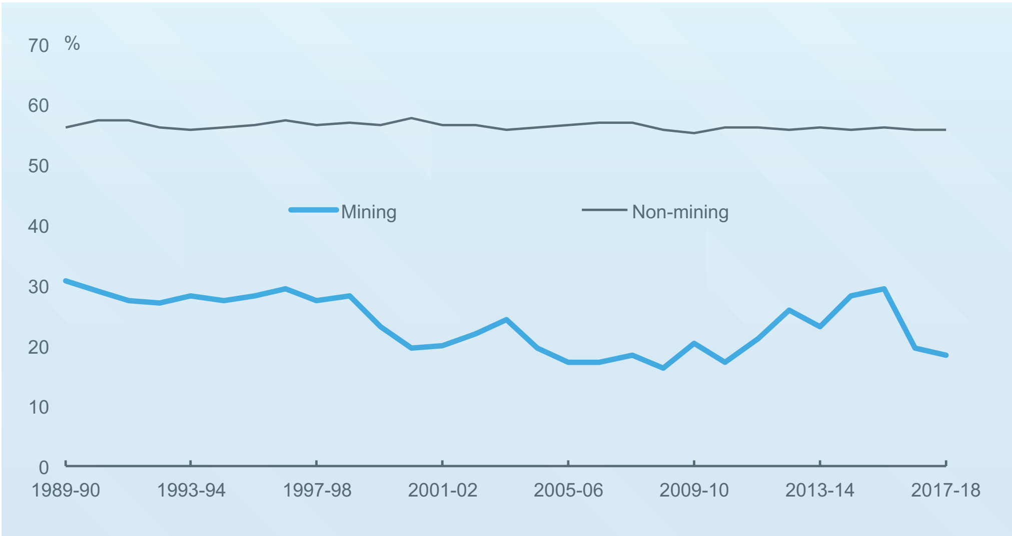
- Faster economic growth driven by faster productivity growth.
- A competitive economy that promotes investment and jobs in Australia.
- Make it easier to conclude enterprise bargains given they improve on awards and have been delivering faster wages growth than the economy wide average.
    - This also means making sure productivity gains under enterprise bargains are reflected in wages outcomes.
- Keep personal income taxes as low as possible to keep money in the pockets of workers.
- Reform our post-secondary education and skills system to ensure Australia remains a high wage and high skill economy.

On minimum wages, the Business Council supports the recommendation from the 2015 Productivity Commission Inquiry into the Workplace Relations Framework that:

> 'In undertaking the annual wage review, the wage regulator should broaden its analytical framework to consider systematically the risks of variations in economic circumstances on employment and on the living standards of low paid employees.'[17]

16 Australian Government the Treasury, *Analysis of wage growth*, 2017.
17 Productivity Commission, *Workplace Relations Framework*, Inquiry Report, 2015

Figure 13. Labour share of income, mining and non-mining



Source: ABS cat. no. 5204.0

Reasons behind the weakness in wages growth

The wage price index rose 2.3 per cent over the year to December 2018. To place that in some context, the long-run average increase in that wages series is around 3.25 per cent.

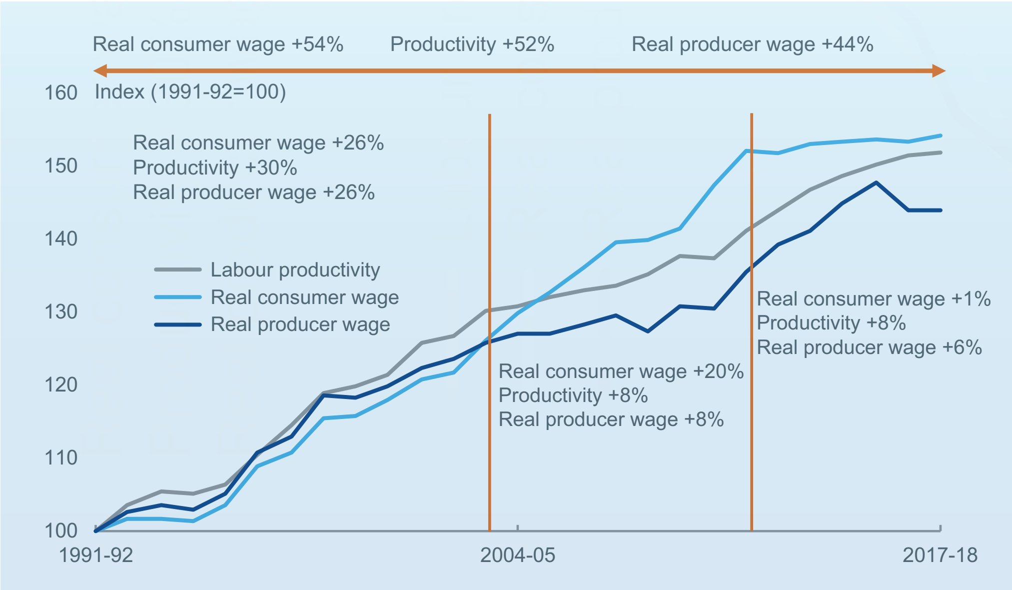
The real consumer wage rose just 1.2 per cent through the year to December 2018, while real wages, defined as the wage price index less the rate of inflation, were up just 0.5 per cent over the same period.

It appears there are two main interrelated reasons for slow wages growth in recent years; an adjustment following the end of the commodity price boom and low productivity growth.

As Figure 14 shows, growth in average real wages and labour productivity tracked closely over the 1990s, virtually one-for-one. This was a period of fast growth in productivity and real wages. It reflected the cumulative benefit of a range of economic reforms through the 1980s and early 1990s, including the introduction of enterprise bargaining.

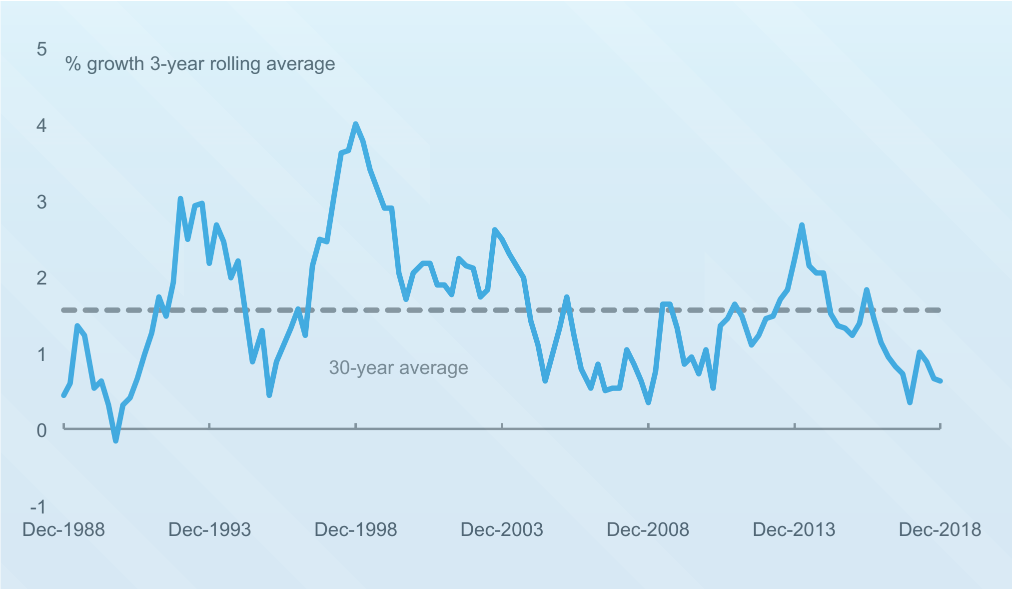
Productivity growth slowed from the middle of the 2000s. Wages growth held up, however, as the benefits of booming commodity prices – driven by rapid economic growth in China – were spread throughout the economy. During the mining boom, nominal wages grew at around four per cent a year spreading income gains across the community. Businesses benefiting from high export prices could afford this as higher prices outstripped wage rises. However, this also meant that growth in wages ran well ahead of growth in productivity.

Figure 14. Real wages and labour productivity growth since 1991-92



Source: ABC cat. no. 5206.0

Figure 15. Labour productivity growth



Source: ABS cat. no. 5206.0

The abrupt (but inevitable) drop in commodity prices in 2011 left an old-fashioned real wage 'overhang' (that is, the level of real wages had risen well above the level of productivity growth). That, when coupled with only modest productivity growth since, has seen wages growth in the doldrums. In other words, the combination of wages having run ahead of productivity during the commodity price boom, the end of the boom itself and the weakness in productivity growth have all combined to produce weak wages growth.

For several years, labour productivity growth has been below the long-term average of 1.5 per cent. Indeed labour productivity has fallen in eight of the past ten quarters.

Multifactor productivity growth was 0.2 per cent in 2017-18. This compares with growth of around 1.4 per cent a year in the 9 years to 2003-04. Since 2003-04, multifactor productivity has barely grown.

Weakness in the core drivers of labour productivity growth — subdued business investment and low multifactor productivity growth — should therefore be of paramount concern.

Nonetheless, it is important to recognise that the current weakness in wages growth appears to have supported strong employment growth. In aggregate, this will contribute to growth in household incomes and help keep the unemployment rate low.

A strong budget and better services

A strong budget

Reforming the Intergenerational Report

Better services and a more effective federation

Addressing entrenched disadvantage

A strong budget

Australians have told us they want governments to spend money wisely and to end waste. They are also worried about Australia's ability to manage if things go wrong in the economy. The business community shares these concerns. As a result, the Business Council's policy agenda is about making sure our governments operate efficiently and effectively. It's not about fewer services, and it's not about us telling Australians what governments should spend money on. Rather, it's about governments being subject to a series of 'fiscal rules' to help ensure money isn't wasted and taxes are kept as low as possible while still providing quality services and a safety net.

These fiscal rules will also help get, and keep, the budget in surplus. That means that we can both lower debt – which puts us in a stronger position if something does go wrong in the economy – and continue to fund services now and into the future. A strong budget is not an end in itself, rather it funds the services we all need and gives government the capability to support the economy if something does go wrong either here or in the global economy.

When it comes to the future we need to make sure we can plan and deal with the changes that will come. An ageing population and greater demand for health care are just two. As a result the Business Council recommends overhauling the IGR (an ultra long-run budget forecast) to help further future-proof the budget.

Ideas and actions

- Strength: Australia needs a stronger fiscal position to protect us against a shock to the global (or domestic) economy and make sure we can deal with challenges like an ageing population. While the budget is expected to return to surplus, it needs to remain there for some time to lower government debt. Net debt at the federal level is at its highest as a share of GDP in 50 years. A materially lower level of debt (net debt is currently around $370 billion, while gross debt is around $550 billion) would give Australia more capacity to deal with negative economic shocks.
- Value for money: To ensure value for money, the effectiveness of government spending must be monitored and improved. A process of constant review of the effectiveness of government programs and the efficiency of their delivery is needed. The same goes for the productivity of government services. Fiscal rules (such as a tax-to-GDP cap and a real spending cap) can also improve the efficiency of government. Given the increasing tendency of Australian governments to pursue off balance sheet financing there needs to be greater scrutiny and focus on these liabilities.

- More effective federation: There needs to be a renewed effort to make the Council of Australian Governments (COAG) work for all Australians. The federal and state governments should focus on the big issues – improving the economy and delivering better services and infrastructure more efficiently – and all governments need to be held to account for their commitments. Reform of the federation can no longer be put off; this is a prerequisite for improving delivery of essential government services, such as health and education.
- Better services: In areas like health, a patient centred model, more transparent pricing and a greater use of data could improve outcomes. In education and skills, the Business Council outlined a comprehensive roadmap for reform in: *Future-proof: Australia's future post-secondary education and skills system*. A stronger fiscal position would also ensure Australia is able to continue to provide a comprehensive social safety net as the population ages.
- Preparing for the future: The IGR needs to be reformed. It should be produced by the Parliamentary Budget Office and bring federal and state outlooks into one national IGR.
- Saving for the future: The taxation of savings and the retirement incomes system in Australia is complex. We advocate for a comprehensive review to ensure the system is less complex and easier to navigate, facilitates comfortable living standards in retirement and alleviates fiscal pressures associated with an ageing population. The Business Council supports the Productivity Commission recommendation that an independent and full inquiry into the retirement incomes system be completed in advance of any increase in the Superannuation Guarantee rate.

This plan for the budget makes our economy stronger in case something does go wrong, puts in place rules to make governments more efficient and effective, ensures we plan for the future and delivers better services to Australians.

Behind those ideas and actions

A strong budget

A budget surplus and low levels of debt are not ends in themselves. The real ends are:

- policy flexibility that a strong fiscal position provides if the global or domestic economy was to weaken, and
- budgetary strength that enables our needs for quality schools, hospitals and a social safety net to be met now and into the future.

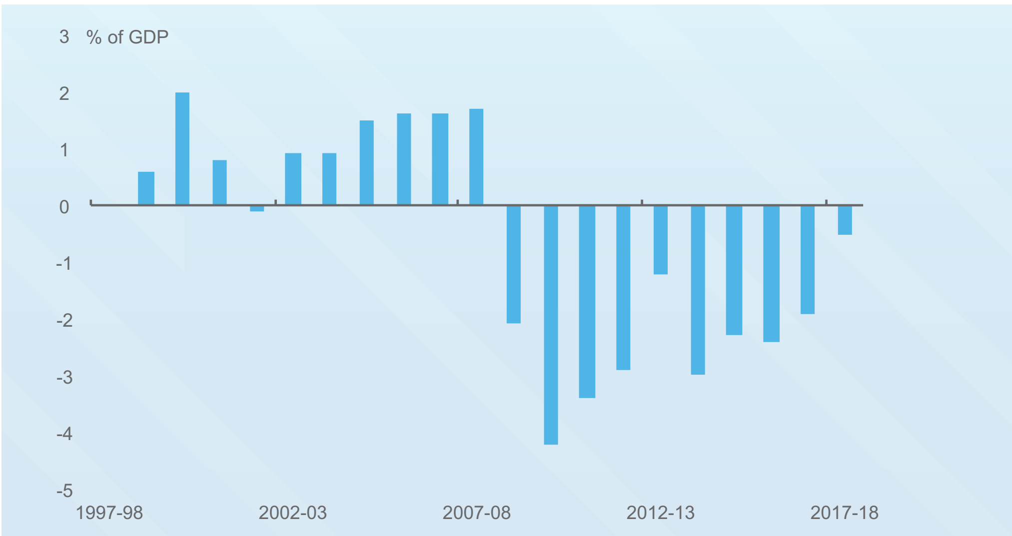
Similarly, maintaining the AAA credit rating is not an end in itself; but losing it would have real economic consequences. It is critical for retaining financial strength and maintaining investor confidence.

Australia remains reliant on money from offshore – foreign borrowings in other words. Losing the AAA rating would see higher borrowing costs for both banks and some levels of government. That in turn means more tax dollars would have to go to paying government interest bills; and higher mortgage interest rates.

Given the backdrop of high levels of household sector debt and falling house prices, getting government debt as low as possible is a sensible way to help restore our national balance sheet. The stronger our financial position, the more flexibility we have as a nation to deal with economic shocks. Getting the budget into surplus and keeping it there to reduce government debt is the most feasible way to do that.

While a number of other economies have more government debt than Australia, Australia is more exposed to the global economic cycle and commodity prices than most other economies. This exposure to commodity prices has of course been to Australia's advantage over the past decade and a half. It does however mean that the Australian economy can be subject to a wider range of shocks than most other developed economies. Lowering government debt will provide us with greater ability to respond to any negative shocks.

Figure 16. Budget balance

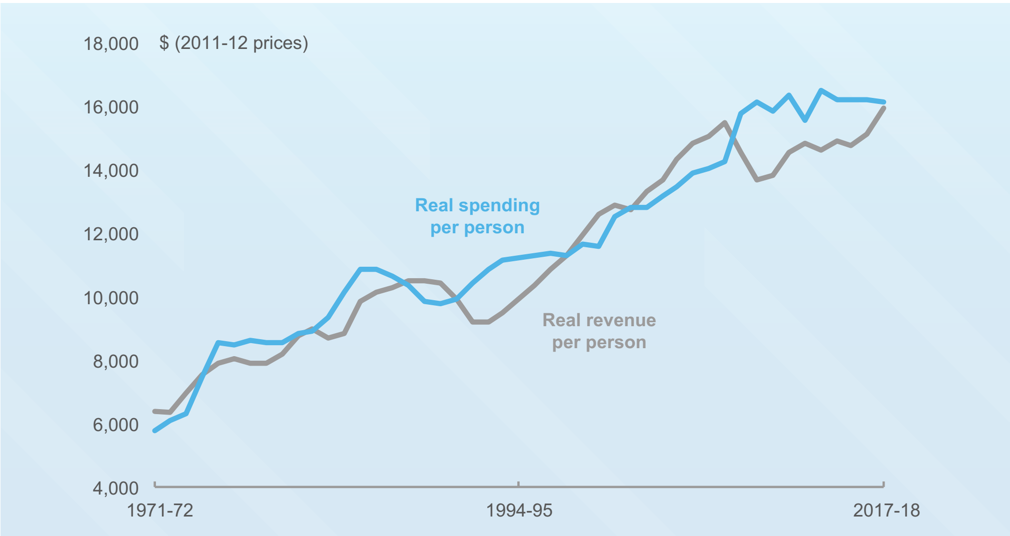


Source: Budget 2019-20

Reducing government waste and delivering value for money

Federal, state and local governments spend over half a trillion dollars a year. Ultimately that needs to be paid for – either today through taxes or by future generations through higher debt. Australians therefore rightly expect this money will be spent well and that governments will be efficient and effective. All too often that is not the case – projects run over budget, and government programs miss the mark and fail to have any real impact. And sometimes governments simply spend money they don't need to. The impact to consumers and the community manifests itself in people not getting the services and infrastructure they need.

Figure 17. Real government revenue and expenditure per capita



Source: Budget 2019-20

Governments should continually review the efficiency and effectiveness of programs and increase the productivity of government services. As the NSW Treasury notes, the state's long run fiscal gap of 3.4 per cent of Gross State Product (GSP) could be closed by an 'increase of just over 0.5 percentage points in government productivity per year.'[18]

All governments should commit to reinvigorating COAG. Australia's system of federal–state financial relations sees the federal government collect around 80 per cent of tax revenues, while the states are responsible for delivering services in fast-growing areas of spending such as health.

18 NSW Government, *Intergenerational Report*, Budget paper no. 5, 2016

Federal and state governments need to work together to deliver high quality, efficient services in Australia's federation. While some duplication of services between the federal government and states still exists, and should be removed, the bigger problem is poor cooperation and coordination when new policies and frameworks are being developed and when programs are being implemented. Australia has seen the consequences of poor program design and delivery where more than one government is involved – the state of the national energy market is a pertinent example. And the cost of badly needed reform that never happens due to poor federal–state cooperation cannot be quantified. As a result, there needs to be a renewed effort on making COAG work for all Australians.

Priority areas for action by COAG include chronic disease, mental health, vocational education and training, nationally significant gateway infrastructure, and reducing overlapping regulatory burdens.

Clear assignment of responsibilities, governance and funding arrangements across the federation can lay the groundwork for improving outcomes for people and slowing the rate of growth in major spending areas.

Value for money does not mean fewer services. Rather, it means making sure services are delivered efficiently and effectively, without duplication. To help drive that efficiency, the Business Council is advocating a series of fiscal rules. These rules will not reduce the level of services available to Australians – indeed they provide for an increase in spending per person after inflation. But they will help ensure that government does not tax and spend first, and achieve value for taxpayers' money. This is about adopting targets that limit the risk of ever-expanding government and the accompanying lower efficiency and effectiveness of government spending that would come with such an expansion.

- Specifically, the Business Council supports a responsible tax-to-GDP cap (the current federal government's cap is 23.9 per cent of GDP) and a real spending growth cap. A real spending growth cap of two per cent would, given current rates of population growth, enable an increase in spending per person and after inflation. A tax-to-GDP cap effectively hands back bracket creep and restricts government from continually expanding more rapidly than the economy.
- Across the federal, state and local governments taxes comprised 28 per cent of GDP in 2016-17.

The price of debt

Some debt is appropriate. For example, to fund long-lived assets that provide benefits across generations or alternatively seed infrastructure that might then be 'recycled' over time.

However, debt is not costless.

Debt restricts the fiscal flexibility of future generations, for example. And the money spent on the interest bill associated with the stock of government debt means there is less money available today for more services or lower taxes.

Ever since the federal budget dived into deficit around a decade ago, a cumulative $95 billion has been spent paying interest on government debt. To place that in some context, $95 billion is more than enough to pay for Medicare, the pharmaceutical benefits scheme and all other federal government spending on health for a year.

Planning for the future

One of the major fiscal reforms of the past two decades has been the IGR. However, the time has come to refresh the IGR. As part of a comprehensive reform, the Business Council recommends the IGR be produced by the Parliamentary Budget Office and bring federal and state outlooks into one document.

The budget papers themselves currently provide detailed information on the economic and fiscal outlook over the current budget year and the three-year forward estimates. However, major policy reforms can take many years to implement and the budgetary impact of these policies can take more than a decade to fully manifest. The Business Council has previously called for the budget process to be amended to include publishing 10-year projections for major revenue and spending items, including assessments of the long-term impacts of new measures such as the NDIS.

Another aspect of planning for the future is the taxation of savings, and the retirement incomes system. Both are complex and inter-related. Rather than tinker with each in isolation, the Business Council recommends a comprehensive review of the taxation of savings (including housing) and the retirement incomes system.

The dual purpose of the retirement incomes system should be to provide for comfortable living standards during retirement, and to reduce reliance on the Age Pension. A careful and holistic review of the retirement incomes system and the tax treatment of all savings income is needed to ensure the policy settings are meeting those aims. A holistic review that considered all these issues would also help to stop ad-hoc changes to what is a complex and inter-related system.

We therefore support the Productivity Commission's recent recommendation that 'The Australian Government should commission an independent public inquiry into the role of compulsory superannuation in the broader retirement incomes system, including the net impact of compulsory super on private and public savings, distributional impacts across the population and over time, interactions between superannuation and other sources of retirement income, the impact of superannuation on public finances, and the economic and distributional impacts of the non-indexed $450 a month contributions threshold. This inquiry should be completed in advance of any increase in the Superannuation Guarantee rate.'[19]

19 Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, Inquiry Report, 2018.

Reforming the Intergenerational Report

Current policy decisions sit in a wider context. Understanding the long-term outlook of the economy and budget, and the major risks Australia faces, puts current policy decisions in a crucial long-term context. It can help our governments make decisions which set Australia up to succeed in the decades to come.

Australia was at the forefront of recognising the importance of regularly reviewing and reporting on the long-term sustainability of the budget. In the mid-1990s only four OECD countries were doing this. By 2009, the number of countries had increased to 27.

The framework provided by the *Charter of Budget Honesty Act 1998* has served Australia well – by applying greater discipline, accountability and transparency to government spending and taxation decisions. The budget documents it introduced are now a core part of the Australian policy landscape – the Mid-Year Economic and Fiscal Outlook (MYEFO), the Pre-Election Economic and Fiscal Outlook and the IGR.

Successive IGRs have built our understanding of the long-term economic changes and spending pressures Australia faces from an ageing population. With the next IGR due in early 2020, now is a good time to reflect on ways to improve it and learn from best-practice around the world so that the IGR continues to serve the Australian community well.

The IGR should be independent

Intergenerational reports should be independent and non-partisan. This is the gold standard world-wide. In the UK, Canada and the US, the long-term fiscal sustainability reports are produced by independent authorities. In New Zealand it is a document of the Treasury, not of the government.

To ensure the IGR is independent and non-partisan, the Business Council calls for government to move responsibility for the IGR to the Parliamentary Budget Office (PBO).

We need to understand the long-term outlook for the whole country

We need to understand the long-term budget position of the whole nation – federal, state and territory governments. Currently only the federal, NSW and Tasmanian governments produce intergenerational reports.

State governments are responsible for 40 per cent of all government spending; and in aggregate, state governments have been in deficit for the last decade. This should not be ignored particularly when the political and policy tensions that can emerge between federal and state governments can turn into cost-shifting and a blame game.

The Business Council agrees with others including the OECD and the Grattan Institute that Australia needs a full picture of the nation's long-term fiscal outlook, and that any cost-shifting between governments should be highlighted.

An ageing population is not the only long-term risk facing Australia

The first four IGRs primarily focused on the impact of an ageing population on economic growth and government spending. This analysis should continue. However, there is also a case for future IGRs to examine other long-term policy challenges and risks beyond ageing: climate change, off balance sheet equity investment in infrastructure and chronic disease, for example.

Make the IGR more accessible and transparent

There is an inescapably large degree of uncertainty when making 40-year economic projections.

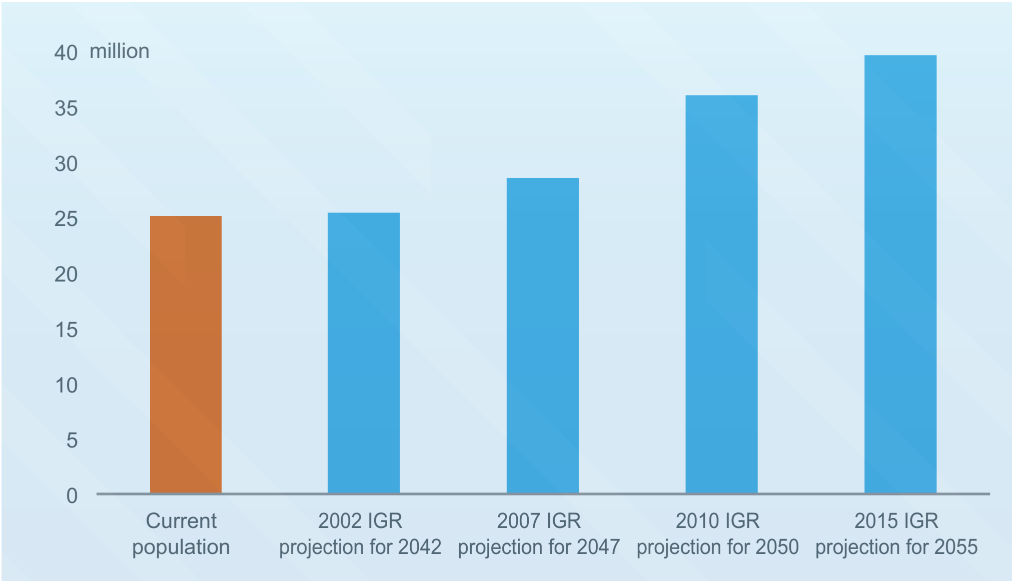
Currently, the federal government is only required to produce an IGR every five years. The outlook for the economy and budget can change a lot in this time. Other countries including Canada, New Zealand, the UK and the US publish long-term fiscal sustainability reports more frequently than Australia. That said, some of these reports are much less detailed than the Australian IGR.

The PBO should consider releasing short updates of the main indicators in the IGR every one or two years while maintaining the current level of detail in the five-yearly report.

Small differences in assumptions can have a substantial impact when played out over 40 years. Thorough sensitivity and scenario analysis of the main economic, demographic and policy assumptions is important. The sensitivity analysis presented in the past four IGRs should be extended and integrated further into the main document. For example, setting out population and migration scenarios could usefully inform current and future settings in the migration program.

The data underpinning IGRs should be accessible, transparent and enable easy comparisons to previous IGRs. Australia should follow the example of New Zealand's Treasury which makes its long-term fiscal model and assumptions publicly available.

Figure 18.The changing population estimates from Australia's IGRs



Source: ABS cat. no. 3101.0, IGRs (2002, 2007, 2010, 2015)

Ideas and actions

- IGRs should be independent. The Parliamentary Budget Office is the most suitable authority to undertake the task.
- IGRs should include long-term projections under both currently legislated policies and proposed government policies. The reasons for any large differences in the two scenarios should be clearly explained.
- IGRs should include all levels of government to give a full picture of Australia's fiscal outlook and highlight any cost-shifting between tiers of government. There are several ways this could occur, including:
  - the PBO and state treasuries work together through COAG to develop a joint IGR
  - state treasuries produce independent IGRs
  - the PBO estimates federal and state fiscal outlooks (as occurs in Canada).
- Expand the scope of the IGR beyond the economic and fiscal risks of population ageing. This could include climate change, off-balance sheet equity investment in infrastructure and chronic health (as examples).

- The PBO should consider releasing short updates of the main indicators in the IGR every one or two years while maintaining the current level of detail in the five-yearly report.
- Conduct sensitivity and scenario analysis on the main economic, demographic and policy assumptions. Such analysis can help inform national discussions around population policy, for example.
- Compare the latest projections with past IGRs and actual outcomes. Explain the cause of any substantive differences.
- Publish the full set of assumptions and data to aid transparency.

The benefits of such a reform to the IGR are potentially profound. An IGR that considers long-term federal and state budget outlooks combined with sensitivity analysis around population growth, could for example, provide policy makers with a detailed, long-term, integrated guide to the implications of various policy options. The current IGR, with just a federal focus can miss many of the nuances and implications that Australia's federation presents for long term planning and budget outcomes.

Better services and a more effective federation

Delivering better services for Australians will ultimately require federal and state governments to put together long-term national reforms and plans.

A number of issues need to be addressed to make the federation work more effectively for all Australians. These include:

- reducing overlapping regulatory burdens
- the confused areas of roles and responsibilities across different levels of government
- improving the autonomy and accountability of different levels of government.

As an example, there is no one health system in Australia but a web of different services and providers with all three levels of government (federal, state and local), not-for-profits and the private sector all involved. In the case of governments, they have different roles such as funding health services, developing policy, regulation and delivering services. No one level of government controls all the levers. COAG should ensure that the current allocation of roles and responsibilities in health is delivering the best possible outcome for Australians.

This will be even more critical as increases in life expectancy and the ageing of the population combine with the rising cost of health care. It means we run the risk of facing an emerging gap between projected demand for health care and the capacity of the health care system to meet that demand.

We also know there are likely to be some areas – like aged care – where higher standards may be required. While higher standards (in all forms of health care) are desirable, those higher standards may in turn mean a need for greater spending.

Putting this all together, the ageing of the population which brings greater demand for health care, a need for higher standards, the rising cost of new high tech health equipment, combined with a lower proportion of the population working (as we age), means that just adding resources to the current health care system is not a viable option.

Additionally, the demands on the health care system have shifted from acute care towards more non-communicable and chronic diseases. That means a system that might have been "fit-for-purpose" in the past is unlikely to be in the future.

- The Grattan Institute estimates, for example, over $1 billion a year is spent on potentially avoidable hospital admissions for chronic disease.

Substantial resources will be required to manage chronic disease, ageing, mental health and dementia, as just some examples. The system will have to be especially responsive to the needs of the retiring baby boomer cohort.

Public and private health providers have important and complementary roles in the provision of services, reflecting their respective strengths and areas of specialisation. For instance, the public system has strengths in accident and emergency services, and managing morbidity. The private sector has strengths in cancer related treatments, currently managing 63 per cent of such treatments. The health system cannot function without an efficient and viable private system. Over 4.5 million separations (episodes of care) are funded through the private system annually that cannot be easily re-absorbed by the public system. Private hospitals provide 58 per cent of all surgeries and 69 per cent of all elective surgeries.

The Business Council envisages a redesigned future health system that is responsive and innovative so that it is constantly improving without the need for continual policy intervention. To achieve this it will need to have these attributes:

- Consumer-driven, with a focus on amenity, respect and value for money. Consumers should be able to use technology and information (including better information on price and quality) to collaborate with providers to get the best possible care. Consumers should be empowered to proactively drive their treatment, including self-management and remote monitoring.
- Connected, with all the segments of the health system working in an integrated way and providing connectivity into complementary sectors like aged care and disability. Similarly the system should have stronger links between the acute system and aged care.
- Focused on maintaining wellness, with more care provided outside hospitals to help prevent and manage chronic disease, and a greater focus on achieving healthier lifestyles.
- Data-driven, with secure use of patient, system and cost data to ensure effective and convenient care. Advances in digital health such as expanding low-cost telehealth technologies, encouraging use of public-sector data sets, and automating administrative tasks should be embraced.
- Value for money, with high-quality care delivered across the system using funding models that ensure consumers and taxpayers are not paying for waste, inefficiency and duplication. Detailed analysis by the Productivity Commission estimates the efficiency gap

between the average and most efficient acute-care hospitals was likely in the order of 10 per cent. These variations consist of avoidable costs such as keeping people in hospital too long, or overpaying for supplies. Value for money can also be enhanced by:

- increasing the role of our community-rated private insurance to provide more choice, and more affordable and efficient services for policy holders, as well as taking the pressure off the public system
- retaining the private health insurance rebate to consumers who take out insurance.

Health is not the only major service delivery area where greater coordination and co-operation between Australia's various governments is needed. Education is another example, especially the post-secondary education and skills system.

Here, the Business Council outlined a comprehensive roadmap for reform in: *Future-proof: Australia's future post-secondary education and skills system*. We discuss this reform agenda in detail elsewhere in this document.

The key point is that none of these policy proposals can be achieved without a more workable federation.

The delivery of high quality, efficient services in Australia's federation needs the federal and state governments to work together.

A renewed effort to make COAG work for all Australians is needed. The federal government and the states need to focus on the big issues – improving the economy and delivering better services and infrastructure more efficiently – and all governments need to be held to account for their commitments.

To this end the Business Council proposes the following ideas:

- The Prime Minister and premiers should adopt and publish a medium term (2-3 years) agenda of economic and service delivery reforms to be progressed through COAG. This agenda should focus on reforms that are nationally significant and require cooperation and coordination between all governments.
    - Part of a medium term COAG agenda should focus on disentangling (to the greatest extent possible) the funding and delivery of programs in broad service delivery areas where more than one level of government is involved. That is, areas of greatest overlap that cost money and inconvenience people. Ideally, we need to move to a system where just one level of government is responsible for funding and delivering for entire service delivery areas.

- Priority areas for action by COAG should include chronic disease, mental health, vocational education and training, harmonising regulation to a high standard and removing overlapping regulatory burdens.

- COAG should develop a system of productivity payments to foster and reward bottom-up, state-led competition and regulatory reforms.
  - A new system of productivity payments would incentivise state governments to undertake microeconomic reforms that have a national benefit by: delivering autonomy to state governments in implementing the reforms but only paying upon the achievement of outcomes; and ensuring state governments receive increased fiscal benefits from reform.

- The institutional basis of COAG should be strengthened to better hold all governments to account for their commitments and facilitate coordination.
  - Professionalise the interaction between the federal government and states by making the COAG secretariat independent of the Department of Prime Minister and Cabinet
  - Task an independent organisation to track progress on agreements made at COAG and make recommendations to all governments on areas for improvement.

Fixing our challenges across health and education and training requires federal and state governments to come together and put in place coordinated long-term plans. That requires leadership, planning and forward thinking. That's what Australians rightly expect from our governments.

Addressing entrenched disadvantage

While Australia's long period of economic growth has seen higher living standards for all income groups, some people have nonetheless been left behind. Long periods of unemployment can, for example, make it difficult for people to move back into steady work and may put people at risk of relying on income support for much of their lives. Such entrenched disadvantage can and, too often, does reach across generations. We are particularly concerned for the wellbeing of people who are already at risk of being left behind and who may face further challenges in a changing labour market. We do not want to see multiple generations trapped in a welfare cycle where they can be permanently excluded from the labour market, where children grow up in a household where they have never seen anyone go to work, and where people can be permanently denied a chance to get ahead.

We believe that income support for those out of work should not be punitive. Income support should not act as a disincentive to working, but nor should it diminish the capacity of people to get a job. Job seeking is not costless and should be accessible. If a bus fare or a collared shirt become unaffordable, then getting to job interviews and presenting as a credible employee may move out of reach.

Steady work is the best way out of hardship and disadvantage. Changes to the welfare system alone – be they small or wholesale – will not be enough. Improving the welfare system must be combined with policies that reduce disincentives to work, improve employment services, focus on reskilling and lift the competitiveness of business taxes and regulation to create jobs and stronger wages growth.

The welfare system also needs to be fiscally sustainable over the long term to prevent the need for sudden and blunt cuts in spending. This challenge will increase, not lessen, over the coming decades as the population ages. Getting people into jobs thus delivers a double dividend.

Many of the proposals in this document will create the conditions to enable people to move from welfare and into meaningful work. That said, for some people a strong economy alone will not be enough. As a result, the ideas here extend beyond just a stronger labour market and a more rapidly growing economy.

The average amount of time a person on Newstart has spent in the welfare system has more than doubled in the past 16 years.

- In June 2002, people receiving Newstart had been on some form of income support for an average of 141 weeks (more than two and a half years).

- By June 2010, this average had risen to 165 weeks (more than three years).
- By December 2018, the average duration had more than doubled to 291 weeks (over five and a half years).

For those who remain on Newstart for a long period of time and who are unlikely to return to sustained work, the current single rate is, in our view, inadequate. There is an urgent need to help people who have been on Newstart long term.

The Productivity Commission should therefore be tasked with examining why such a large number of people are remaining on Newstart long-term and provide recommendations on how to improve their situation in the short term. This could include:

- work to better understand the skill level of people who have been on Newstart for years and the barriers they face to gaining and maintaining employment
- examining the adequacy of the Newstart payment, particularly for people who have been on Newstart long term, and how the tax and transfer systems combine to create disincentives to work
- examining whether the Disability Support Pension would be a more appropriate payment for some people who have been receiving Newstart for many years
- assessing what additional or more effective support should be provided to help those who are capable of working to move into sustained employment and rely less on welfare (including assessing the adequacy of job services support provided to the long term unemployed).

While necessary in the short term, any such recommendations from a future Productivity Commission inquiry should not become yet another ad hoc change adding to the layers of complexity in the welfare system. It must be a transitional step towards what is ultimately needed – transformational change of the welfare system.

Moving beyond Newstart (which is only one element of the welfare system), Australia needs a welfare system that:

- better reflects people's capacity to work
- applies consistent principles across the system, and
- balances providing adequate support with ensuring that people are not discouraged from working.

The Henry Tax Review and McClure Review into the welfare system set out similar principles to transform and improve the income support system. But neither provided specific recommendations on what the new system would look like or how it would work. This is the work that also needs to start now, recognising that transition to a new system may take years.

The work should be informed by:

- a Productivity Commission inquiry into entrenched disadvantage
- what has been learnt to date from the investment approach to welfare, and
- detailed data analysis of the incentives and outcomes in the current system.

It should provide recommendations on:

- how many payments will exist and eligibility arrangements primarily based on current and future capacity to work, including how best to support people with an episodic disability or mental illness who have the capacity to work during times of relative wellness
- the rates and adequacy of different payments and consequently set the relativities between different payments
- the relativities between different types of households (single, couple, with children), applied consistently across payments
- a uniform method of indexation
- income and asset tests and taper rates
- interactions with the personal income tax system, including tax offsets (amount, thresholds and taper rates)
- the financial sustainability of the system
- how to transition from the current system.

The second part of entrenched disadvantage is inter-generational, and stems from a complex set of problems. These can include deep-rooted poverty, family violence, addiction, mental illness, chronic health conditions, poor education and homelessness. We don't want to see multiple generations trapped in a welfare cycle where they are permanently excluded from the labour market and permanently denied a chance to get ahead.

Rather than have abstract conversations about measures of inequality, we really should focus on the long-term unemployed and Australians who are chronically disadvantaged.

This is why the Business Council continues to call for a Productivity Commission inquiry into entrenched disadvantage, its causes, how to improve coordination across the levels of government and the international evidence on the best way of tackling it, including pathways into steady work.

A combination of the following should help to improve the circumstances of people who have been unemployed long term and Australians who face entrenched disadvantage:

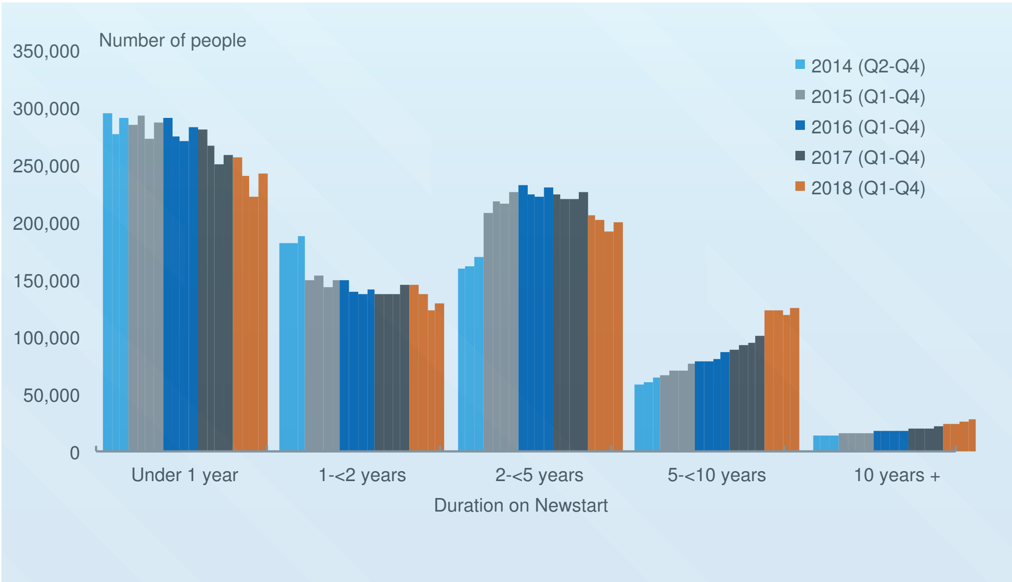
- a stronger economy with faster growth
- Productivity Commission inquiries into Newstart and entrenched disadvantage in the short term, and
- moving to a better functioning welfare system over time.

Both an evidence base for reform, and a strong economy and labour market, are necessary to respond effectively and compassionately to the challenge of entrenched disadvantage.

Newstart recipients – facts and figures

- Almost 725,000 people were receiving Newstart at the end of December 2018. Over time the number of people on Newstart has closely followed the number of people who are unemployed.
- A substantial group of people are new to the welfare system and only need Newstart for a reasonably short time. More than 60 per cent of people who begin Newstart payments (and who haven't been on another form of income support before starting Newstart) leave the payment within a year – roughly 235,000 people.
    - While there is no publicly available data on the proportions of people who stop receiving Newstart because they have found a job compared to people moving to another payment, it is likely that this group of people is largely accessing Newstart as it is primarily intended – as a short-term stop-gap while they search for a new job.
- Despite recent improvements, a large and growing proportion of people have been on Newstart for years. In 2014, only a third of people on Newstart had been receiving the payment for two years or more (about 230,000 people). That figure is now 49 per cent (about 353,000 people).

Figure 19. Number of Newstart recipients by length of time on the payment



Source: Department of Social Services, DSS Payment demographic Data, June 2014 through to December 2018

Climate change, energy and lower prices

Climate change

Energy and lower prices

Climate change

The Business Council and our members want to see action to reduce Australia's emissions. Australia needs to play its role in tackling global climate change. To this end the Business Council has long supported Australia's commitment as part of the Paris Agreement. Australia signed up to the Paris Agreement and our government must meet its international commitments. Our word must be worth something to the rest of the world. Australians also want to protect our way of life and our natural beauty. That means economic growth also needs to be sustainable. Growth is actually part of the sustainability solution. It's more fuel efficient cars, more efficient use of electricity, a lower energy intensity and the ability to manage environmental change.

Ideas and actions

We support action on climate change and support Australia's commitment to the Paris Agreement. Business is passionate about wanting Australia to transition to one of the most carbon efficient economies in the world.

Australia has made a pact to reduce its emissions footprint – currently about 1.3 per cent of global emissions – and play its part in global efforts to limit climate change to less than 2°C above pre-industrial levels. We must take this responsibility seriously and meet our international obligations.

However, climate change policy objectives must also be grounded in our broader objective to secure Australia's future prosperity and deliver meaningful jobs for Australians. Our climate change policies must therefore support business competitiveness and promote economic growth.

To this end, business, politicians, community and social organisations and environmental groups need to be honest with the Australian people that the transition to a lower-emissions economy will not come without costs and trade-offs. This is not to say we should stop taking action or halt progress, but we must be upfront. In the past, we have failed to do so and the consequence in this space has been failed policy after failed policy.

Further, no one sector of the economy can achieve Australia's international commitments alone. Nor should it. We cannot afford to hollow out vulnerable sectors that employ thousands of Australians and make significant contributions to our economic prosperity and growth.

For this reason, we support a three-tiered policy approach to transitioning to a more carbon efficient economy: reduce emissions across the economy in line with our international commitments; improve the energy efficiency of our homes, industries, cities and transportation; and a greater focus on adaptation and mitigation of climate-related risk.

This plan delivers on our international commitments and also protects our economy. That means we can deal with the challenges of climate change from a position of economic strength. In turn that makes it easier to make the changes we need to re-invest and move to a more carbon efficient future.

Behind those ideas and actions

Our preferred option for reducing emissions is a national, economy-wide approach that drives a technological response and utilises market mechanisms to achieve abatement at least cost. The simplest, most efficient method of achieving this transition is a price signal that places a value on lower-emissions, more efficient technology and encourages innovation to drive this technological shift.

Any market-based mechanism must be based on the following principles:

- ensures the supply of reliable, secure and affordable energy for all Australians
- capable of achieving our committed emission reduction targets at lowest possible cost while maintaining our competitiveness
- durable and national wherever possible (state-based targets and schemes should be avoided)
- technology neutral, not discriminating against fuel sources or picking winners
- allows for existing energy sources, particularly dispatchable sources, to be improved and upgraded
- takes account of sectoral differences, acknowledges emissions-intensive trade-exposed industries and provides the necessary measures to ensure they can remain globally competitive
- scalable to meet future emissions reduction targets while managing risk and uncertainty
- flexible in the face of changing technology costs and consumer preferences
- allows for quantum improvements in technology, not just in the electricity sector but in manufacturing, mining, agriculture and transport and other sectors
- investable across all sectors and time horizons and provides confidence that long-term investment decisions can be made and adequate returns earned

- has access to domestic offsets and credible international permits
- regains Australia's energy competitive advantage.

Although an economy-wide price signal is the most efficient, least-cost mechanism to manage our transition to a lower-emissions economy, the reality of climate politics in Australia suggests that such a mechanism is unlikely to be implemented by government in the near term. Despite the political impasse, the business community and industry are looking at options to provide leadership, particularly in the electricity sector.

Realistic and achievable targets are an important part of setting the trajectory to meet our international commitments, but to date there has been too much of a focus on what the target should be rather than putting in place the mechanism to drive the transition.

Changes to the target in the future should be in line with the five-yearly review and refine cycles under the Paris Agreement.

A requirement of the Paris Agreement is that countries must commit to progressively more ambitious targets every five years (e.g. Australia's 2035 emissions reduction target is due in 2025). A five-yearly review and refine cycle will allow Australia to take stock of domestic and international climate change action and policy frameworks to best determine appropriate and achievable future commitments.

Changes to emissions reduction targets must also be subject to rigorous analysis, including:

- an understanding of the suite of policies that will deliver this abatement, including the treatment of emissions-intensive trade-exposed industries
- the range and cost of technologies that will be available to reduce emissions
- the availability and price of international permits
- economy-wide modelling of the economic impact, including a sector by sector break down.

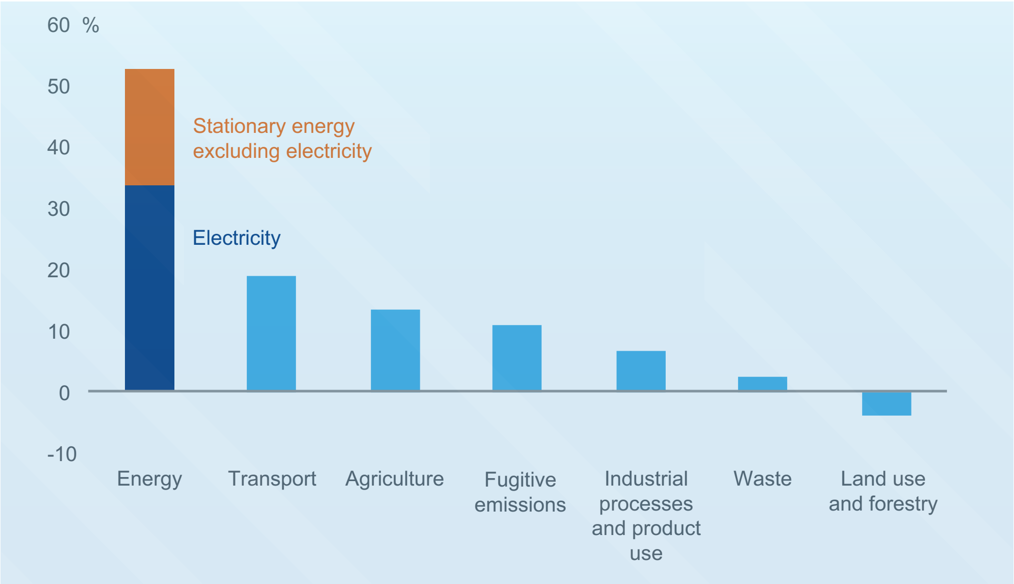
We also support a greater focus on adaptation and climate-related risk in order to improve Australia's resilience to extreme weather events and investor confidence. Australia is a climate vulnerable country and many of the impacts of climate change have, or will be, felt at the local level. For this reason, policies aimed at improving adaptation throughout Australia are often developed and implemented by state and territory governments, local councils and community groups. Although this grassroots approach will continue to be the main way in which Australia manages the risks posed by climate change, stronger national leadership is necessary.

The Australian Government, with the assistance of Infrastructure Australia and the Productivity Commission, should generate a national adaptation scorecard and five-year national strategy that:

- identifies major risks to infrastructure from climate change
- identifies information gaps that may exist
- reports on best practice adaptation initiatives being undertaken at a state and local level
- estimates the economic cost to Australia of adaptation.

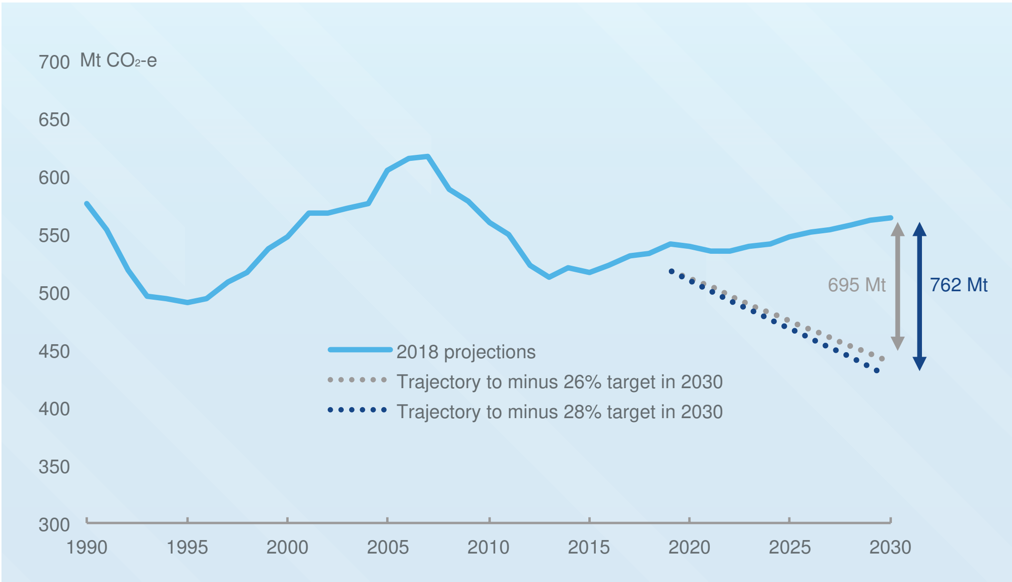
Whatever national policy framework is put into place to incentivise lowering emissions throughout the Australian economy, there will be a need for a more comprehensive adaptation policy framework to be adopted at a national level.

Figure 20. Emissions by sector



Source: Australian Government, Quarterly Update of Australia's National Greenhouse Gas. Inventory: September 2018

Figure 21. Australia's emissions trends, 1990 to 2030 (Mt CO_2-e)



Source: Australian Government, Australia's emissions projections 2018, December 2018.

Note: The -26% emissions reduction task is reduced to 328 Mt CO_2-e if the combined overachievement (367 Mt CO_2-e) from the first and second commitment periods of the Kyoto Protocol is carried over and included.

Energy and lower prices

Like all Australians, the Business Council wants lower energy prices and a more reliable energy system as we transition to a lower-emissions future. Australia is a massive energy exporter – with energy comprising around a quarter of our exports. We should feel like an energy superpower at home, too. We need to take the politics out of energy and put in place a clear and simple long-term plan. It is possible to lower energy prices. In fact, the Australian Competition and Consumer Commission undertook a 15-month inquiry into prices and found that if their recommendations were adopted as a package, the average Australian could save between $291 and $419 a year.

Ideas and actions

The Business Council wants lower electricity prices for Australians. This can be achieved by:

- Changing the way energy companies bill consumers by developing a reference bill to help ensure consumers are on the best deal.
  - For many Australians, energy offers and discounts can be difficult to understand and compare. The introduction of a reference bill will change the way energy retailers bill customers. Moving forward consumers will have a simple, common point of comparison for all offers and discounts. This will make it easier to compare offers from electricity retailers and help ensure consumers are on the best deal.
- Looking to reduce the past gold-plating of the state-owned poles and wires through voluntary government write-downs.
  - Australians, particularly in NSW, Queensland and Tasmania, have been paying for the significant over-investment in the networks – the poles and wires – largely due to government requirements. This is estimated to cost the average residential customer $100 to $200 per year. In order to rectify this and deliver savings to consumers, the ACCC has recommended governments should take on the cost of this past over-investment (for state-owned assets only) instead of consumers.
- Due to the significant fall in solar photovoltaic (PV) costs, the ACCC has recommended abolishing the Small-scale Renewable Energy Scheme (SRES) and winding up state government environmental schemes.
  - Solar panel installation costs have dramatically decreased since the introduction of the SRES and the need for a subsidy no longer exists. The same goes for the reduction of costs associated with premium solar feed-in tariff schemes in various states.

Achievable annual savings from winding up environmental schemes range from $18 to $89 across the National Electricity Market (NEM).

- Focusing on reducing wholesale electricity prices – a significant proportion of the bill – by driving investment in new generation supply.
  - Investment in new power supply is the most important factor in driving down wholesale electricity prices. It will also ensure the lights stay on. To achieve this, we need governments at all levels and of all persuasions to support stable and durable policy that does not create excessive risk and deter much needed investment.

The Business Council also believes we need to improve reliability and encourage additional supply through:

- implementation of the Retailer Reliability Obligation that will require energy retailers to ensure they have sufficient dispatchable power to meet the demands of Australian households and businesses
- state and territory governments lifting their unscientific moratoriums on gas development and exploration to bring much needed gas supply to market
- an investment allowance to encourage capital investment to improve the availability factor of generation assets or investment in new supply
- fast tracking access to fuel supplies by repealing third party appeal rights of non-impacted parties under state and federal laws, which add regulatory risks, delays and costs to major capital projects.

This plan will lower the cost of living and make bills clearer, so consumers can more easily shop around and compare. It will also encourage additional supply to make our energy supply stronger. A clear long-term plan will help remove the politics from energy and get Australia on track to be an energy superpower at home. Business and industry are crying out for policy certainty in the energy sector in order to make big, long-term investments in generation and system assets. This will be achieved only when there is certainty around how emissions are going to be treated.

Behind those ideas and actions

Business wants lower electricity prices. We want Australians to have lower power bills. We also must ensure we have a reliable system where the lights stay on.

Our electricity and gas supplies are the cornerstone of our economy, powering our industries, our cities and our homes. The bulk of electricity and gas produced provides a core input for Australian businesses. Affordability and reliability of supply are crucial to support our competitiveness, job creation and prosperity for Australians.

But for the past decade, rises in electricity prices have been much larger than wage growth and there is now a reliability threat looming over the grid. We must ask ourselves how we have gone from a country that was built on access to low-cost energy to where we are today.

Australia's electricity system is undergoing a major transition. The changing mix of generation has led to higher wholesale prices and a less stable and reliable energy system. An increase in the amount of intermittent technology, such as wind and solar, has resulted in a fall in dispatchable and baseload generation. Since 2012, over 5,000MW of ageing coal-fired generation capacity has been withdrawn from the NEM, with a further 1,800MW scheduled to close in 2022. In contrast, more than 7,500MW of new intermittent generation and storage will be added to the NEM in the coming years. At the same time, demand in the NEM is forecast to remain flat (mainly due to increased energy efficiency and growth in rooftop PV).

There has also been a shortage of competitively priced gas, with prices more than doubling in recent years. Gas is a critical transition fuel as the grid moves towards more renewables – particularly for the reliability of the system. Not only can gas plants quickly ramp up and fill the gap when the sun isn't shining or the wind isn't blowing, but gas produces around 50 per cent less emissions than coal-fired generation.

Gas is increasingly impacting wholesale prices in the NEM. The ACCC estimates that for 'every $1/GJ rise in gas prices, the wholesale price of electricity rises by up to $11/MWh.'[20] It is essential for prices, for reliability and for meeting our international commitments that we bring more gas supply to market. State and territory governments with unscientific moratoriums on gas developments must lift these bans immediately.

Further, failure to implement a durable energy policy to manage the transition and provide certainty around how emissions are going to be treated has stalled much needed investment in new and upgrading existing generation assets. We must provide business and industry with policy certainty to make the long term decisions in investing in more supply. This will in turn put downward pressure on wholesale prices.

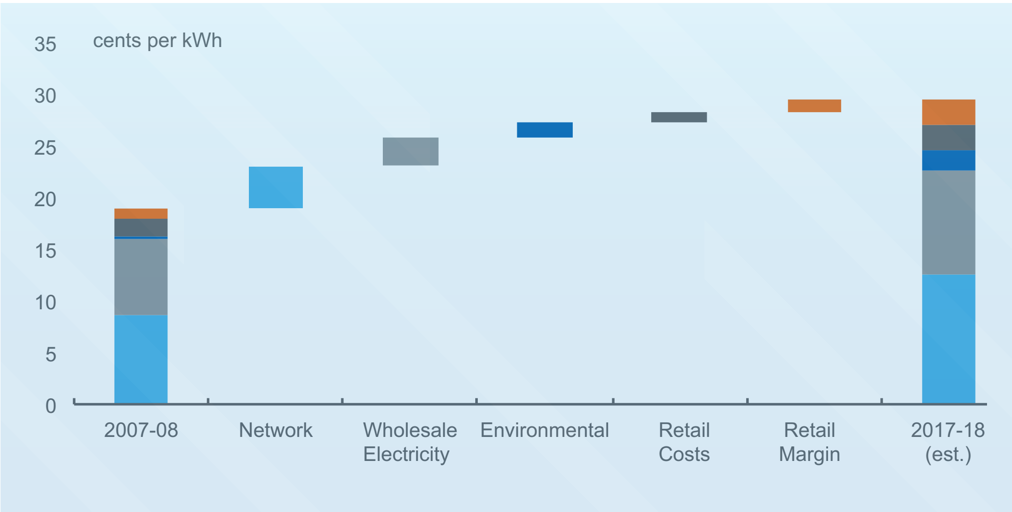
20 ACCC, *Restoring electricity affordability and Australia's competitive advantage*, Retail Electricity Pricing Inquiry – Final Report, 2018.

In relation to retail electricity prices, in June 2018 the ACCC completed a comprehensive, 15-month inquiry into the retail electricity market. In almost 400 pages, the final report sets out 56 recommendations that, if adopted, will have a real impact on retail electricity prices.

The report puts the facts on the table. The ACCC found a 56 per cent rise in power prices in the past decade across the NEM.

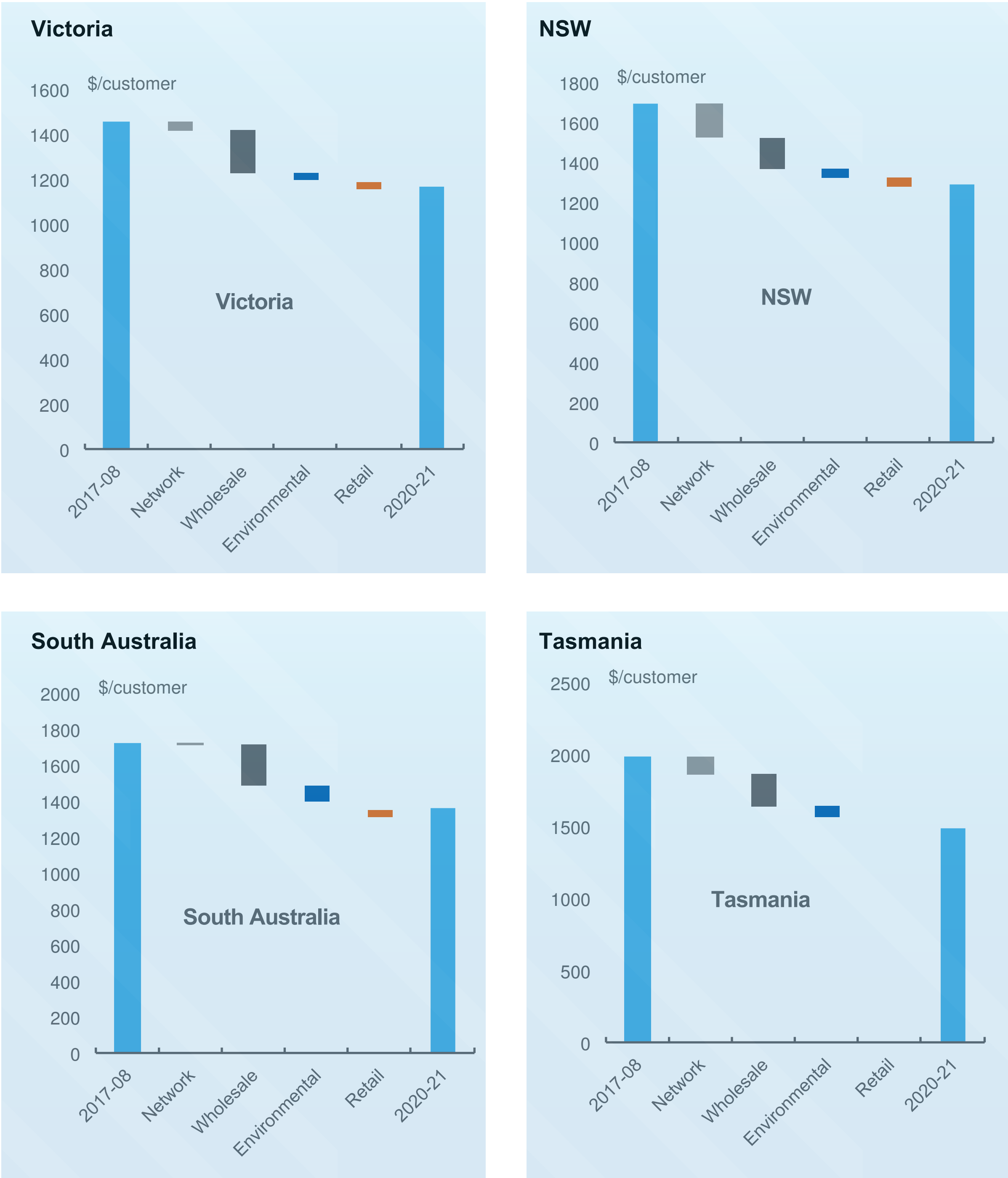
- 38 per cent of the rise in power prices was driven by network costs – gold-plating of the poles and wires
- 27 per cent was due to higher wholesale prices – tightening of generation supply (particularly dispatchable generation) in the system, driven by a lack of investment
- 15 per cent of the increase was from government environmental or green schemes
- 13 per cent increase was due to retail margins
- 8 per cent from growth in retail costs. *(Note: Totals do not sum to 100 due to rounding.)*

Figure 22. Change in average residential customer effective prices (c/kWh) from 2007-08 to 2017-18, NEM-wide



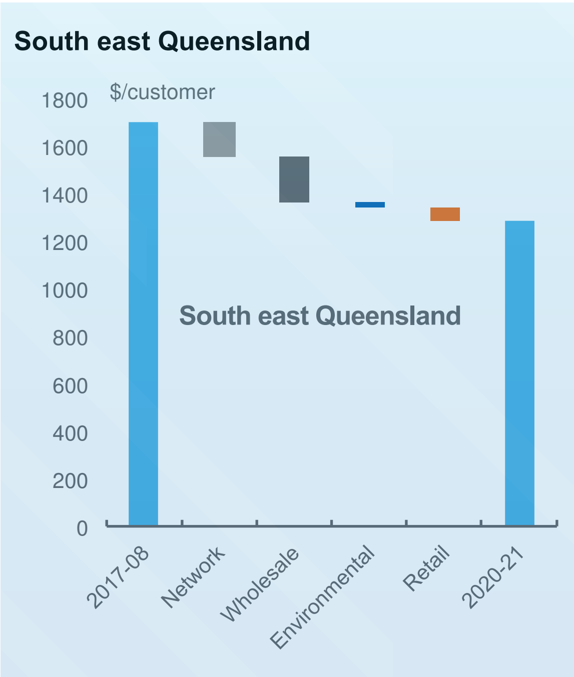
Source: ACCC, Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing Inquiry - Final Report. Note: Prices in real 2016-17 dollars and exclude GST.

Figure 23. Achievable average annual residential bill savings by 2021



Source: ACCC, Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing Inquiry - Final Report. Note: Prices in real 2016-17 dollars and exclude GST.

Figure 23. Achievable average annual residential bill savings by 2021 (continued)



Source: ACCC, Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing Inquiry - Final Report. Note: Prices in real 2016-17 dollars and exclude GST.

Better places to live, work and do business

Managing population growth and immigration

Delivering infrastructure

Stronger regions

Making cities work better

Better places to live, work and do business

The importance of planning for the future goes way beyond budgets. Think for a moment about the congestion in Sydney and Melbourne. And now the sudden infrastructure catch-ups. And Australia's seeming inability to deal with our growing population.

Australia's major capital cities are the lifeblood of our economy and major engines of growth. But in our major cities (notably Sydney and Melbourne) population growth had run ahead of infrastructure and land release for residential and commercial purposes. This had made housing less affordable and our major cities less liveable.

Indeed, Australians have told us congestion in our major cities is making day-to-day life incredibly frustrating. We agree. Solving this needs leadership and long-term infrastructure, transport and development planning from government. We need to get ahead of these problems – not simply put in place reactionary bandaid solutions. Having the planning of public infrastructure projects automatically triggered when populations look set to hit key milestones is one way of getting ahead of these problems.

It's those views that have guided the Business Council's policy positions on infrastructure.

Infrastructure is the key to making our cities less congested and bringing our regions closer together. Too often the problem plaguing Australia is not a lack of infrastructure spending, but the wrong projects at the wrong time and for the wrong price. It's a lack of detailed, forward-looking planning.

While Sydney and Melbourne are bursting at the seams, Australia's regions are crying out for more people. Our regions have such potential and are great places to live. With cities getting more congested and more pressure being put on services like schools and hospitals, the whole country will benefit if our regions are doing well and attracting more people.

The fact that our regions are great places to live is borne out by the fact that many of them are growing rapidly. We need to build on those successes.

Forcing people to live in a certain area is unlikely to work – after all, people will go where jobs and opportunities are. For migrants, if that's not in Australia it may be elsewhere around the globe. Given the benefits of a skilled migration program like Australia's, that ultimately means a poorer Australia.

The answer is to build economies of scale and scope in our growing regional centres, to attract businesses and create jobs, and make sure our regional centres have the services they need to attract people. By building on existing regional strengths, we can even up the balance between the biggest capitals and the rest of the country, simultaneously easing growing pains in the cities and supporting our regions.

Our cities as well as our regions need to be liveable, with open space and access to culture, entertainment and sporting facilities. Australians need well planned places to live, work and recreate.

If we can get infrastructure planning and regional development right, then we can start to focus on the positives of population growth and not the negatives. Part of Australia's strength as a nation has come from immigration. We need well planned population growth in Australia. That means we need the infrastructure that supports it. And we need to develop and grow our regions. This is the way to unlock the positives that flow from immigration and solve the challenge of congestion in our cities.

From a technical perspective, economic growth is often broken down into three 'Ps': population; participation (having people in the workforce); and productivity. We can grow faster and make Australia a better place to live by unlocking the potential of our regions, unclogging our cities and making them work more efficiently, and realising the benefits of population growth.

Managing population growth and immigration

Australia is having a genuine debate about population growth and our migrant intake. People have told us that congestion in our major cities is having a real impact on the quality of their lives. But if the problem is congestion, what's the right answer? How about infrastructure. Better infrastructure planning, a clear pipeline linked to population, unlocking new ways of funding projects and a more efficient approvals process. This is more likely to be the right way forward than deep cuts to immigration. After all, Australia has been built on successive waves of immigration – each enriching and enhancing both our cultural fabric and our economy. We should all be proud of Australia's successes here.

We can realise the positives of population growth and immigration through a comprehensive regional development strategy and better infrastructure planning in our cities and regions. Immigration is a source of growth. In fact, immigration doesn't just deliver growth in an absolute sense, it also adds to growth per person. Immigration makes it easier to navigate the challenges of an ageing population. A well targeted immigration program is a job creator and can bring skills and innovation not yet widespread in Australia. And, of course, waves of migrants have enriched Australian society. Realising these benefits means better infrastructure planning and a serious regional development strategy.

Ideas and actions

- Our major cities currently absorb the bulk of Australia's population growth. But investment in infrastructure and services has not kept pace. The Business Council has a series of recommendations to fix this. The Business Council proposes a regional development strategy to take pressure off Sydney and Melbourne, and simultaneously boost regional centres.
- We also need to strengthen coordination of population planning between the federal, state and territory governments. If this is done well, governments and businesses will be better placed to make good decisions about when and where to build new transport infrastructure, schools and hospitals.
  - The development of a framework for national population management to be considered by the Council of Australian Governments is an important first step. Such a plan needs to include an assessment of skill needs, the spatial distribution of population and infrastructure needs.
  - A reformed IGR covering both federal and state budget outlooks and containing various population scenarios would provide a strong evidence basis to underpin population policy.

- The Business Council supports sustainable population growth in our cities and regions. The intake of permanent migrants should not be dramatically cut, rather it should be set to support population growth around the long-term average.
- Within that, Australia should maintain its current focus on skilled permanent migration. More than two-thirds of the permanent migration intake has been filled by skilled migrants almost every year since 2005-06.
  - The ideas put forward here focus on permanent and temporary skilled migration. The Business Council does not propose changes to the family reunion or humanitarian streams of the migration program.
- Governments could better target the skills mix of migrants, to complement the skills in the existing workforce, fill skill shortages and lift productivity (including via the transfer of skills from migrants to the existing Australian workplace). One way is to increase the allocation of permanent places to the employer-sponsored stream.
- Australia needs to ensure permanent and temporary skilled migration programs are efficient and competitive, to attract the best and brightest.
  - More occupations should be eligible for the four-year temporary work visa.
  - The Global Talent Scheme (GTS) pilot should become a permanent program. The purpose of the GTS is to fill highly-skilled and specialised positions that can't be filled by Australian workers or through other standard visa programs.

Combined with our proposals for infrastructure and regional development, this plan ensures Australia can enjoy all the positives of population growth and immigration while also reducing the pressures evident in our biggest cities.

Behind those ideas and actions

Australia is a country of migrants. Nearly half (49 per cent) of Australians have either been born overseas or one or both parents were born overseas. More than a quarter of Australians were born overseas.

Immigrants from around the world have made an important and substantial contribution to Australia's economy and society.

The benefits of immigration

Australia's skilled migration program brings economic benefits. It adds to GDP growth (including GDP growth per person) and hence helps increase living standards. It aids in the adoption of new technology and makes Australia more productive. Migration also helps us deal with the challenges of an ageing population.

- The Productivity Commission estimates that if the rate of net overseas migration stays the same as it has for the past 100 years (adding an additional 0.6 per cent to the population each year), then GDP per person would be seven per cent higher in 2060 (or over $5,000 per person in today's dollars) compared to no net migration. The population would be younger and our economy larger with migration than without.[21] A larger population and a stronger economy also makes Australia a more influential country on the global stage.
- Globalisation and technological development are causing changes in the economy and creating new and uniquely specialised roles where skills and experience are not yet available in Australia. Our migration program should be highly responsive to these changes in labour demand and increase the proportion of migrants allocated to the employer-sponsored scheme.
    - Australian employers overwhelmingly prefer to hire locally; but need to be able to access the best and brightest foreign workers when there are skill shortages. This can be critical to deliver major projects or in sectors that are rapidly expanding, therefore creating more jobs in Australia and helping Australians upskill (through knowledge and skills transfer).
- Australia's ageing population will result in a smaller proportion of workers in the population and place additional pressure on government spending. The IGR estimates there will only be 2.7 people aged 15 to 64 years for each person aged over 65 years in 2055, down from the current 4.5 people.[22] Continuing to attract younger, working-age migrants can offset and delay the impact of population ageing.

Planning for population growth is essential

To achieve well-managed population growth, input from federal, state and local governments is essential, particularly to identify areas where there are population pressures.

A population plan needs to include (among other things):

- regard for the ability of our biggest cities to absorb more growth
- population-based infrastructure planning triggers to ensure infrastructure provision doesn't lag needs
- reservation of infrastructure corridors
- a focus on skilling our domestic workforce, and
- a regional development component.

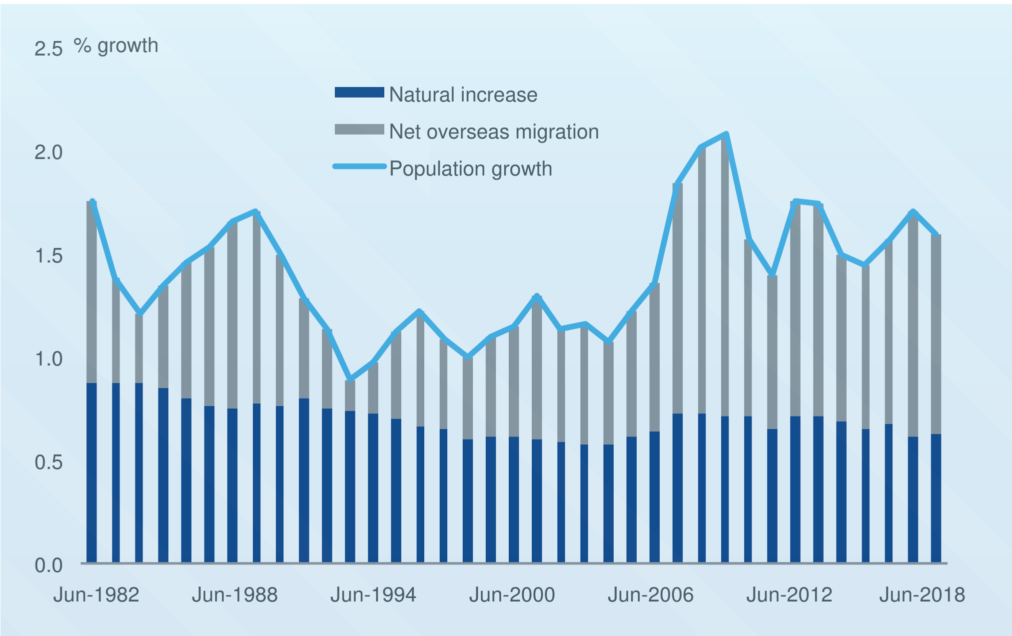
21 Productivity Commission, *Migrant Intake into Australia*, Inquiry Report, 2016.
22 Australian Government, *2015 Intergenerational Report:* Australia in 2055, 2015

Put simply, infrastructure and housing provision need to keep pace with population growth to ensure Australians can enjoy a high quality of life. The Bureau of Infrastructure, Transport and Regional Economics has estimated that the "avoidable" costs of congestion have more than tripled after inflation (i.e. in real terms) since 1990.[23] The Business Council believes that better infrastructure planning could have prevented much of this.

Currently, the permanent migration program is planned and managed annually, with the ceiling number of migrants announced as part of the federal budget process. However, there may be merit in taking a multi-year approach. Governments and the business sector could plan for migration and population growth with more certainty if the migration intake was set over, say, a three year or three-year period.

Skill shortages in regional Australia can be difficult to fill due to smaller pools of available skilled workers. Faster visa processing and expanding the list of occupations eligible for skilled migration can help regional businesses access the skills they need to grow. More widespread use of Designated Area Migration Agreements (DAMAs) will allow regional businesses to quickly fill temporary skill shortages when local workers are not available.

Figure 24. Australia's population growth



Source: ABS cat. no. 3101.0

23 Bureau of Infrastructure, Transport and Regional Economics, *Traffic and congestion cost trends for Australian capital cities,* Information Sheet, 2015

Competition for the best talent is global

Australia must remain a competitive and attractive destination for skilled migrants. In a globalised world, highly skilled workers are in high demand and have opportunities to work in many countries.

Visa application and processing should be simple and low cost. The market salary rate requirement requiring all temporary workers to be paid at the same rate as an equivalent Australian worker – properly enforced – is an adequate safeguard for ensuring Australians get first opportunity to fill job vacancies. If remuneration costs are identical, then it is otherwise less costly and easier for employers to hire an available Australian worker than a temporary migrant. We need to make sure the system has integrity, but achieving that integrity is done as efficiently as possible.

Delivering infrastructure

Infrastructure is the key to making our cities less congested and bringing our regions closer together. Often the problem plaguing Australia is not a lack of infrastructure spending, but the wrong projects at the wrong time and for the wrong price. Politicians picking favourites rather than experts conducting a serious cost-benefit analysis on competing projects. Picking the wrong projects leaves us playing catch-up down the track.

There is an alternative – rolling 15-year state infrastructure plans backed up by cost-benefit analysis that is removed from politics and conducted by experts, Infrastructure Australia (IA) and respective state bodies. Long-term planning that links population growth and infrastructure needs.

Getting infrastructure right ultimately requires long-term planning, leadership and innovation. It also requires private sector expertise and funding models that take the pressure off governments. For many infrastructure projects, the private sector should be the first port of call.

Ideas and actions

The right infrastructure at the right price. Australia needs to develop a public infrastructure investment program based on independent and expert advice. Essential elements of such a proposal include:

- Long-term strategic land use planning, in consultation with the community, that plans and delivers the infrastructure and housing needed by a growing population.
    - This includes forward-looking triggers that tie infrastructure planning priorities to population milestones.
- Strengthening IA's role to determine nationally significant public infrastructure priorities and policy reforms.
    - IA must be more independent and given more teeth (including having a greater say on infrastructure priorities and policy reforms). It should approach its list of major projects from a ground-up approach. This includes assessing whether projects work together strategically in a region or place.
- Undertaking rigorous cost-benefit analysis and environmental impact statements to adequately assess community impacts of infrastructure investment.
    - Cost-benefit analysis should also be more holistic and take a longer-term approach.

That is, analysis should consider longer-term needs, the impact of complementary investment on a cost benefit analysis, and possible technological changes. Where a project might not pass a cost benefit analysis today, the relevant infrastructure corridor could still be preserved in case future developments (population shifts or technological change) alter the analysis.

- Tasking the Productivity Commission to undertake a strategic assessment of infrastructure policies and the quality of service provision and recommend reforms – and repeating the process every five years.
- Making sure we use our existing infrastructure as effectively as possible.

Australia needs to unlock more funding for infrastructure. The Business Council supports the following:

- Utilising innovative funding and financing models for all new infrastructure; developing well-regulated infrastructure markets and maximising private investment in infrastructure; a better approach to user pays models and using clear Consumer Service Obligations to achieve social welfare objectives.
- Governments de-risking projects to attract greater private sector investment, for example, through an efficient approvals process (including the use of coordinating authorities where appropriate) and simultaneous approvals for larger projects with multiple stages or approvals for complementary infrastructure.
- The federal government providing funding support for state-led projects where they are recommended by IA and state-based independent infrastructure agencies.
- Asset recycling initiatives (selling existing infrastructure to fund new infrastructure), with private ownership subject to economic regulation as required.

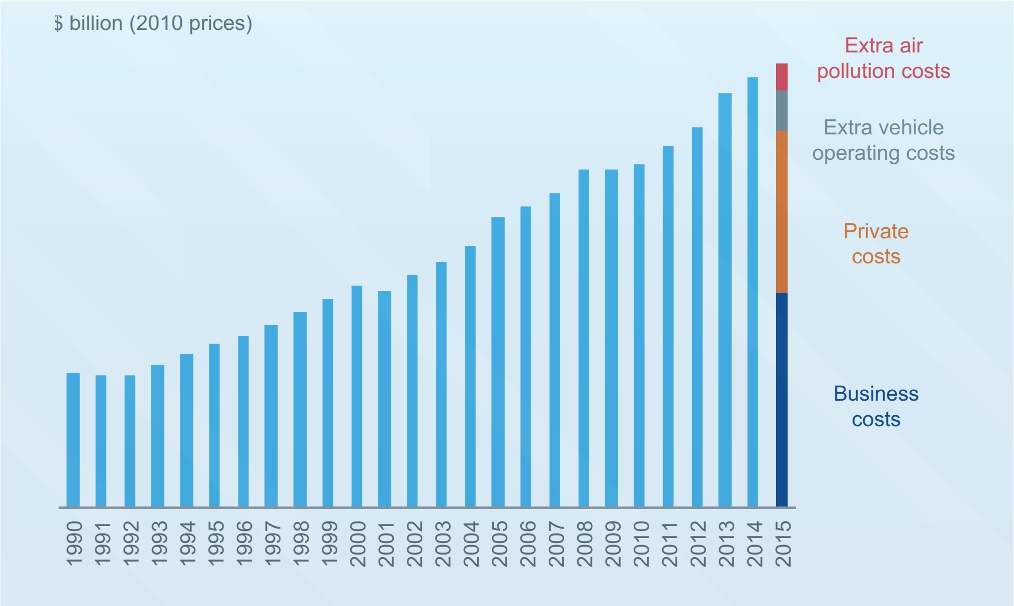
Australian governments should also collaborate on effective long-term infrastructure planning that identifies the infrastructure services needed by Australia's growing economy and population. State governments should develop 15-year infrastructure plans (informed by state-based independent infrastructure agencies) and corridors for future nationally significant projects should be reserved.

By focusing on expert advice, long term planning and innovative funding models, this plan provides the right infrastructure at the right price. Getting infrastructure in place as our cities grow (and not after the event) also eases the pressures of population growth.

Behind those ideas and actions

Infrastructure is essential for prosperity. It expands the productive capacity of Australia's economy and contributes to more liveable cities and regions. Well-planned infrastructure opens up a range of employment opportunities for people by reducing travel times.

Figure 25. The costs of congestion



Source: BITRE, Traffic and congestion cost trends for Australian capital cities, 2015

The provision of infrastructure and housing must keep pace with population growth. We tie the number of members of parliament to population; why not do the same with an infrastructure pipeline?

Infrastructure provides the essential transport, water, energy, communications and social services that determine the quality of life for citizens and the competitiveness of our businesses. These services should be reliable, accessible and of high quality, and be equal to anywhere else in the world.

Governments need to work together to produce more coherent and comprehensive national infrastructure plans and policy reforms.

If Australia doesn't get its future infrastructure investment right, two major impacts are likely:

- The liveability of our communities will be affected. This in turn is likely to result in pushback from many sections of the community about economic and population growth

- Failing infrastructure will undermine Australia's economic growth prospects by constraining productivity.

There are also important spill-over benefits from the efficient provision of transport infrastructure through reductions in transport costs, which can help create new markets and realise the returns to economies of scale and scope.

This in turn fosters competition, spurs innovation, lowers prices and raises productivity. A sound infrastructure base can also be a crucial factor in attracting overseas investment.

- The IMF found that in a sample of advanced economies, a one percentage point of GDP increase in investment spending increases the level of output by about 0.4 per cent in the same year and by 1.5 per cent four years after the increase.[24]

It is imperative that governments prioritise public infrastructure investments with the highest economic and social returns. Projects with negative returns waste scarce resources and effectively hold back the growth of the economy. That's why we need to rely much more heavily on bodies like IA and state equivalents to ensure we get the right infrastructure.

IA must be tasked with providing independent, rigorous and unfettered advice to governments on nationally significant projects and policy reforms. IA's regular infrastructure audit function should provide the long term, strategic planning framework within which IA can form its own views on nationally significant projects and also evaluate state proposals for federal government funding. A place-based approach should be applied to identifying and assessing the net benefits of sets of interrelated projects within a key region or economic growth corridor. All evaluation and prioritisation must be supported by transparent cost-benefit analysis.

Overcoming funding constraints is also a key challenge for infrastructure provision. New South Wales and Victoria have led the way with asset recycling schemes that are helping to fund new infrastructure in those states. Funding constraints in Australia, as elsewhere, are driven by stretched public budgets, a lack of appetite for expanding user-pays principles and uncertain private investment conditions. That means making, as much as possible, the private sector the first port of call for infrastructure investment.

Australia, like most other countries around the world, therefore needs to continue to shift the emphasis from public to private investment, with a greater proportion of funding for infrastructure coming from a better approach to user charges. This would mean we could fund more infrastructure. Governments should not be expected to finance, own and provide

24 IMF, *World Economic Outlook: Legacies, Clouds, Uncertainties*, October 2014.

all the infrastructure a community needs. The private sector would play a bigger role if the settings are right, enabling governments to direct taxpayer funds to other services such as health and education.

Governments will, of course, continue to have an essential role in planning and developing projects with high economic and social benefits but which are not practical for the private sector to develop – whether for commercial or other reasons (often transport projects and social infrastructure).

Government may also need to have a more direct role in the early stages of greenfield projects where it is best placed to manage long-term risks. This could be through public–private partnerships (PPPs) or, in appropriate cases, setting up new government businesses. However, government should sell its stake in these assets once they are mature, with economic regulation as required. This unlocks funds for reinvestment in more infrastructure.

Finally, governments should prioritise policies and institutional arrangements that will support lower construction costs and the efficient delivery of major capital projects – for example, through more efficient major project approvals regimes and more collaborative workplaces. Governments can also lower hurdle rates for private sector investment through clear planning and by de-risking projects where possible.

Governments can de-risk projects, for example, through:

- an efficient approvals process (including the use of coordinating authorities where appropriate)
- granting of simultaneous approvals for larger projects with multiple stages or approvals for complementary infrastructure (e.g. rail lines linking to new airports)
- by not altering design parameters (for example) mid-way through a project.

Long term infrastructure plans that result in consistent expenditure and avoid boom-bust spending cycles also help to contain costs by making it easier for businesses – and the education and skills system – to plan ahead. Greater certainty and consistency lowers costs, and helps to avoid skills shortages.

Table 1: Infrastructure Australia Priority Projects

Project – High Priority	State	Project – Priority	State
M4 Motorway upgrade (Parramatta to Lapstone)	NSW	Inland rail (Melbourne to Brisbane via inland NSW)	National
Sydney Metro: City and Southwest	NSW	The Northern Road Upgrade	NSW
Western Sydney Airport	NSW	Ballarat Line Upgrade	Victoria
M80 Ring Road upgrade	Victoria	Beerburrum to Nambour Rail Upgrade	Queensland
Monash Freeway Upgrade Stage 2	Victoria	METRONET: Thornlie-Cockburn Link	Western Australia
North East Link	Victoria	Myalup-Wellington Water Project	Western Australia
Brisbane Metro	Queensland	Adelaide's North-South Corrider: Regency Road to Pym Street	South Australia
METRONET: Yanchep Rail Extension	Western Australia	Gawler Rail Line Electrification and Modernisation Project	South Australia
		Eyre Infrastructure Project (Iron Road)	South Australia
		Hobart Science and Technology Precinct	Tasmania

Source: Infrastructure Australia, Infrastructure Priority List, February 2019.

Making more efficient use of our existing infrastructure will lift national productivity and improve business competitiveness.

Regulatory barriers to infrastructure use should be reviewed and removed if found to be unnecessarily impeding efficiency. For example, the operation of Sydney Airport can be more efficient through more flexibility around movement caps, and the curfew and noise restrictions; recognising technical advances in aircraft. Similarly, better regulation can improve the efficiency of road and motorway use by B-double trucks.

Regulated infrastructure prices should reflect the full long-term efficient cost of providing the service wherever possible and support efficient use. In particular, road pricing and investment reform should be progressed.

Procurement decisions should be well informed, with all options for meeting the assessed infrastructure need on the table, including consideration of whether existing infrastructure can be used more efficiently or augmented through small capacity increases or better use of technology (e.g. managed motorways).

Uncertainty around future benefits and costs for long lead projects can be addressed by:

- taking advantage of flexibility in the delivery of infrastructure over time, and
- retaining optionality for future expansion or the incorporation of new technology and innovation.

Stronger regions

Australia's capital cities are the lifeblood of our economy and major engines of growth. In our major cities (notably Sydney and Melbourne) population growth had run ahead of infrastructure and land release. This has increased the pressure on infrastructure in these cities as they embark on large catch-up programs. The Business Council's infrastructure policy positions in this document outline a way to help make sure this doesn't happen again.

At the same time that our largest cities feel like they are bursting at the seams, many of Australia's regional centres could benefit from an influx of people.

The challenge is in how we attract people to regional centres; and out of Sydney and Melbourne. It's unlikely that simply forcing people to settle in certain areas will work. After all, people all around the world are attracted to cities. People will go where the jobs and opportunities are. And if that's not in Australia, it may be elsewhere around the globe. Given the benefits of a skilled migration program, that ultimately means a poorer Australia.

A genuine and positive regional development strategy is the answer. That is, building economies of scale and scope in regional centres by prioritising government investment decisions; undertaking a detailed analysis of regional strengths and unique attributes (their comparative advantages in other words) to attract private investment; and presenting a clear future infrastructure pipeline to provide certainty to communities and encourage investment. By building on existing regional strengths, we can even up the balance between the biggest capitals and the rest of the country, simultaneously easing growing pains in the cities and supporting our regions.

Ideas and actions

- The Business Council supports a hub and spoke model of development with government investment decisions building on existing city and regional hubs. We should play to our existing strengths.
  - Hubs are centres that have a critical mass of services (for example hospitals, schools, tertiary education facilities, robust telecommunications and digital connectivity) and transport links (such as airports, road, rail, ports or freight links). Hubs support and strengthen the spokes (smaller centres around them).
- To guide development under such a model, we need a better understanding of regional capabilities and strengths. A full review of regional capabilities and comparative advantages (e.g. tourism, agriculture, resources, advanced manufacturing) would enable government and business to more easily locate and invest in areas complementary to their needs and enable us to better play to existing regional strengths.

- Strengthen coordination of regional development across all three tiers of government and remove unnecessary overlap.
- A clear infrastructure pipeline would give business and community certainty, with infrastructure priorities based on independent advice.
- Australia also needs to remove unnecessary impediments to doing business and people seeking opportunities. (Examples include reform of planning approvals, environmental and agriculture-related regulation, and occupational licensing.)
- Government should fast-track visa approvals to fill skill shortages in the regions. More widespread use of Designated Area Migration Agreements and pathways to permanent residency under some visa classes could also attract more migrants to Australia's regions. Additionally, potential migrants should be given information on Australia's regions and the opportunities that exist in the regions as part of the visa application process. This could help prevent migrants simply settling in Sydney and Melbourne by default.

This plan builds economies of scale and scope in regional centres by building on existing regional strengths. Doing this means we can even up the balance between the biggest capitals and the rest of the country, simultaneously easing pressures in the cities and supporting our regions.

Behind those ideas and actions

Australia's population increased by 1.6 per cent (391,000 people) over the 12 months to June 2018. Of those 391,000 people, Melbourne and Sydney accounted for around 213,000 (119,000 and 93,000, respectively), while Brisbane absorbed another 50,000 people. That meant our three largest cities – which comprise around half of Australia's population – absorbed 67 per cent of the increase in population. As a result, the percentage increase in population across Sydney, Melbourne and Brisbane was 2.1 per cent.

Across the rest of Australia, the percentage increase in population was just 1.0 per cent. Little wonder our largest cities feel choked while many regional centres are crying out for growth.

Of course, it is just not plausible to think that our largest cities won't grow. Across the globe cities are beacons for people and a source of innovation, economic growth and wealth. Australia's cities consistently rank among the best in the world and we want this to continue. But we do need to balance the positive of population growth with a more even distribution. That will ease the pressure on our largest capital cities and simultaneously provide many regional centres with the fillip they need.

But forcing people to move isn't the answer.

Fortunately the challenge – mathematically – is not that great. Simply getting around 65,000 more people outside the three largest capitals each year would even up population growth between Sydney, Melbourne and Brisbane and the rest of the country.

Ultimately, people cluster in our largest cities because of the opportunities they provide. The key to a successful regional development strategy comes from trying to replicate those opportunities outside the largest cities.

Figure 26. Average annual population growth, past decade

Source: ABS

Existing regional capabilities should drive decisions

We need to promote and build on the strengths already evident in a number of our regional centres that are seeing robust population growth and have economies of scale and scope.

For regional development to succeed:

- It is the jobs that bring the people, not the other way around (capital investment is needed – including region-specific human capital)
- The role of government should be to remove regulatory obstacles that discourage business
- A focus on the region's comparative advantages is required

- An area must be of a sustainable size (noting that critical mass can vary across Australia).

As a first step we need a better understanding of regional capabilities and strengths. A full review of regional capabilities and comparative advantages would enable government and business to more easily locate and invest in areas complementary to their needs.

Building on that understanding of regional capabilities and comparative advantages the Business Council supports a hub and spoke model of development, with government investment decisions consciously designed to build on existing regional strengths. It is expensive and counterproductive for governments to attempt to artificially create and maintain an advantage in a region where it doesn't naturally exist; and is unlikely to be successful.

Rather this approach is about building on existing successes and strengths.

Namely, those regional areas that are already seeing robust population growth and already have economies of scale and scope should be priorities for new investment and location of infrastructure. A clear infrastructure pipeline would also give businesses and communities certainty, and enable greater forward planning. Infrastructure priorities should include stronger links between regional centres and capital cities and major gateway infrastructure.

Building on existing strengths provides the best basis for generating the economies of scale and scope that will attract people out of our largest cities.

Governments can support this model through improved coordination and by removing overlap in their responsibilities, as identified by the Productivity Commission.

Regulatory reform has regional dimensions

Additionally, government should create the settings that enable businesses to pursue investment opportunities, by removing regulatory obstacles that reduce flexibility and discourage business from taking up new opportunities. Areas highlighted by the Productivity Commission in its *Transitioning Regional Economies* report as requiring simplification, and/or national consistency included:

- planning, zoning and development processes
- environmental regulations
- occupational licensing arrangements. (Many occupations require a license or certain qualifications. These requirements are widespread, apply from hairdressers to lawyers, and can differ from state to state.)

A five-point plan to kick start regional development

1. A full independent audit of place capabilities, assets, infrastructure and comparative advantages
2. Use the results of that audit to inform and prioritise development in identified key regional hubs
3. Ensure those hubs are connected – digitally and physically, with key infrastructure corridors identified and reserved
4. Provide incentives – such as fast tracking of planning approvals – to encourage development
5. Encourage migrants to settle outside Sydney and Melbourne.

Table 2: Top 50 fastest growing areas with a population below 1 million

	Population				Population		
	Jun-08	**Jun-18**	**Growth, %**		**Jun-08**	**Jun-18**	**Growth, %**
Warragul - Drouin	27,217	37,928	39.4	Albury - Wodonga	81,540	93,603	14.8
Bacchus Marsh	16,124	22,223	37.8	Nowra - Bomaderry	32,815	37,420	14.0
Busselton	28,320	38,921	37.4	Shepparton - Mooroopna	45,304	51,631	14.0
Sunshine Coast	265,622	333,436	25.5	Broome	12,676	14,445	14.0
Gisborne - Macedon	17,504	21,850	24.8	Bowral - Mittagong	35,139	39,887	13.5
Gold Coast - Tweed Heads	544,361	679,127	24.8	Nelson Bay	24,777	28,051	13.2
Geelong	217,023	268,277	23.6	Orange	35,859	40,493	12.9
Yeppoon	15,386	19,003	23.5	Emerald	12,550	14,119	12.5
Darwin	110,606	134,544	21.6	Camden Haven	15,868	17,835	12.4
Mudgee	10,210	12,410	21.5	Toowoomba	121,820	136,861	12.3
Bunbury	61,672	74,363	20.6	Dubbo	34,219	38,392	12.2
Ballarat	87,893	105,471	20.0	Goulburn	21,281	23,835	12.0
Canberra - Queanbeyan	383,974	457,563	19.2	Coffs Harbour	64,218	71,822	11.8
St Georges Basin - Sanctuary Point	16,162	19,251	19.1	Ulladulla	14,499	16,213	11.8
Bendigo	83,313	99,122	19.0	Griffith	18,165	20,251	11.5
Bairnsdale	13,001	15,411	18.5	Newcastle - Maitland	437,105	486,704	11.3
Murray Bridge	15,879	18,779	18.3	Albany	30,740	34,205	11.3
Hervey Bay	46,536	54,674	17.5	Hobart	191,901	213,502	11.3
Cairns	130,197	152,729	17.3	Wollongong	272,289	302,739	11.2
Townsville	156,310	180,820	15.7	Tamworth	38,663	42,872	10.9
Port Macquarie	41,496	47,973	15.6	Echuca - Moama	19,182	21,242	10.7
Gympie	18,756	21,599	15.2	Port Hedland	12,933	14,320	10.7
Morisset - Cooranbong	21,986	25,309	15.1	Kingaroy	9,394	10,398	10.7
Victor Harbor - Goolwa	23,077	26,532	15.0	Gladstone - Tannum Sands	40,779	45,130	10.7
Bathurst	32,014	36,801	15.0	Wangaratta	17,541	19,318	10.1

Source: ABS 3218.0 Table 1. Note: ABS defines 'significant urban area' as an aggregate of areas which roughly contain the continuous urban extent of a city without major gaps. See ABS cat. no. 1270.0.55.004 for further information.

Making cities work better

Australia's major cities are ranked among the best places to live in the world. They are also highly productive, generating around 80 per cent of Australia's GDP and employing 75 per cent of the workforce. Australia's cities are set to grow substantially, with Sydney and Melbourne expecting eight million inhabitants each by around mid-century.

In general, the evidence suggests that more populated and concentrated cities can be beneficial, because of agglomeration benefits. Economies of agglomeration refers to the benefits from locating in areas that have more people and more businesses in the same place (that is having a higher density of economic activity). The benefits arise from:

- economies of scale due to a larger production base
- a deep pool of workers with a diverse range of skills and talents
- more opportunities for knowledge transfer and sharing of ideas that support innovation
- benefits from collaboration
- consumer benefits from greater competition, and
- more convenient access to goods and services.

And while those benefits are real, our cities are struggling to cope with rapid population growth, which has contributed to rising congestion. We need to ask ourselves what we need to do to manage population growth well and ensure our cities are even more liveable and productive in the future.

Australia has a great opportunity to harness economic and population growth to improve our cities and lift their global competitiveness.

Getting cities policy right will harness even more of the benefits of agglomeration. More productive cities will also benefit people who live in regional areas by increasing the tax revenue base to fund services, improving connections to export markets for rural products, and sharing benefits from greater competition and innovation.

Cities policy must prioritise the following:

- Effective long term integrated land use and infrastructure planning to accommodate future population growth, with key economic growth corridors preserved and prioritised for infrastructure investment, land release and new housing provision.
- Set 15-year infrastructure plans that commit to the funding and delivery of long term, transformational infrastructure projects that have been assessed as high value by IA and the respective state-based infrastructure advisory bodies.
- Develop critical gateway infrastructure (for example airports, ports, intermodal terminals) and remove regulatory barriers to their efficient use.
- Expand collaborative and place-based infrastructure provision under the ‘city deals’ program and incorporate advice from independent statutory infrastructure advisors.
- Replace stamp duties on housing with a broad-based land tax and avoid excessive developer charges that harm affordability, discourage mobility and therefore can contribute to longer commute times.
- Reform regulation to improve the ease of doing business in cities, with a particular focus on efficient development approvals.
- Unleash innovation and knowledge in Melbourne and Sydney by planning for high productivity precincts and setting migration policies to attract the best and brightest migrants to Australia.
- Improve the operation of cities through the adoption of new technology, large-scale generation of data (e.g. sensors) and smart grid management. Facilitate infrastructure deployment and design regulations to support electric, autonomous vehicles.

A productive and competitive Australia

What sort of economy?

A better plan on tax

Foreign investment and trade

Making it easier to do business

Reform to make exporters stronger

A productive and competitive Australia

To have a strong economy that creates jobs and rising wages Australia needs to be competitive. Our exporters need to be able to compete with the world's best. Commerce is increasingly borderless – from retailing to business-to-business services. This means more and more Australian businesses need to be able to compete with offshore rivals.

If they can't, we will fall short of our aspirations as a nation.

That doesn't mean working harder for less. It means unlocking Australia's potential. And unlocking Australia's potential will help to fix one of our most pressing economic challenges: weak wages growth.

There are ways to stronger wages growth. In the short term faster GDP growth would help. In the long term, we know the only way to sustainably deliver real wages growth is through productivity growth.

What's the path to faster productivity growth? One answer is investment. Productivity is not about a cost cutting race to the bottom, it's about investment and innovation. Over Australia's history investment has had a big impact on productivity. Unfortunately, investment spending remains weak.

When it comes to investment decisions, OECD estimates show that Australia's company tax system has a larger impact on investment hurdle rates than most other economies. Our tax system makes it harder for investment decisions to stack up in Australia. An uncompetitive tax rate means less investment and fewer jobs in Australia that would otherwise be the case. We don't need the lowest tax rates in the world, but we won't prosper with the OECD's second-highest effective marginal company tax rate.

And then there is regulation. Every society needs rules. But take the rules that stop Australian shops from opening at certain times. They end up sending shoppers to the internet when our stores aren't open, and often to offshore websites and suppliers. That costs jobs in Australia.

Overly rigid rules about what we can do with land (called zoning) can end up making houses more expensive. Every time a new rule imposes another cost on a business, small, medium or large, it means a combination of higher prices, fewer jobs, and lower profits. Lower profits mean less tax dollars to fund services.

One new rule or regulation might not seem like much, but they add up over time.

Regulation isn't an exciting topic. But it's something we need to get right to make sure our exporters can compete, our businesses stay strong and create jobs, and we can innovate and invest our way to a stronger, more productive Australia.

Let's imagine we could get this right. Let's imagine Australia was able to be the energy superpower it should be. Let's imagine we had a tax system that encouraged investment in Australia – instead of the second-highest effective marginal company tax rate in the OECD. Let's imagine we had a regulatory system that didn't impose unnecessary costs and red tape on big and small businesses.

We'd have lower energy prices, more investment and more jobs, and an innovative and unshackled economy able to compete with the world's best.

This is the path to a stronger economy and stronger jobs in Australia.

It's also the path to faster wages growth. After all, an economy growing strongly – with fast productivity growth, a strong investment outlook and a competitive business environment – will also produce faster wages growth.

That's to the benefit of all Australians.

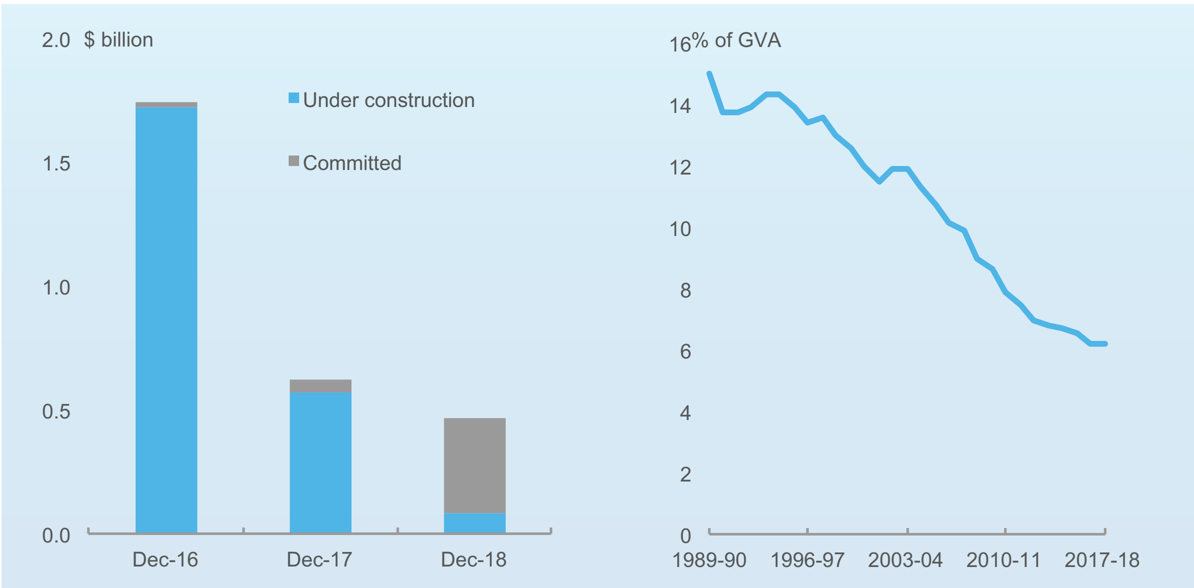
What sort of economy?

Increasingly, we need to ask what sort of economy we want. That is, do we only want a services-based economy, or do we want to preserve a heavy industrial base in Australia? A more complex and diverse economy is a stronger economy, as it is less reliant on the fortunes of one or two particular sectors.

This is not a question of picking winners. Rather it's about understanding the cumulative impact on business in Australia of excessive regulation, cost and an uncompetitive environment. A successful heavy industry base does not have to come at the cost of success elsewhere. These are not mutually exclusive options. Rather, a modern industry policy agenda is about removing barriers, enhancing and building on capabilities, leveraging strengths and having purposeful planning that creates growth centres.

The Deloitte Access Economics Investment Monitor tracks individual investment projects worth $20 million or more. In December 2016, it reported there were $1.7 billion of manufacturing projects underway. This has deteriorated over the years, with the latest report showing just $86 million of manufacturing projects underway. Over a longer period of time, manufacturing's share of GDP has fallen sharply.

Figure 27. Value of manufacturing projects under construction or committed; Manufacturing output as a share of the economy



Source: Deloitte Access Economics Investment Monitor and ABS cat. no. 5204.0

Typically, there is no one single reason why companies might choose not to invest in Australia. For some it is tax, for others the broader regulatory burden and the costs of operating in Australia, while for others it is the length of the approvals process for major projects.

For example, CSL chose Switzerland over Australia in 2014 to locate a $500 million plant for manufacturing synthetic and enhanced versions of the body's own blood clotting agents, even with a large share of the foundation R&D undertaken in Australia. CSL noted 'a range of factors, including for example, proximity to market, availability of staff with relevant regulatory and market experience and favourable industrial relations, influenced CSL's decision. But corporate tax rates were undoubtedly significant and the effective tax rate available in Switzerland is substantially lower than that of Australia.'[25]

The end of car manufacturing in Australia by Ford, Holden and Toyota was attributed to reasons including the high cost of production, low economies of scale and the high dollar at the time.

Incitec Pivot built a $US850 million world-scale ammonia plant in New Orleans over Australia. It noted the approvals process for a similar Australian project took some three years, about the same time that it took to construct the entire project in Louisiana (2013 to 2016). The cost of construction in Australia would have been 40 to 50 per cent more than what the plant cost in Louisiana and energy prices were more competitive.[26]

These examples show the cumulative impact that excessive regulation and cost has on business in Australia. It's why the Business Council believes that we need to make Australia more competitive and an easier place to do business.

Fortunately, Australia has its manufacturing success stories too. One example is Incat, the Hobart shipbuilder. Incat started building ferries with fewer than five employees from a site the size of a quarter acre house block in the 1970s. Now, more than 40 years later, it is building boats about the length of a football field, from a site bigger than five Melbourne Cricket Grounds.

Incat's success has also bred other successes. Hobart's Liferaft Systems Australia, which manufactures marine evacuation slides and life rafts, is just one business to benefit from Incat's ascension. When Liferaft Systems Australia started manufacturing life rafts for Incat almost three decades ago, it employed about six people. It now employs about 70 people full-time, and supplies navies around the world with marine evacuation systems.

These success stories can't, however, be left to chance. Rather we need to ensure that Australia is competitive, skilled and flexible enough to grasp opportunities.

25 CSL, *Tax Competitiveness for Advanced Manufacturing the key to commercialising Australian R&D*, Media release, 2015.
26 James Fazzino, 'James Fazzino: Why Incitec Pivot built a factory in the US, not Australia', *Australian Financial Review*, 4 September 2017

A better plan on tax

Taxes influence virtually all our economic decisions. That's the same for families as it is for businesses. Taxes inevitably distort prices, incentives and rewards – all of which change people's behaviour. How taxes are raised matters because some taxes are worse than others. Some excessively discourage people and businesses from engaging in value-creating, productive activities. Alternatively, taxes can make people engage in wasteful and unproductive activity.

Our outdated tax arrangements hold back people and businesses from realising their full potential. Our effective marginal company tax rate[27] is the third-highest in the world. That's not sustainable. In fact, without a reduction in Australia's uncompetitive company tax rate, businesses are likely to invest less in Australia than would otherwise have been the case and more in other countries. Our policy settings need to reflect the realities of our economy and the need to be competitive with the dynamic economies in our region. If they don't, we'll all lose out.

The Business Council has long advocated for a progressive move to a 25 per cent tax rate for all companies, combined with integrity measures. Unfortunately, Australia has been left with a two-tier tax system that is a disincentive for smaller companies to grow, and a disincentive for larger companies to invest.

Ideas and actions

- The Business Council continues to support broad-based, comprehensive tax reform. Ultimately the current system is unsustainable, with its overreliance on direct taxation, the mismatch between federal and state taxes and spending, the volatile and inefficient state tax base (notably stamp duties) and a globally uncompetitive tax rate for larger companies. On the personal tax side, we need to make sure that decisions to work, save and invest are not discouraged by excessive taxation. The Business Council supports the legislated full Personal Income Tax Plan, which includes the removal of a tax bracket. This will improve incentives to work and save.
- If broader tax reform is not possible, the company tax rate should be reduced to 25 per cent for all companies. The existing two-tier tax system increases complexity and potentially distorts investment by discouraging smaller businesses from expanding.
  - A 25 per cent tax rate for all companies brings Australia's current uncompetitive company tax system closer to the OECD average. This is not about a race to the bottom for Australia, it's a step toward the average.
  - It may help to link reductions in the company tax rate to proposed (by both parties) reductions in personal income tax rates. That is, company tax reductions could coincide with personal income tax reductions.

27 See the OECD Corporate Tax Statistics Database for further details.

- Absent a company tax cut for all companies, the federal government should introduce a broad-based, investment allowance applicable to all investment depreciable under current tax law. This includes machinery and equipment, buildings and structures and intangible assets, and should also apply to energy assets and investments that improve energy efficiency.
- All companies must meet their tax obligations. Where arrangements do not keep pace with community norms, they should be reviewed. Australia should continue to progress tax integrity reforms through the OECD, including on taxation of the digital economy. The Business Council continues to encourage companies to sign the voluntary Tax Transparency Code. Seventy-one Business Council member companies have signed the Code, representing more than $27 billion, or 39 per cent of company tax paid in 2016-17.

This tax plan – including a lower company tax rate – will make Australia a more competitive investment destination. That will in turn lift investment, jobs and wages. On the personal tax side Australians ought to keep more of their own money, which is what the legislated personal income tax cuts will do. Combined with our ideas on the budget – which are designed to make governments more efficient and effective – Australians should be able to enjoy a lower tax burden, better services and a stronger budget.

Behind those ideas and actions

Tax reform

The Business Council has long advocated for comprehensive tax reform. Australia needs to move to a more modern, sensible mix of taxes that will best promote the wellbeing of the Australian community and support job creation. It is not about one tax, but the combination of taxes, and setting an overall tax mix that is most able to achieve the goal of growing the economy and creating jobs while funding vital government services.

The overarching objective of tax reform over the medium term must be to redesign and improve the tax system by shifting from less efficient taxes to more efficient ones. This should reduce the average economic burden of raising each dollar of revenue. This requires a tax system that reduces the overall tax burden on investment, working and other highly valuable and productive activities. Some key points:

- Australia's personal tax system will need to be competitive with other advanced economies as workers become increasingly mobile. Attracting the best talent is critical to improving productivity and economic growth.
- We need more efficient state taxes. As a first step, both land and payroll tax bases should

be harmonised. Longer term, the aim should be to broaden the base of both land and payroll taxes with carefully managed implementation over a long transition. In turn, this would enable governments to gradually reduce reliance on distortive stamp duties, with an eye to eventually phasing them out completely.

While a tax system that promotes economic growth must be the primary objective of reform, the tax system as a whole must also be equitable, have integrity, provide a stable revenue base and be as simple as possible.

Changes to negative gearing and capital gains tax should be carefully assessed and only considered as part of a step towards more consistent concessional taxation of other forms of savings income.

- Changing the taxation treatment of one savings vehicle might simply shift investments elsewhere, while issues of housing affordability are better addressed directly, such as through zoning and land supply reforms. Given the current softness in the housing market, consideration should also be given to deferring any changes.

Competitive company tax system

Investment and innovation, which together comprise labour productivity, have always been and will continue to be the main drivers of real income growth per person in our economy. Business investment drives productivity growth, but new business investment as a share of GDP is currently around the lows seen coming out of the 1990s recession. Faster productivity growth requires a pick-up in investment. That means making Australia a more competitive investment destination.

Investment is highly mobile globally and operates in an intensely competitive environment. A key element of tax reform is a progressive reduction in the company tax rate to make Australia more competitive in the global contest for investment. Today, Australia's company tax rate remains unchanged for companies with turnover above $50 million and there are no plans to reduce it. In contrast, almost 60 per cent of OECD economies have cut their company tax rates over the past decade or plan to do so in the future. The US, UK, Japan and Canada have already cut their company tax rate, with reductions planned for Argentina, Belgium, France, Netherlands, Sweden and the UK. Australia has stood still for 18 years.

Australia currently has the second-highest effective marginal company tax rate in the OECD.

Dividend imputation is not a reason to deny a company tax rate cut. For a start, that's a question about taxation in the hands of shareholders. It's not a question about the hurdle a company faces when it looks to invest in Australia or elsewhere. Just as dividend imputation provides a benefit to shareholders for company tax paid when they receive dividends, in other countries such as the UK or the US dividends are taxed at concessional rates.

Additionally, foreign equity holders in Australian companies and foreign companies operating in Australia do not benefit from dividend imputation. These investors demand a globally competitive after-tax return on their investments in Australia, otherwise they will invest elsewhere. That takes jobs and investment out of Australia and puts it somewhere else. Australia is also a net capital importer, which means we rely on foreign investment to finance more investment here than our savings would otherwise allow. A lower company tax rate in Australia will expand the range of projects that will meet the after-tax rate of return required by investors.

A two-tier tax system – which Australia has adopted – increases complexity and potentially distorts investment by discouraging smaller businesses from expanding.

- Imagine a company with a taxable income (profit) of $5 million. If the company has revenue of $49,999,999, it will pay tax at the 27.5 per cent rate, or $1.375 million of tax. However, if the company made this profit on revenue of $50 million or more, it will pay tax at the 30 per cent rate, or $1.5 million of tax. This extra $125,000 in tax represents an enormous marginal effective tax rate of 12.5 million per cent. Such tax cliffs encourage structuring of operations for tax rather than commercial purposes.

In the absence of a reduction in the company tax rate for larger companies, Australia should introduce a broad-based, permanent investment allowance applicable to all investment depreciable under current tax law. This would mimic the impact of a company tax cut on investment rates of return. It would also maximise the benefits and minimise distortions relative to a temporary or narrow allowance. An investment allowance is not a substitute for a company tax cut, rather it would be an interim measure ahead of moving to a single company tax rate of 25 per cent.

Tax system integrity

Australia's integrity measures, institutions and enforcement all contribute towards and complement a high level of compliance with our tax system. Treasury recently noted that, 'Australia continues to have some of the most robust tax integrity rules in the world.'[28] At the same time, the tax system must ensure that the Australian economy, which is heavily reliant on trade and foreign investment, remains strong and continues to grow.

Australia should continue to support the OECD as the key multilateral forum for progressing changes to global tax laws, including on taxation of the digital economy. There are more than 115 jurisdictions participating in the OECD process and it provides the best opportunity

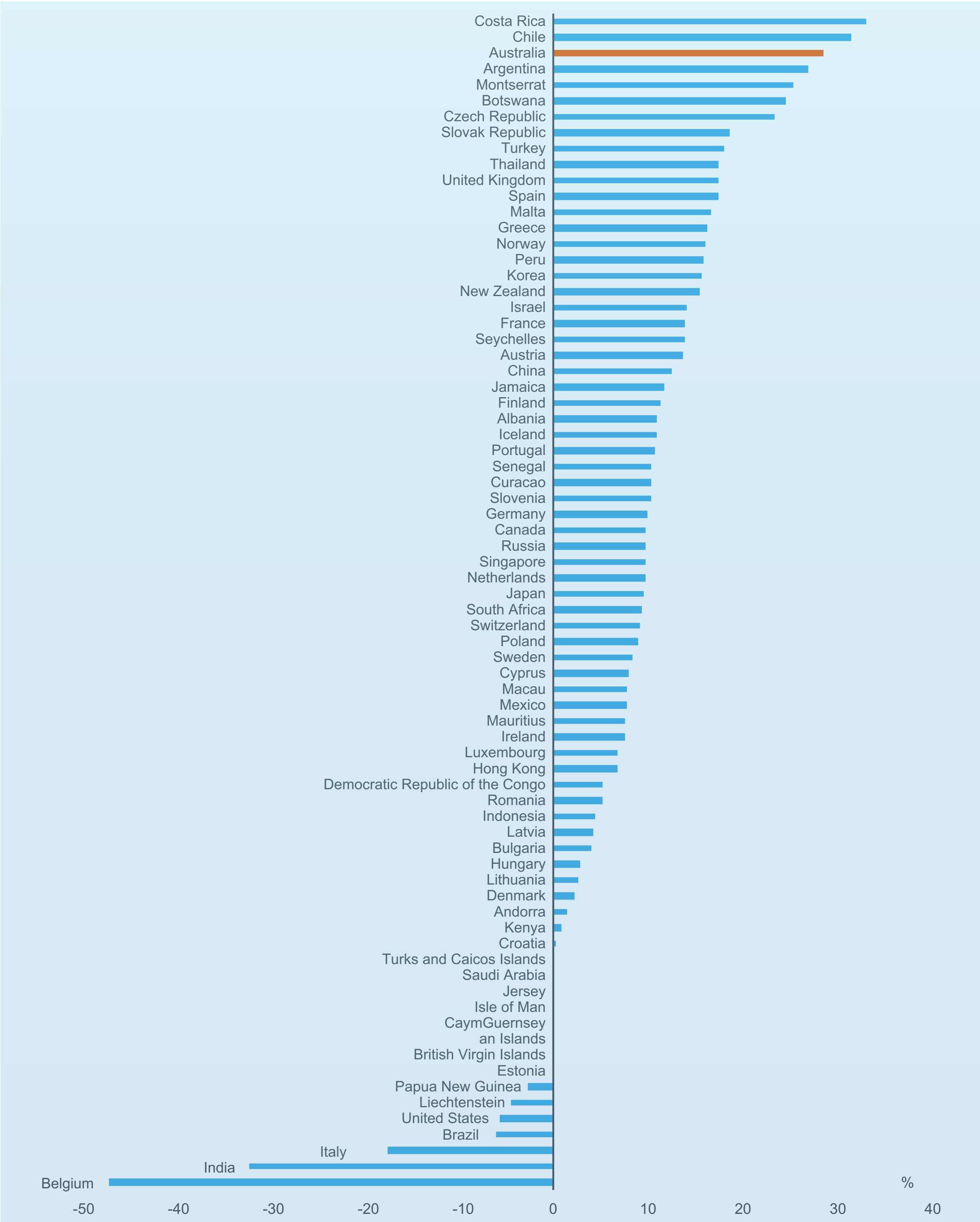
28 Australian Government the Treasury, *The Digital Economy and Australia's Corporate Tax System*, Treasury Discussion Paper, October 2018.

to develop a consensus-based, credible and enduring solution to global tax issues. Tax integrity measures should align with the OECD's Base Erosion and Profit Shifting (BEPS) project, recognising that Australia is already either compliant or acting on the OECD's BEPS recommendations. If Australia acts outside this process, it risks unintended consequences such as double taxation, reducing competitiveness or deterring vital investment.

Tax Commissioner Chris Jordan has said company tax compliance in Australia "is around global best practice and many countries aspire to this level of compliance." The ATO has measured the tax gap for individuals not in business to be $8.8 billion (or 6.4 per cent) in 2014-15, small business around $10 billion (between 10 and 15 per cent) and for large companies to be $1.8 billion (or 4.4 per cent) in 2015-16.[29]

29 ATO, Australian tax gaps – overview, https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/Australian-tax-gaps-overview/; Chris Jordan, *Taxing times: positioning the ATO as an instrument of democracy*, Address to The Tax Institute 34th National Convention, 14 March 2019

Figure 28. Effective marginal company tax rates

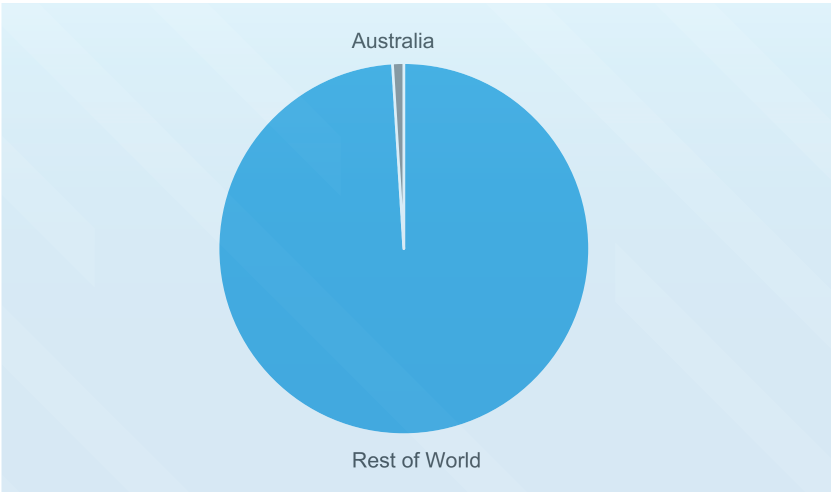


Source: OECD Corporate Tax Statistics Database

Foreign investment and trade

Australia is an open economy that depends on commerce with the rest of the world to generate higher living standards. We simply can't ignore the rest of the world and its huge markets. The costs of turning our back on the world in the name of protection would be largely shouldered by us, not foreigners.

Figure 29. Australia's GDP vs the rest of the world, 2018



Source: IMF World Economic Outlook Database October 2018. Note: GDP, current prices, Purchasing Power Parity. Data for 2018 are estimates.

Openness to global markets means more competition and better and cheaper products for consumers. It means the latest technology for our businesses. Together, all this drives innovation and productivity growth in our economy, as well as competition that benefits all Australians every time they shop. It is ultimately Australian households, as both wage earners and consumers, who benefit from higher incomes and access to imported goods and services at lower cost and much greater product variety. Research backs this up:

- The Centre for International Economics estimates that Australia's economy is more than five per cent larger today because of trade liberalisation since the mid-1980s. That translates to more than $90 billion extra income a year. Average household income is more than $8,000 higher than otherwise.[30]

Recently, the long-standing consensus about the benefits of free trade has shown signs of fracturing, as evidenced by increasing trade conflict and the imposition of tariffs on China-US trade. Amid these developments, it is becoming increasingly important for Australia to join with other like-minded nations, to champion the benefits of open markets and a rules-based trading system.

Australian governments should pursue a simple, transparent and low-cost environment that

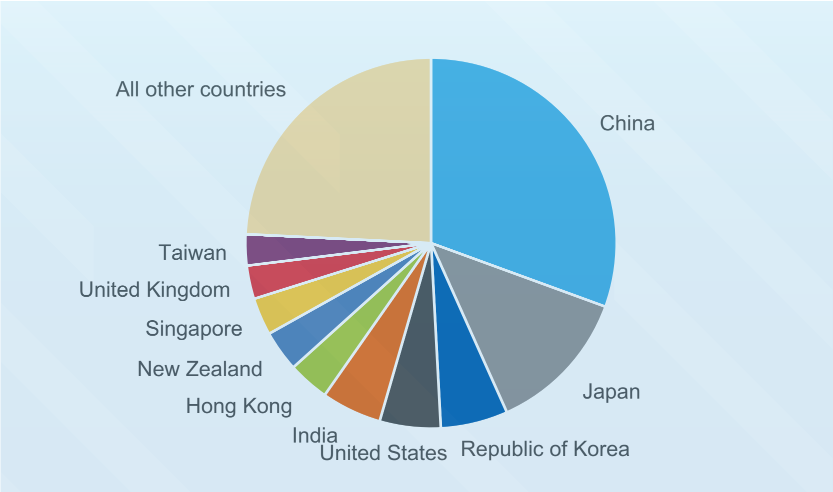
30 Centre for International Economics, *Australian trade liberalisation*, 2017.

makes it as easy as possible for a broad range of Australian businesses to trade with the rest of the world. This will enable our exporters to thrive and consumers to benefit from the best the world has to offer.

The process of trading should also be as simple as possible, while still maintaining important safeguards including biosecurity. However, Australia's customs arrangements are complex and antiquated. To export, a business may need to provide similar information to multiple government agencies and authorities and pay multiple fees. Specialist brokers are often employed to navigate the complexities of the current system. Introducing one online access point to provide all necessary information – called a 'single window' – would make exporting and importing simpler, eliminate duplication and reduce business costs.

The Business Council strongly supports comprehensive high quality free trade agreements that eliminate tariffs on all, or at least 'substantially all', trade (and as required by the WTO). Barriers to the movement of people to run businesses, supervise investments, and provide professional and technical services, for example, should be lifted on a reasonable basis. Free trade agreements can also help align technical standards and professional qualifications. This can make it easier for Australians to trade overseas or for businesses to sell their products.

Figure 30. Destinations of Australia's exports



Source: DFAT

Free trade agreements should not include provisions on geographic indicators that are contrary to free and open trade. Otherwise, Australian producers of feta, parmesan and prosecco would not be able to call these products what they are. Some free trade agreement negotiating partners also appear interested in inserting labour and environmental provisions based on foreign rules. For example, they might require an Australian business to meet foreign labour and environmental standards when exporting products. Australia already has high standards in these areas, and these clauses should not be conflated with free and open trade.

Trade isn't just about the shipping of goods and the supply of services between countries. In a modern world, trade and investment go together. A firm might make a product in one country and export it to another. Or it might simply set up an operation in that second country and produce and sell there. One reflects trade (exports and imports), while the other is foreign investment.

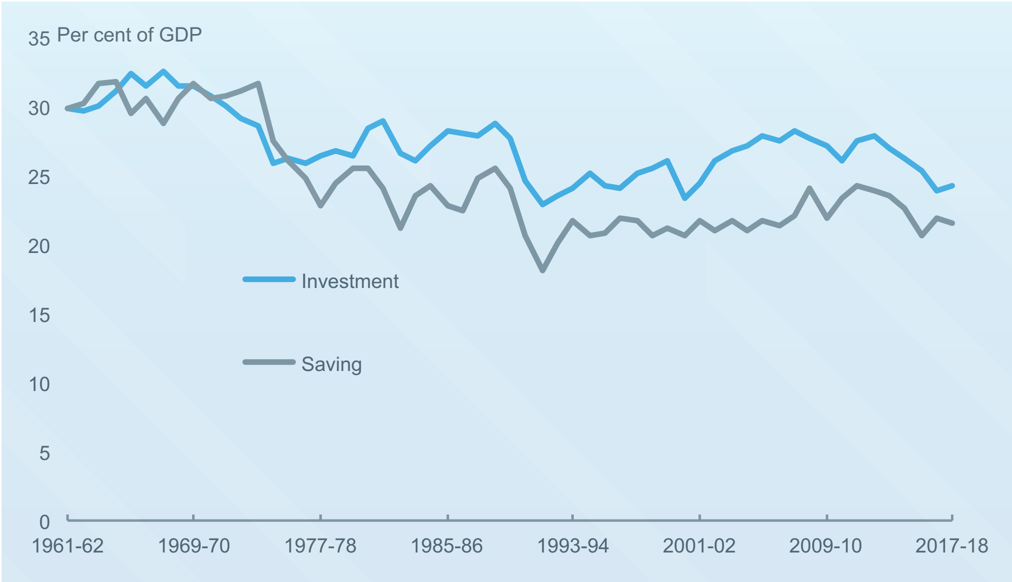
Australia has traditionally relied on foreign investment to fund investment opportunities our own national savings cannot. We do, after all, have a relatively small population but vast potential.

That means Australia has never been able to finance all worthwhile investments that can be made in our economy, particularly in our capital-intensive, export-oriented sectors such as mining. As a result, Australia has relied, and will continue to rely, on foreign capital to plug this gap.

This investment means that Australians are able to enjoy higher living standards than would otherwise be the case. Conversely, this means that losing out on investment, whether it be due to a lack of competitiveness or foreign investment restrictions, would make us considerably poorer.

The gap between our own savings and the investment opportunities in Australia presents a clear choice. That gap can be funded through foreign capital (as it has been for most of Australia's history), or increased domestic savings (and reduced consumption), or investment opportunities must be foregone. The latter options, mean lower growth and lower living standards, particularly in the short term.

Figure 31. Savings and investment in Australia as a share of GDP



Source: ABS cat. no. 5204.0

To attract investment, Australia needs to be an attractive investment destination. We cannot assume that global investors will keep investing in Australia. We must do everything within our control to ensure Australia's overall business environment is competitive – especially for trade-exposed industries and companies – so that global investors choose to invest here.
A consistent, coherent, stable and predictable policy framework that supports strong inbound investment is critical. This includes lowering barriers to investment through trade agreements, having clear and consistent investment screening policies and a competitive tax system.
It would also minimise concerns around regulatory or country risk that can arise in the eyes of global investors and firms seeking to do business in Australia.

- Where Australia has concerns around investment from certain types of organisations or in certain sectors, these should be made clear so that potential foreign investors know the 'rules of the road'.

Australia, like many countries, reviews foreign investment proposals on a case-by-case basis to ensure they are not contrary to the national interest. Australia's regime is more onerous than many other similar countries, and is ranked as the fifth most restrictive foreign direct investment regime among OECD countries in the OECD FDI Regulatory Restrictiveness Index. Only New Zealand, Mexico, Iceland and Canada have more restrictive regimes.

Foreign investment is more than just the capital needed to fund projects to allow businesses to grow and compete. It delivers many other spillover benefits, as it also:

- creates jobs and stimulates domestic investment
- promotes competition and improves the allocation of resources across the economy, while also stimulating research and development and innovation
- supports productivity growth in the companies receiving the investment, as well as across their supply chain (through the transfer of new knowledge, technology, management techniques and other workplace skills)
- increases global linkages and opportunities through access to international supply chains.

In turn, these benefits help Australian businesses compete overseas and enable their own investments abroad.

More broadly, increased foreign investment leads to greater integration into the global economy, leading to a more open and flexible economy. Governments play a crucial role in providing the right incentive framework for ensuring the benefits of foreign investment are maximised and the risks minimised. Primarily, this requires ensuring open and competitive markets across the economy and clear regulatory and governance systems.

Ideas and actions

- Progress comprehensive, high quality free trade agreements that eliminate tariffs on all, or at least 'substantially all', trade.
- Free trade agreements should not include provisions on geographic indicators that are contrary to free and open trade.
- Free trade agreements should not require Australia to observe foreign labour and environmental provisions.
- Ensure visa arrangements assist in the movement of people seeking to run businesses, supervise investment or provide professional and technical services both in Australia and globally.
- Introduce 'single window' arrangements.
- Ensure there are clear and consistent investment screening policies with timely decision making.

Making it easier to do business

Every economy needs some rules. As a nation we need to protect people and protect the environment, for example. Free markets don't mean an unfettered free for all.

But it's a question of the right rules. Rules that achieve what was intended. Rules that don't end up holding us back from innovating, from doing things differently and rules that don't destroy jobs. Take the rules that limit Australian shops from opening at certain times. That might seem reasonable, but it ends up sending shoppers to the internet when our stores aren't open – often to offshore websites and suppliers. That costs jobs in Australia.

Too rigid a set of rules on what can be done with land (called zoning) can end up making houses more expensive. And every time a new rule imposes another cost on a business – small, medium or large – it means a combination of higher prices, less jobs, and lower profits. Lower profits mean less tax dollars to fund services.

One new rule or regulation might not seem like much, but they add up over time. Regulation isn't an exciting topic. But it's something Australia needs to get right to make sure our exporters can export, our businesses stay strong and create jobs and innovate our way to a stronger Australia. Getting this right means a whole new approach to regulation.

Ideas and actions

Regulation reform

Australia needs to reduce unnecessary costs on the economy from federal, state and territory regulation. Priority areas for reform include:

- major project approvals
- land use regulations
- retail trading restrictions
- product approvals (including through greater recognition of international standards)
- licensing and permitting restrictions, with a focus on reducing costs for small business.

An effective regulation reform program would also comprise:

- The Australian Government assessing the total cost of federal regulation every three to five years and issuing a 'Stocktake of Regulation'. The report should identify priority areas for reform. State governments should do likewise with their own stock of regulation.

- The Australian Government developing a clear and transparent regulatory reform agenda, with progress overseen by a dedicated federal minister with accountability for reducing the regulatory burden faced by business.
- The Productivity Commission undertaking regular reviews of the cumulative burden of regulation by sector and proposing specific regulation reforms to improve sector competitiveness.
- The Council of Australian Governments (COAG) establishing an intergovernmental regulatory reform process, with consideration given to providing incentive payments for implementing productivity-enhancing reforms.
- Governments increasing the adoption of trusted international regulatory standards. If a product has been regulated and approved in a trusted third country, requiring a unique Australian approval simply adds cost and delays the adoption of new products and technology.
- Similarly, Australian government and regulators should seek to align our regulations with trusted international regulations. Having our regulations (and regulators) as harmonious as possible with those of other developed economies will lower the cost of doing business in Australia.

Best practice regulation

The Australian Government should re-invigorate its commitment to ‘best practice regulation’ processes through the following actions:

- All new regulation should be subject to regulation impact assessment in accordance with ‘best practice’, where the problem is clearly identified and the proposed regulation is demonstrated to be the best solution using cost-benefit analysis.
- A minimum period of consultation that allows stakeholders to properly understand a proposed regulation and fully assess its impact.
- Co-design regulation with industry or encourage self-regulation where it can be effective in achieving desired outcomes at least cost.
- Adequate resources and training so that agencies can accurately measure the costs of new regulation and undertake genuine cost-benefit analysis of all options. In doing so, agencies should assess how the cost of the proposed regulation will interact with existing regulation to affect the cumulative burden on business.
- Use sunset periods and review periods for new regulatory initiatives.

- Commit to timely reporting on the government's adherence to best practice reporting by publishing annual best practice regulation reports.
    - Best practice regulation reports provide an independent assessment of compliance with federal government and COAG best practice regulation requirements.

Regulator performance

Australia needs effective, independent, well-resourced regulators to administer and enforce the law. It is also important for regulators to conduct their activities in a cost-effective way and take into account the impact of their operations on productivity growth.

The Regulator Performance Framework (RPF) has been a positive initiative for assessing and improving regulator performance, including by promoting improved communications with regulated entities and more efficient use of information requests. Under the RPF, regulators undertake periodic stakeholder consultation and report against a dedicated set of KPIs.

The RPF could be further enhanced in the following ways:

- regulators should be encouraged to obtain performance feedback from regulated entities on a more continuous basis
- the key performance indicators should include a requirement to minimise compliance costs
- the regulator performance framework should be adopted within the states and territories.

Regulators should also minimise the time to make decisions, particularly for low risk conduct, and implement fast track authorisation processes where possible.

By making it easier to do business and by removing red-tape, Australia can become a more innovative and dynamic economy. There need to be some fundamental tests: does this new rule solve what it intended to solve, or does it end up creating new problems; and what's the overall regulatory burden in the wake of another regulation? Getting regulation 'light but right' means we can grow faster. That makes our economy stronger and opens up more choice for Australians. This plan does that.

Behind those ideas and actions

How well we regulate is fundamental to the competitiveness of our economy and to the wellbeing of society.

Better regulation means less unnecessary red tape and more productive businesses. It supports more job creation, and better products and lower prices for consumers.

In 2014, Deloitte estimated that federal, state and local government rules and regulations cost $27 billion to administer and $67 billion to comply with. It estimated that one million people are employed in 'the compliance sector', which includes administration of and compliance of government regulation and the private sector's rules it imposes upon itself.[31]

If policy makers were to lessen the compliance burden placed on business, this would not negatively affect job creation. While regulatory compliance will always remain an important function within any business, a more streamlined regulatory environment would allow business to divert these same resources towards other roles that increase the productivity of the firm and provide better outcomes for consumers.

Most regulation imposes costs in achieving its objectives. One new regulation might not seem like much, but the cumulative burden ends up being significant. The annual cost of federal regulation in Australia was estimated in 2014 to be $65 billion, or around four per cent of GDP. This figure does not account for the patchwork of regulations imposed at the state, territory or local government levels.[32]

Regulation needs to be frequently reviewed and amended to ensure it is fit for purpose in a modern economy subject to significant change. Where necessary, regulation should be amended. Or, if it no longer serves a purpose or where the costs outweigh the benefits, regulation should either be amended or abolished. The use of sunsetting provisions – where a law is repealed after a specific date unless further legislative action is taken to extend that law – is a useful way of ensuring regulation is continually reviewed.

It is important that regulation achieves its objectives efficiently and does not become a barrier to businesses being able to quickly adjust to structural pressures and for resources to flow to areas and activities where they can be put to best use.

We also need to regulate for a global economy. That means there should be greater recognition of international standards for product approvals. If a product has been regulated and approved in a trusted third country, Australia's approval processes should leverage the analysis performed overseas, not repeat it.

31 Deloitte, Get out of your own way: *Unleashing productivity*, 2014
32 Australian Government, *The Australian Government Annual Deregulation Report 2014*, 2015.

- Product approvals provide an essential safeguard but can impose unnecessary costs on both Australians and Australian business, particularly if they take too long or require applicants to comply with an unreasonably burdensome application process. The costs arise in the form of distorted markets (including inflated prices), lost productivity, repressed innovation and the reduced availability of products to consumers. This can mean delayed access to the latest medical technologies, some of which are developed in Australia. It can also mean our exporting farmers are unable to incorporate the latest agricultural and veterinary products into their pest management strategies, undermining Australia's competitiveness in the global agriculture industry.

Regulations need to be monitored to ensure they reflect the current operating environment, while maintaining appropriate protections. While Australia has well-respected regulations by international standards, our regulatory burden remains high and is a barrier to innovation. In an increasingly globalised economy, poor or excessive regulation can weaken competitiveness, and poses the risk of businesses relocating to take advantage of more favourable regulatory circumstances.

For example, it took Cochlear, an Australian-based exporter of medical devices, 14 months longer to gain product approval in Australia than in Europe. This delay has deep consequences as a number of countries require a device to be approved in its country of origin before it can be approved for use in the export destination country. As the Cochlear CEO noted:

> 'That is, after obtaining regulatory approval to sell in Europe, it took 14 more months before Cochlear could even start to apply for product registration in key markets like India. In this case, Cochlear ended up several years behind its European competitor in being able to offer a key product into dozens of markets.'[33]

Here are some other examples where regulation holds Australia back:

- Retail trading hours – States such as South Australia, Western Australia and Queensland still have archaic regulatory constraints on retail trading. In South Australia, while consumers can buy products online 24 hours a day, these same consumers may be prevented from buying groceries from their local supermarket until after 11am on a Sunday morning. In Western Australia, the regulations operate in such a peculiar way that certain shops can sell light bulbs, but not light fittings. The Productivity Commission has estimated the costs imposed by retailing restrictions at approximately $600 million per year.

33 Chris Roberts, *Innovation in Australian Business*, JJC Bradfield Lecture, 23 October 2012.

- Professional and occupational licensing – Inconsistent regulation and certification requirements between jurisdictions create transaction costs and delays for businesses that can act as impediments to labour and goods mobility. A qualified tradesperson may be able to offer their services in one jurisdiction, but be prohibited from driving 10 minutes to a town across a state border and offering their services to a consumer there. For example, a panel beater in the ACT who wishes to work in NSW will need to lodge an application with the NSW local registration authority to have a NSW licence issued. The NSW local registration authority will consider the ACT licence and assess whether the person is eligible for an equivalent NSW panel beater licence.
- Fragmented payroll tax regimes – Jurisdictions use different small business exemption thresholds, different calculation methods and allow for inconsistent exemptions. This means businesses that operate in multiple jurisdictions across Australia incur significant compliance costs when adhering to their payroll tax obligations.
- Unwarranted competition restrictions – Progressing unfinished competition reforms from the Harper Review would provide significant productivity improvements in industries such as pharmacies, second-hand vehicles and legal services. Reforming pharmacy location and ownership rules is estimated to provide a net economic gain of $75 million.
- Zoning restrictions – Zoning regulations prevent housing supply from keeping pace with demand, especially within our major capital cities, and contribute to high house prices. To address housing affordability pressures that are also having wider economic impacts, all governments should reform zoning regulations to allow greater density in key residential and transport corridors, implement faster land release for new housing and increase the use of complying developments to speed up approvals. The RBA estimates that zoning restrictions increase the average house price by $489,000 in Sydney and $324,000 in Melbourne.
- Heavy vehicles – Increasing inter-jurisdictional consistency of heavy vehicle specifications, curfews, load limitations and travel time restrictions, as well as the establishment of a national heavy vehicle user charge system has been estimated to deliver benefits of between $8 billion and $22 billion (depending on the reform model chosen and time frame for reform implementation).
- Environmental approvals – Bilateral approval agreements between the federal government and states should be implemented to complement the existing ‘bilateral assessment’ agreements under the Environment Protection and Biodiversity Act 1999. The one-stop-shop approach maintains robust environmental standards while reducing the cost of administering regulation and providing investors with greater regulatory

certainty. Judicial review should only be available to project proponents and those directly affected by a decision. Third party appeal rights under section 487 of the Environment Protection and Biodiversity Act 1999 should therefore be repealed to prevent appeals by non-impacted parties. Such appeals add regulatory risks and costs to major capital projects. In 2017, the Institute of Public Affairs found that 87 per cent (28 out of 32) of section 487 challenges that have proceeded to judgement have been rejected in court. Of the four successful challenges, just one resulted in a substantial alteration to the Minister's original decision. Such a low success rate indicates that some of the challenges being put forward under section 487 are designed to delay a project commencing and cause financial pain, rather than raise a legitimate grievance.

- Major project approvals – Improving our major projects approval process will maximise employment opportunities and help get infrastructure in place more quickly. All states should adopt the Business Council's best practice model for major project approval (Competitive Project Approvals, 2016) to speed up approvals and provide greater certainty for investors and the community. The model supports decision making within 12 months under a single application, single assessment and single approval approach. These reforms can help to bring forward Australia's pipeline of almost $400 billion in prospective major public and private investments. Approval delays and uncertainty are extremely costly — the net economic cost of a one-year delay in approving a major project of average size (capex ~$500 million) is $26 million to $59 million, and for a larger project like an offshore liquefied natural gas project, the cost can be between $0.5 billion and $2 billion.

Reform to make exporters stronger

Australia's regulatory cross-border trade compliance processes are costly and slow relative to comparable countries. In 2018, the Word Bank ranked Australia 103rd out of 189 countries in its annual *Ease of Trading Across Borders* measure.

A regulatory reform that could significantly enhance Australia's international competitiveness is the introduction of a 'single window'.

A single window is a single point of entry for the exchange of electronic information between regulatory bodies and importers/exporters. Information needs to only be entered once instead of multiple times, significantly reducing the risk of errors and duplication.

Currently, processes for clearing merchandise imports and exports across Australia's borders is carried out under the *Customs Act 1901* and hundreds of associated Acts and regulations. Interactions with numerous government agencies and authorities are required, and formidable government documentation/certification requirements apply for both imports and exports.

- Documents frequently required by exporters include the 'Export Declaration', certificates of origin, and the 'Certificate and Declarations as to Condition'. There are also industry specific certification requirements, for example, health and halal certification for the meat industry (Australia's largest exporting industry based on number of consignments). There is often considerable overlap in the information requirements of the various different certificates, each of which imposes fees or costs of between $30-$100 per form (not including postage). There are steep penalties for providing incorrect information.
- Australia has introduced certain online services and databases for the benefit of traders, such as the Department of Home Affairs' Integrated Cargo System and the Department of Agriculture and Water Resources' BICON and EXDOC systems, for agricultural trade certificates. However, these various systems are not integrated with each other.

Overall, Australia's trade compliance processes are not user-friendly, and they discourage businesses wanting to engage directly in international trade. This places a premium on expertise and familiarity in using the system.

As a result, Australian businesses typically turn to a range of agents or brokers to complete and submit documents for them, which is a cost on their operations. Although a regime of strict compliance will always be required at Australia's ports, and some cost may be inevitable, there is reason to believe that both costs and processing times could be reduced through systematic modernisation of the customs regime, including introduction of a single window for the submission of government information requirements.

Enhancing the user friendliness of the system would likely encourage more Australian businesses to engage in international trade.

First, it would allow traders to deal with just one government access point rather than a myriad of different government agencies and authorities.

Second, correctly designed and as part of an overall reform of the Australian customs regime, a single window would eliminate duplicative submission of the same information on multiple different forms. Instead, a trader could submit information once only through a unified application. This information would then be distributed to the relevant government agencies as required. This would represent a major simplification and cost saving for Australian businesses.

Third, following unification of all the separate certificate processes managed by Australian authorities, the potential exists to link the Australian single window to those of other countries electronically. Ultimately, an international system of integrated electronic authentication could revolutionise the current requirement to transmit these documents between various hands using the postal system or emailing soft copies.

Stronger workplaces, skills and better jobs

Australia at work: managing adjustment and change

Stronger jobs growth and higher wages

Equipping Australians for a strong future

Stronger workplaces, skills and better jobs

Australians have told us they are concerned about weak wages growth. The Business Council shares that concern. As was noted earlier, we can't simply regulate our way to higher wages. Attempting to do so will just result in fewer jobs in Australia.

The solution is to remove the hurdles that prevent Australian business and workers from competing with the rest of the world. That means attracting more investment to Australia through a more competitive tax system and by making it easier to do business in Australia. Over time, it is productivity that drives real wages. And investment, improvement in our human capital and innovation all work together to drive productivity.

Crucially, the Federal Treasury has found no material change in the share of national income going to labour over the past few decades. That means what has worked to lift wages growth in the past should again work to lift wages growth in the future. Productivity remains the key to sustainable real wages growth.

In our workplaces, this means we need to acknowledge the unique circumstances of different businesses and the people that work in them. We need to put employees and employers in the same business on the same side. Enterprise bargains are delivering faster wages growth than those seen economy wide, which is why we need to promote them as the heart of our industrial relations system.

Australians have also told us they are worried about changes in the way we work. They want to know their jobs are safe. And that there will be jobs for their children.

There is good news. Work done by AlphaBeta shows that the rate of job loss due to automation is actually slower today than at previous times in the past – including in the 1990s. Their analysis also showed the percentage of workers involuntarily leaving their jobs has almost halved over the past decade.

Of course, this does not diminish the shocking impact that losing a job can have on individuals and their families. We need to make sure our economy is competitive and can therefore keep jobs in Australia. But we can do more than just protect what we have. By getting the policy settings right we can also create more jobs with higher wages.

A strong, growing and competitive economy and a workplace relations system that acknowledges the different circumstances of different employers provides the right foundation to do this. To be competitive and strong we also need a highly skilled workforce, with the right skills. And an ability to update and change our skills as our working lives progress. Being able to update and change our skills is a major focus of the Business Council's proposals for Australia's post-secondary education and skills system. From an economic perspective this will increase both workforce participation and productivity – two of the building blocks of economic growth.

AlphaBeta's work also shows that the more tasks within our jobs change, the more protected existing jobs are. That underscores the importance of ensuring our workplaces are flexible and aren't bound by too rigid a set of rules that limit our ability to change how we do our jobs. Having flexible workplaces and an innovative economy also helps create the jobs and businesses of the future.

The business community does not want people working harder for less. Instead, we want to ensure companies have the right environment to expand, innovate and invest, so people can work more effectively. That will in turn result in higher wages.

At the start of this document we noted that if we want to achieve our goals for Australia, we need to get a few essential things right. We need a strong economy. That in turn means we need to be able to compete with the world's best. And we can't do that without a highly-skilled workforce.

Having a strong economy, a highly-skilled workforce and being able to compete with the world's best, is how we strengthen jobs and pay higher wages.

Knowing our jobs are safe and that there will be jobs and a bright future for our children is ultimately what it's all about.

Australia at work: managing adjustment and change

There is no doubt that technology in all its forms – whether it is artificial intelligence, robotics or digitisation – is impacting on the way we work, live, and socialise. It seems like the pace and scale of disruption is higher now than in the past.

However, in our view, the debate to date about the impact of technology on work, has been marked by extreme predictions rather than actual trends.

There are several myths about the future of work. Some claim work is becoming less steady, seen through an increasing proportion of casuals or contractors in the workforce, and higher churn between jobs. These assertions are not supported by the facts:

- The proportion of independent contractors in Australia was slightly lower in 2018 than a decade earlier: down to eight per cent from nine per cent.
- The proportion of casual workers is currently around 20 per cent of working Australians. The level of casualisation in Australia has remained at the same approximate levels since the mid-1990s.
- Australian workers are not switching jobs any more than in the past (whether a voluntary or involuntary transition). In particular, the share of job losses (involuntary transitions) is much lower now than 20 years ago.

The rate of job loss due to automation is actually slower today than at previous times in the past – including in the 1990s.

AlphaBeta has undertaken research for the Business Council that shows the most significant impact on our working lives will be in the way we perform the tasks that make up our jobs.

Between 2011 and 2016, the average level of change in tasks within an occupation has been almost 10 per cent. Australian workers now spend about half a day a week doing different tasks than someone with the same job in 2011.

Our research shows that over the last five years, workers in low-skilled jobs had the lowest rate of task change but the highest rate of retrenchment. Workers in high-skilled jobs were the reverse, with the highest rate of task change and the lowest rate of involuntary job loss.

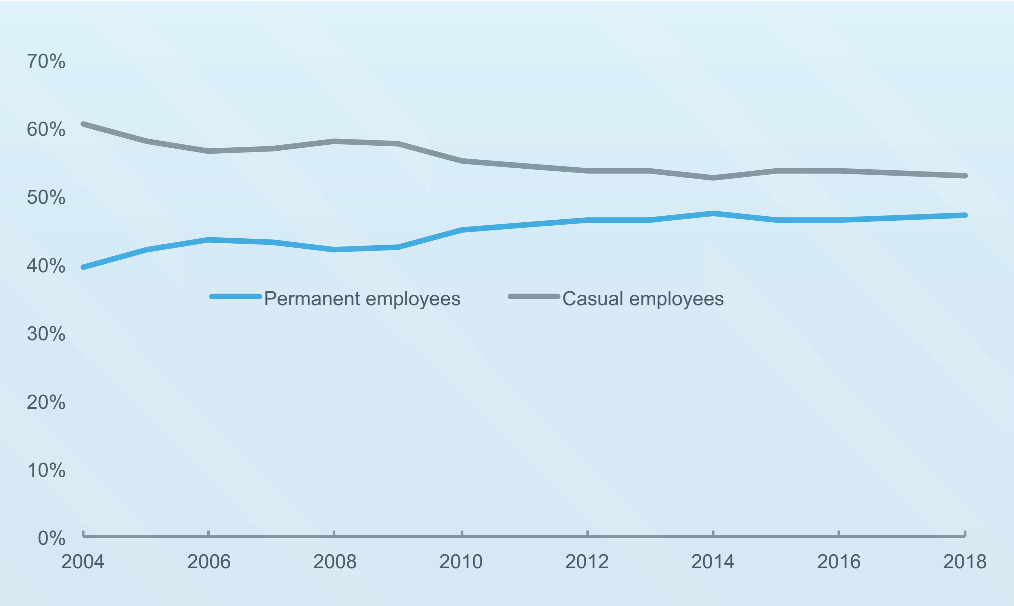
In order to keep people working and to keep jobs in Australia, we need to embrace the change within our jobs and be ready to adapt. As AlphaBeta found, workforce change actually protects jobs. Jobs that are changing fastest in terms of tasks have a lower incidence of involuntary loss.

This means pursuing policy reform that improves the competitiveness of Australia as a destination for investment, tackles badly-designed regulation, institutes a workplace relations environment where workers and managers can sit down together to manage change, and allows Australians access to education and skills across their working lives.

We also need to be able to provide support to those who are most at risk in the coming period of change. We should lift literacy levels in the adult population, address entrenched disadvantage – especially for those who have been out of work for years, and remove barriers to getting people into work.

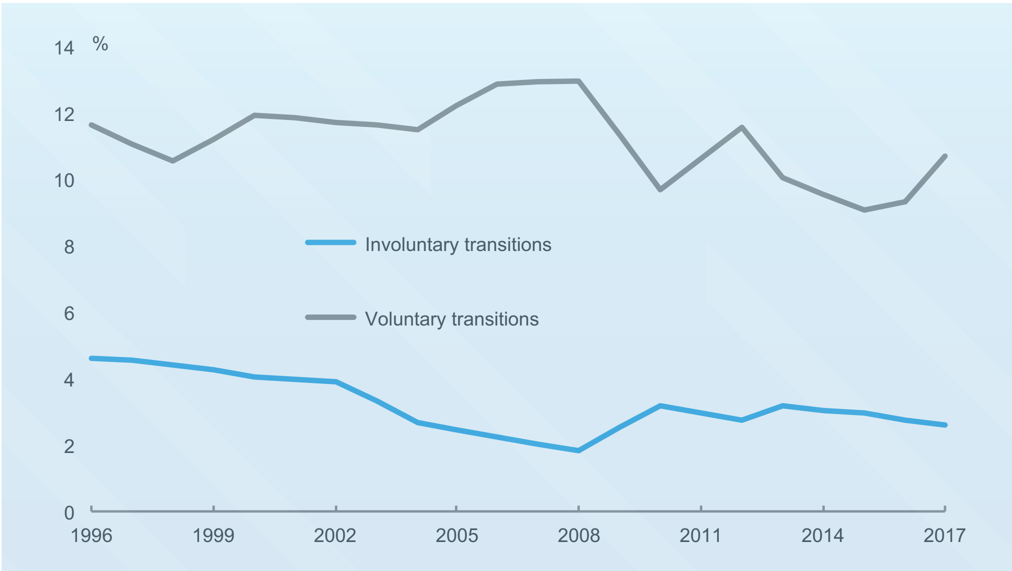
Technology represents limitless opportunities for Australians to have higher living standards, greater prosperity, longer and healthier lives and a much better quality of life. The policy challenge for Australia is to ensure that the benefits of technology are fairly shared.

Figure 32. Share of part-time workers that are permanent or casual



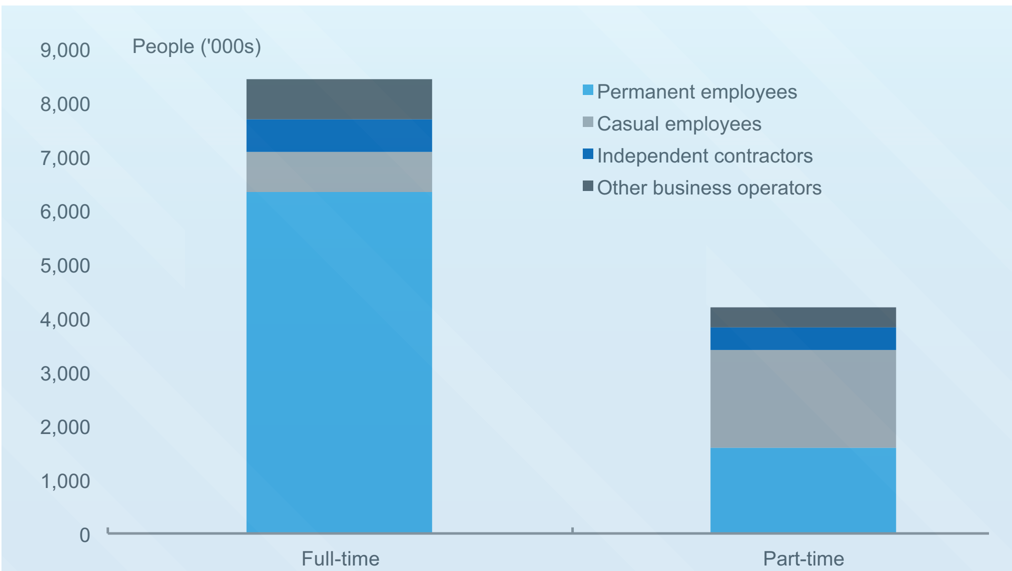
Source: ABS cat. no. 6333.0.
Note: Determined by using receipt of paid leave entitlements as a proxy.

Figure 33. Job transitions as a share of the labour force



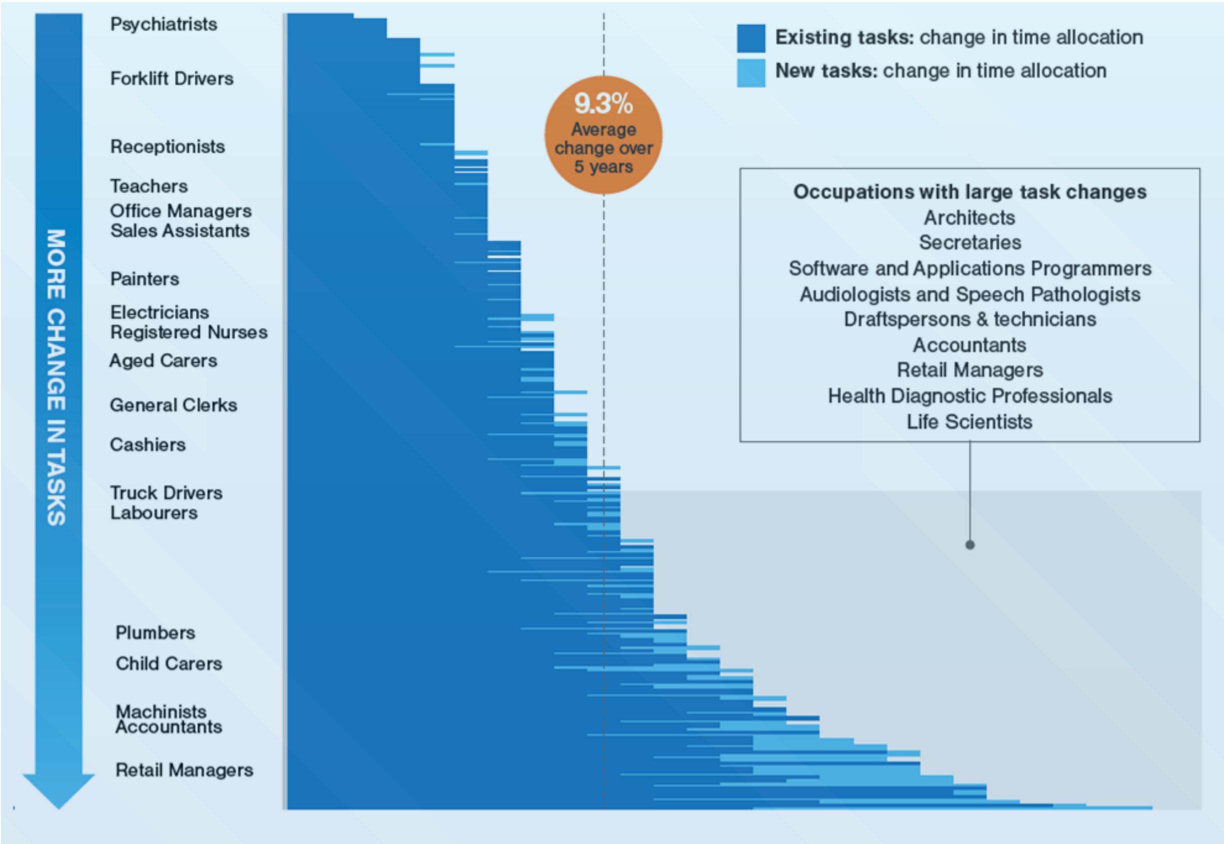
Source: AlphaBeta. Note: The scope of the Labour Mobility survey was expanded in February 2006 to include all people aged 15 years and over. This change resulted in an extra 73,300 people coming within scope of the survey.

Figure 34. Number of people in forms of work in the Australian labour force



Source: ABS cat. no. 6333.0. Note: Determined by using receipt of paid leave entitlements as a proxy.

Figure 35. Task change by job over 5 years



Source: O*Net, AlphaBeta Analysis

Stronger jobs growth and higher wages

The Business Council wants a system that delivers a strong, reliable and sustainable safety net for workers, and enables businesses to be agile and successful. We want to create and strengthen Australian jobs, and lift productivity and therefore wages.

At the heart of such a system must be a focus on the unique circumstances of different businesses and the people that work in them. In Australia, this focus is reflected in what are known as “enterprise bargains” or “enterprise bargaining agreements (EBAs)”. Enterprise bargaining was introduced by Labor in the early 1990s and helped to usher in some of the fastest rates of real wages and productivity growth in Australia’s history.

For the last six years, wages growth in EBAs has been consistently higher than wages growth in the economy as a whole. Over the year to September 2018, the Wage Price Index rose 2.3 per cent, while the average annualised wage increase (AAWI) being paid under all EBAs is 2.7 per cent. EBAs ratified in the September quarter paid an AAWI of 3.2 per cent. The December quarter data showed at 2.3 per cent increase in the Wage Price Index over the year, while the average annualised wage increase (AAWI) being paid under all EBAs is 2.7 per cent. EBAs ratified in the December quarter paid an AAWI of 2.8 per cent.

We need to preserve the enterprise bargaining system. It is the cornerstone of Australia’s modern workplace relations system. Bargaining at the enterprise level enhances the capability of both businesses and workers to adjust to changes in tasks, which is crucial to protecting jobs in the future. It also aligns the interests of employees and employers in the same business with a collaborative focus on seeking productivity increases and higher wages.

The modern awards system continues to play a role as a key part of the safety net. However, the nature of awards (these are the often historic rules that govern our workplaces) means they can lack the agility needed in a modern economy. As a result, the Business Council believes that the breadth of awards needs to be brought back to their core role of setting a floor for wages and conditions.

Focusing on the circumstances of individual employees and employers, with a robust safety net and trusted independent umpires, is the way to make Australian jobs strong and increase wages.

Ideas and actions

We want a system that is fair, recognises that individual businesses and employees are different (rules made for Bendigo may not work in Busselton), promotes collaborative productivity versus conflict and strikes, and through higher productivity sees faster growth in real wages (that is wages after the cost of living – inflation – is taken into account).

Such a system will need the following:

- Agreements that allow a focus on the unique circumstances of a business. Businesses need agreements that give them the capacity to make decisions that will help their business adapt, be more agile and be globally orientated. This will be the key to creating new employment opportunities. It will also be vital to create the productivity improvements needed to support higher wages.
  - We therefore need to retain the system's current architecture. Reform should focus on improving the current system, rather than replacing it.
  - Limiting the number of matters included in EBAs increases the flexibility and ability of businesses to adapt to changes in markets. In return, it is important for productivity gains from EBAs to flow through to higher wages.
- Empowered workers and businesses to negotiate and realise shared objectives. The ability of a business to overcome challenges and harness the potential of its workforce will be key to creating a more productive and successful enterprise. We need to make it easier for employees and employers to make such agreements.
  - That can be done by reworking the Better Off Overall Test to allow enterprise agreements to be approved if employees covered by the agreement 'on the whole', are better off under the agreement compared with the award. This would reinstate the 'no disadvantage test'.
  - Introducing individual agreements, using safety net provisions or an enterprise agreement as the basis for the agreement and applying a 'no-disadvantage test', can also enable workers and businesses to realise shared objectives.
- To recognise that workers and employers are not the same. Some workers will enjoy the freedom created by new ways of working. Other workers are likely to prefer the consistency and entitlements gained via permanent full-time and permanent part-time work arrangements. Many parts of the community use casual and contract jobs as a stepping stone to a permanent position. Employers will need to juggle the different needs and expectations of their workforce with the achievement of business objectives. We need the system to give them the capacity to do this.

- A strong, reliable and sustainable safety net for all workers.
  - The current economy-wide safety net (modern awards, minimum wage order, national employment standards and general protections) should be maintained.
  - Modern awards should be streamlined to their core purpose of being part of a safety net for wages and conditions.
- Strong and trusted 'independent umpires'.
  - Recommendations from the Productivity Commission's *2015 Inquiry Report into the Workplace Relations Framework* to improve the governance, administration and accountability of the Fair Work Commission should be implemented.
  - The Australian Building and Construction Commission (which serves as a 'watchdog' on the nation's building sites) and the Registered Organisations Commission (the independent regulator of unions and employer associations) should be retained.
  - Neither businesses or unions should seek to elevate themselves to positions of power equal to government and statutory bodies.

The Business Council's plan is about creating jobs in Australia, making our workplaces more productive and therefore increasing wages. It recognises that what works in one part of Australia might not work somewhere else. We believe it should be easier for workers and employers to work together and create enterprise-based deals on pay and conditions. Our proposals also contain a strong safety net and trusted umpires.

Others have proposed wide-reaching changes to Australia's workplace relations system that will make it even more rigid than it is now. While harmless-sounding, proposals like 'pattern bargaining' will reduce workers' ability to choose how they work or to negotiate for the conditions that matter to them most. And they will reduce businesses' ability to make decisions to stay agile and competitive. With 'task change' one of the best ways to protect jobs into the future, the more rigid we make the system, the more we put jobs at risk.

EBAs have served the Australian economy well, especially in trade-exposed sectors and through their ability to reflect regional differences. At the same time, however, there may be scope to look at improving outcomes for low paid workers in NGOs and sectors of the economy dominated by female workers where there has not been a strong history of enterprise bargaining. This, however, cannot come at the expense of weakening the overall enterprise bargaining system.

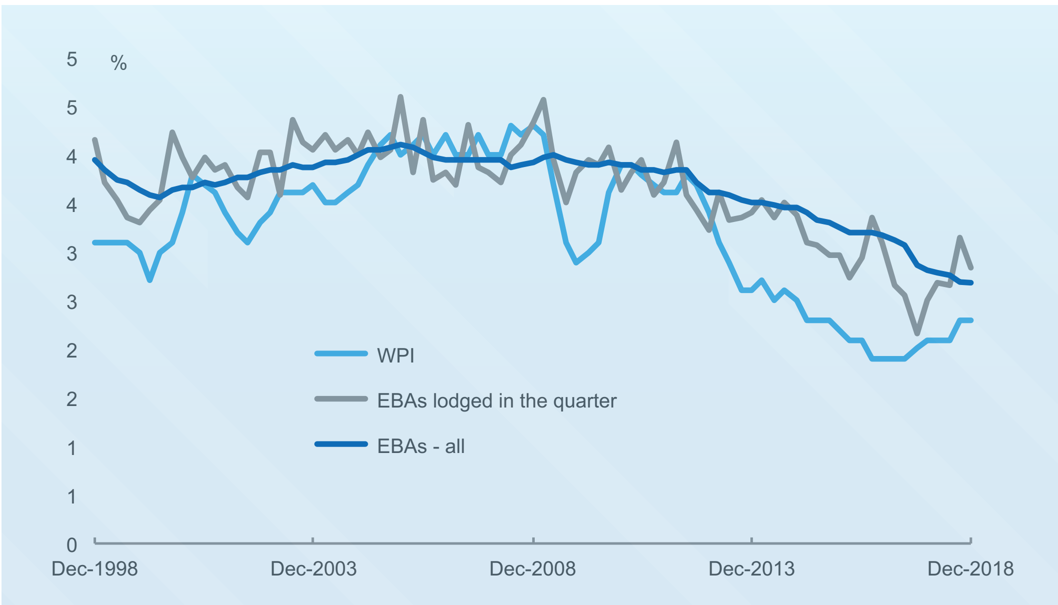
Behind those ideas and actions

It is critically important that we have a workplace relations system that balances the needs of workers and employers, and supports Australia's ability to adapt to the future. We want Australia's workplaces to be productive and collaborative where the success of the enterprise is shared.

The current system has served us well. Real wages have risen more than 50 per cent since the introduction of enterprise bargaining. The unemployment rate is low. Jobs growth has been strong with most Australians in full-time jobs. Most people with part-time jobs are doing so because they want to work those hours or because it allows them to combine work with other responsibilities including education and caring.

Industrial disputation is at a low level and the Edelman Trust Barometer reports that Australians trust their employer more than they do NGOs, government, media or business more broadly.[34]

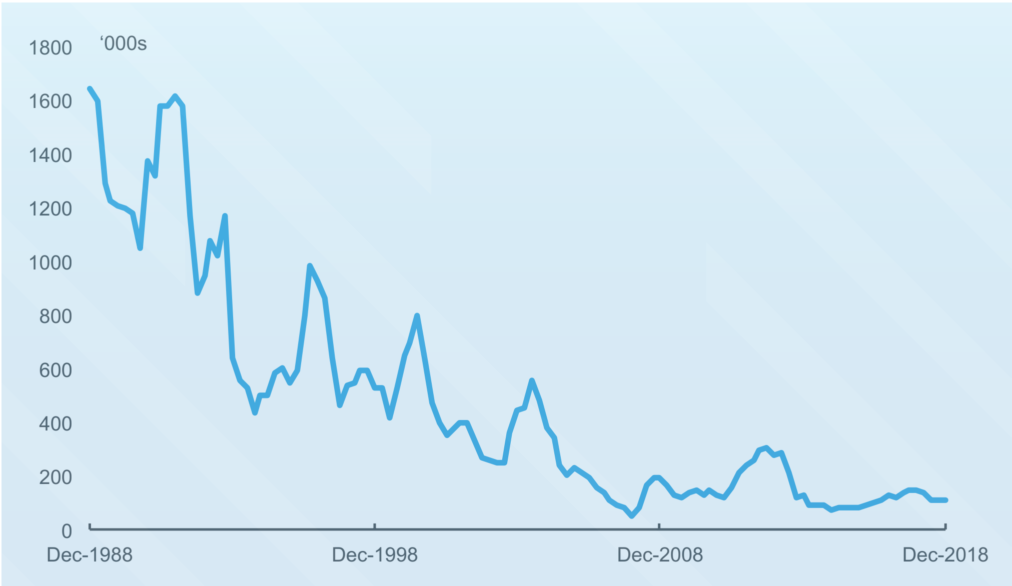
Figure 36. Wage Price Index growth versus growth in wages under EBAs



Source: ABS cat. no. 6345.0 and Department of Jobs and Small Business, Trends in Federal Enterprise Bargaining, Historical Trends data. Note: For EBAs the measure is the average annualised wage increase.

34 Edelman, *2019 Edelman trust barometer: global report*, 2019.

Figure 37. Working days lost to industrial disputes over a 12-month period



Source: ABS cat. no. 6321.0.55.001

To ensure the system continues to serve Australia well, improvements should be made.

Rigidities in the (often historic[35]) rules that govern some of our workplaces (these are called modern awards) and the agreement-making process need to be rectified so workers and employers have the agility they need to be resilient. Many awards define occupations, and in effect control how enterprises manage their workforce. However, the modern workforce will see jobs and tasks become more fluid, with individuals taking on broader tasks. It should not be constrained by prescriptive lists of duties or conditions from which the enterprise or the worker cannot deviate.

Enterprise agreements were meant to be about the unique circumstances of the enterprise and its workers, but in practice, awards are the starting point for agreement-making. This means that before the parties even begin to negotiate, a whole set of arrangements have been pre-determined. And once an agreement is finalised, it sets the rules for three to four years. In a world where technological change can disrupt business models at short notice, enterprises cannot afford to wait for an agreement to expire to change how they operate. They need agreements that give them the capacity to make decisions about training, rostering, the structure of activities and job descriptions so they can adapt and be more agile. This will be key to having successful enterprises that not only keep workers employed, but also expand and create new jobs.

35 The 2015 Productivity Commission Inquiry into the Workplace Relations Framework noted that 'One award still provides employees with the option of an X-ray every six months if they work in a tuberculosis home or hospital (the last of which closed in 1981).'

The system should promote collaborative workplaces. When the workplace relations system works effectively, it creates an environment that encourages workers and employers to sit down together to solve problems; driving innovation and providing opportunities for people to have meaningful jobs. Currently, the negotiation of agreements can put workers and the enterprise in conflict. This creates an environment where collaboration is less likely to occur, therefore dampening the capacity of the enterprise to increase productivity and ultimately create jobs.

In the future, the ability of an enterprise to overcome this challenge and harness the potential of its workforce is likely to be key to creating a more productive and successful enterprise. The best way to achieve wages growth and meaningful jobs for workers is to reform the system so it encourages workers and employers to collaborate to solve problems and use their skills and capital to maximum effect; not through a rigid workplace relations system.

Equipping Australians for a strong future

We know the world is changing. And how we work is also changing. We can't stop this change. It is all around us. But we can put in place a plan to make lifelong learning a reality. If we can't stop change then let's adapt to change. The Business Council has a plan to do just this. It's not just future-proofing our economy, it's the way to future-proof our working lives.

Ideas and actions

In our report *Future-proof: Australia's future post-secondary education and skills system*, the Business Council advocates for a broad post-secondary education and skills system that:

- Maintains the unique characteristics of both the vocational education and training (VET) and higher education (HE) sectors – VET as an industry-led sector based around competency-based training and applied learning, and HE offering advanced qualifications to develop highly skilled workers, as well as a broader remit of learning for the sake of learning, academic inquiry and research.
- Moves from the current siloed approach to funding and the perverse incentives between the sectors, to a single funding model that is sector-neutral.
- Has at its foundation a single-source platform of market information that provides the right kind of information and guidance to help learners, workers and employers make the best decision for their future.
- Creates a shared governance model that stops the ongoing arguments about which level of government has responsibility.
- Creates a culture of lifelong learning to enable workers to upskill and reskill throughout their lives.

This plan provides Australians with a way to update their skills as their working lives progress. It's how we deal with change. It is also how we elevate VET and step back from a system that is too skewed in favour of HE. We need to make sure students move into learning that is right for them, be that HE or VET.

Schools are crucial as they provided the foundation for the future learning and work of all Australians. Schools need to embrace five cultural changes to provide that strong foundation:

- implement a genuine needs-based funding model
- become more learning focused and recognise multiple forms of intelligence

- embrace multiple styles of engagement and learning
- empower and support teachers
- adopt a new approach to help young people prepare themselves for the future.

Finally, as work becomes more complex, people with poor literacy skills will become increasingly excluded from the workplace. As a result, the Business Council again calls for a national inquiry into literacy programs in Australia.

Behind those ideas and actions

The post-secondary education and skills system – VET and HE – is our greatest asset as rapid technological and digital change alters the tasks and capabilities required to stay in work and lead successful and fulfilling lives.

The knowledge and skills all Australians have will be their ticket to thriving in this changing world. So we need a system that helps every Australian get the knowledge and skills they need to succeed at each stage of their lives.

Such a system will only be successful at helping every Australian at all stages of their lives if it is personalised. Where is each Australian at in their knowledge and skill attainment? What do they need to succeed?

We need to adopt a new approach to help young people prepare for their future, but we also need to adopt a new approach for people already in the workforce.

We need young people to gain an understanding of the world of work and what work readiness means. We need them to be able to see clear pathways to future careers. This starts in schools but extends into the VET and HE sectors and the labour market.

Australians could be working for 50 years and the idea that they will stay in one job or industry, or that their schooling and first qualification will keep their skills current, is at odds with reality. People will have their daily tasks change, and they will need to learn new skills.

There will also be people working in industries where some jobs will be replaced, and those workers will need to upskill or take their current skills and adapt them to a new industry. Where will they learn the new skills? How will they pay for them? How will they get the information they need so they can adapt?

Young people deciding on their future, and workers wanting to upskill, change careers or re-enter the workforce, need to have the right information so they can make the best choices for their future. Where will the jobs be? What industry or role will best suit their strengths and interests? What provider is best suited to them? Who will help them develop the skills and knowledge they need?

Our current system is not designed for this. We need to seriously rethink how we develop people in the workforce, and how we make sure all Australians have choices about their working lives.

We need to move from our current system to a future one.

From the Current to the Future

Current	Future
From a system built around providers…	**To** a system designed around the learners, whether they are young people transitioning from school or workers, as well as employers.
From people struggling to find the information they need, or finding it is siloed into information on VET or HE…	**To** a system that has at its centre an information system that gives individuals and employers all the information and guidance they need to make the right decision. It should provide information about industries, the labour market, career prospects, as well as education providers and their offerings. But the information should not be limited to facts. It needs to be holistic and tell a story about the facts so people can better understand the industries and careers that would suit them.
From a funding model that incentivises learners into HE and a mass university system…	**To** a funding model with the right set of incentives across VET and HE – incentives that encourage learners into courses that suit them.
From a funding model that incentivises only qualifications…	**To** a funding model with the right set of incentives that ensures the education product providers are offering to learners and employers will give them the skills and knowledge they need for their future.
From a governance model where there is confusion, blurred accountabilities, and constant accusation of cost-shifting…	**To** a genuinely cooperative governance model where roles and responsibilities are clear.

The importance of the workforce to Australian businesses and the Australian economy means the development of a learner-centred post-secondary education and skills system is the Business Council's top education and skills policy priority.

However, all education sectors are important, as they provide the building blocks from which Australians become confident, creative and independent individuals. The Business Council believes that each education sector – schooling, VET and HE – should focus on achieving outcomes relevant to who they are educating.

Apprenticeships are a cornerstone of the VET system. It is through the apprenticeship system that Australia has created a skilled community of tradespeople who contribute to our economic growth and living standards. Tradespeople start small businesses, take risks, employ people, and are often the backbone of regional communities, and they begin their professional lives as apprentices.

In a changing economy where workers have to adapt to new technology and industries, apprenticeships are a pathway for current workers to reskill and continue in the labour market, and these opportunities need to be enhanced rather than constricted.

Apprenticeships are also a model that can be expanded beyond the traditional trade base to include higher level qualifications, new occupations and emerging areas of the economy.

Apprenticeships is an area of reform where government will get maximum return on investment and provide the greatest opportunities for young people and Australian workers. Governments should:

- Move to a national apprenticeship system and remove inconsistences and unnecessary regulations that are a disincentive to employers taking on an apprentice or trainee.
- Introduce a pre-intake process for all potential apprentices and trainees that includes appropriate literacy and numeracy testing, aptitude testing, personality testing and career guidance.
- Develop improved information for employers that outlines the business case for taking on an apprentice and provide professional development and ongoing support for employers taking on apprentices and trainees.
- Conduct a review of the full costs associated with apprenticeships and traineeships (for employers, students, and government) and develop recommendations to ensure funding is targeted at improving commencements and completions.

Schools educate all Australians, and over the last two generations we have seen a significant shift in completion of senior secondary schooling. The outcomes that schools deliver will therefore set up all Australians for their future learning and work. Formal schooling qualifications (completion of a Year 10 qualification as well as a Year 12 qualification) should deliver three key outcomes:

- A universal foundation that means graduates will:
  - have the minimum levels of literacy, numeracy and technology in order to effectively communicate, interact and work
  - have values of citizenship, the ability to think, participate and contribute in modern society
  - have a depth of knowledge in core areas of English, the humanities, maths, science and technology
  - have a foundation for future learning
  - be prepared for the world of work, not just prepared for a single job or employer
  - be equipped with the behaviours needed in the modern world of work such as adaptability, resilience, and the knowledge that no one wins all the time, self-awareness, collaboration and a customer focus.
- Supports a range of pathways that mean graduates will be able to:
  - go on to further study
  - enter the labour market.
- Caters to different learners, encompassing:
  - traditional academic learning and assessment
  - applied learning.

To deliver on these outcomes, Australia's secondary schooling system will need five cultural changes.

- Move beyond funding.
  - For many years now, our public debate on education has been focused on the funding of schools. The Business Council supports schools being appropriately funded, but a focus on funding to the exclusion of all other issues is coming at the expense of outcomes and quality. Australia needs to implement a needs-based funding model that has a dollar amount assigned to learners based on their disadvantage, and that dollar amount should follow the learner, not be assigned to a specific school.

- Become more learning focused and recognise multiple forms of intelligence.
  - Our schools should seek to be more learner-centred, acknowledging that young people display different types of intelligence that should be nurtured; not just academic intelligence. Challenging young people is imperative to their development. They need to learn some things in life are difficult and will require hard work and dedication to master. Permitting young people to avoid challenges will not enable them to thrive in the future; it is likely to lead to failure. However, the hard work and dedication should also reap rewards, not be an endless grind because the young person is simply being taught in a way that is ill-suited to them.
- Embrace multiple styles of engagement and learning.
  - In addition to recognising multiple forms of intelligence, schools should embrace multiple methods of learning. Take maths as an example. Inquiry-based learning is widely acknowledged to be an effective teaching method for maths, but it is relatively new and underutilised in schools in Australia. Being open to different styles of learning and experimenting with a wide range of methods is a cultural shift we will need if we are to deliver outcomes for all school students.
- Empower and support teachers.
  - We need to shift our focus from arguments about funding models and classroom sizes, to a discussion about how we can support different learning styles, including a strong emphasis on teacher quality. We need to empower and support teachers through better data, defining what we mean by 'teacher quality' and establishing a national index for teaching quality to support improved performance. We also need to ensure that all teachers, especially maths and science teachers, have qualifications in the disciplines they teach.
  - School principals also need greater autonomy to make decisions on staffing and resources within a school.

- Adopt a new approach to help young people prepare themselves for the future.
    - We need to recognise that the traditional model of career counselling is no longer fit for the modern world. Young people are now expected to have multiple careers, and even more employers, and will be expected to upskill and reskill countless times. We need to adopt a different approach to career counselling to help young people prepare themselves for the future that begins with the questions: 'What am I good at?' and 'What do I like / am I passionate about / inspired by?' This would allow young people to focus on their strengths from an early age, and learn where those strengths would be most suited in their future. It would also allow them to identify areas of weakness, enabling them to focus on their own development.

Ideas: implementation

Initial actions

Next steps

Medium-term actions

Ideas: implementation

The previous pages of this document outline more than 100 separate ideas designed to:

- grow our economy more rapidly, lift productivity and real wages
- strengthen our budget
- make Australia more competitive
- make Australia a better place to live
- respond to the challenge of entrenched disadvantage
- do our part on climate change while preserving energy security and keeping prices as low as possible
- ensure our workplaces have the flexibility to respond to the change that is all around us
- provide Australians and Australian businesses with the infrastructure they need
- support and grow our regions
- reform Australia's post-secondary education and skills system to ensure all Australians can share in Australia's promise.

Australia also needs to strengthen its institutional processes to make sure we are not only doing the right things, but that we are doing them in the right way.

While these ideas are intended to be actionable, it would not be possible to complete them all simultaneously. Rather, we propose a sequencing.

- Initial actions – those ideas that should be pursued immediately. They seek to resolve the most urgent and critical issues, and/or build foundations for future reforms.
- Next steps – ideas whose implementation may be more complex or bear fruit over a slightly longer term (i.e. two to three years), or might first require an 'initial action'. They also reflect ideas around detailed inquiries that might take time to deliver.
- Medium term actions – those ideas that ought to be pursued over a more medium term (generally three to five years), or that might take a longer period to deliver an outcome.

Each idea listed on the following pages notes the section of this document it is located in. This serves as a reference for context and background information.

As previously noted, none of the individual ideas mentioned here are ends in themselves.

Rather, they can collectively make Australia a better place to live, work and do business. For all Australians.

Initial actions

A strong budget (pages 48-54)

- Return the budget to surplus and reduce government debt
- Fiscal rule: Retain a tax-to-GDP cap
- Fiscal rule: Commit to a real spending cap
- Increase reporting of off-balance sheet liabilities

Addressing entrenched disadvantage (pages 63-68)

- Lift in the Newstart single rate for those unlikely to return to sustained work

Climate change (pages 69-74)

- Develop a national, economy-wide approach to reducing emissions via a price signal that drives a technological response and utilises market mechanisms to achieve abatement at least cost

Energy and lower prices (pages 75-80)

- Develop a reference bill to help ensure consumers are on the best deal
- Seek to reduce the past ‘gold-plating’ of the state-owned ‘poles and wires’ through voluntary government write-downs
- Abolish the SRES and wind-up state government environmental schemes
- Fast-track access to fuel supplies by repealing some third-party appeal rights under state and federal laws
- Lift unscientific moratoriums on gas development and exploration to bring more gas supply to market

Managing population growth and immigration (pages 84-88)

- The intake of permanent migrants should not be dramatically cut, rather it should be set to support population growth around the long-term average
- Maintain current focus on skilled permanent migration
- Increase the allocation of permanent places to the employer-sponsored stream

Delivering infrastructure (pages 89-95)

- Use existing infrastructure as effectively as possible

Strong regions (pages 96-101)

- Conduct a full review of regional capabilities and comparative advantages
- Strengthen coordination of regional development across all levels of government by removing unnecessary overlap
- Encourage and facilitate skilled migrations to Australia's regions
- Potential migrants given information on Australia's regions and the opportunities that exist in the regions

Making cities work better (pages 102-103)

- Reform regulation to improve the ease of doing business in cities, in particular, focus on efficient development approvals and strengthen city deals

A better plan on tax (pages 110-115)

- Absent a company tax cut for all companies, introduce a broad-based, permanent investment allowance
- Progress tax integrity reforms through the OECD, including on taxation of the digital economy
- Any changes to negative gearing and capital gains considered as part of a more consistent taxation of other forms of savings income

Foreign investment and trade (pages 116-120)

- Progress comprehensive, high quality free trade agreements that eliminate tariffs on all, or at least 'substantially all', trade
- Free trade agreements should not include provisions on geographic indicators that are contrary to free and open trade
- Free trade agreements should not require Australia to observe foreign labour and environmental provisions

Making it easier to do business (pages 121-127)

- End various retail trading restrictions
- Greater recognition of trusted international standards for product approvals
- New regulation subject to an impact assessment (problem to be addressed, the costs & benefits and the effect on the cumulative burden)
- Minimum period of consultation that allows stakeholders to properly understand and comment on a proposed regulation

- Clear and transparent regulatory reform agenda, dedicated federal minister with accountability for reducing the regulatory burden
- COAG to establish an intergovernmental regulatory reform process
- Reform major project approval processes

Stronger jobs growth and higher wages (pages 138-143)

- Place EBAs at the heart of the workplace relations system and retain the system's current architecture
- Make it easier to conclude EBAs (e.g. reform of the BOOT test)
- Retain the Australian Building and Construction Commission
- Retain the Registered Organisations Commission

Equipping Australians for a strong future (pages 144-150)

- Create a single-source platform of market information across VET and HE to help learners, workers and employers

Next actions

A strong budget (pages 55-58)

- Reform the IGR (produced by the PBO, incorporate state outlooks)

Better services and a more effective federation (pages 59-62)

- Publish a medium-term agenda of economic and service delivery reforms to be progressed through COAG
- Make the COAG secretariat independent of the Prime Minister's department

Addressing entrenched disadvantage (pages 63-68)

- Productivity Commission inquiry into why people are remaining on Newstart long term
- Productivity Commission inquiry into entrenched disadvantage

Energy and lower prices (pages 75-80)

- Introduce an investment allowance to improve the availability factor of generation assets or investment in new supply

Managing population growth and immigration (pages 84-88)

- Strengthen coordination of population planning between the federal, state and territory governments

Delivering infrastructure (pages 89-95)

- Effective long-term strategic land use planning, in consultation with the community
- Strengthen Infrastructure Australia's role
- Undertake rigorous cost-benefit analysis and environmental impact statements
- Assess whether projects work together strategically in a region or place
- Task the Productivity Commission to undertake an assessment of infrastructure policies and the quality of service provision and recommend reforms

Strong regions (pages 96-101)

- Remove unnecessary impediments to doing business (e.g. faster planning approvals) and people seeking opportunities (e.g. occupational licensing)

Making cities work better (pages 102-103)
- Ensure effective long-term integrated land use and infrastructure planning to accommodate future population growth

A better plan on tax (pages 110-115)
- Land and payroll tax bases should be harmonised
- Establish a pathway to a uniform company tax rate

Foreign investment and trade (pages 116-120)
- Ensure visa arrangements assist in the movement of people seeking to run businesses, supervise investment or provide services
- Clear and consistent investment screening policies with timely decision making

Making it easier to do business (pages 121-127)
- Reduce costs for small business through reforming licensing and permit restrictions
- Strengthen the regulator performance framework and encourage adoption by the states and territories
- Co-design regulation with industry or encourage self-regulation where it can be effective in achieving desired outcomes at least cost
- Use sunset provisions and review periods for new regulatory initiatives
- Commit to timely reporting on the government’s adherence to best practice reporting by publishing annual best practice regulation reports
- Regulators encouraged to obtain performance feedback from regulated entities on a more continuous basis
- Key performance indicators for regulators should include a requirement to minimise compliance costs
- Regulators adequately resourced and minimise time to make decisions, especially for low-risk conduct; fast-track authorisation processes where possible

Stronger jobs growth and higher wages (pages 138-143)
- Recommendations from the PC’s 2015 Inquiry Report into the Workplace Relations Framework around the FWC implemented

Equipping Australians for a strong future (pages 144-150)
- Create a shared governance model that stops the ongoing arguments about the responsibilities of each level of government
- Create an index for teacher quality to support improved performance
- Conduct a national inquiry into literacy

Medium-term actions

A strong budget (pages 48-54)

- Comprehensive review of the retirement incomes system

Better services and a more effective federation (pages 59-62)

- Task an independent organisation to track progress on agreements made at COAG and make recommendations on areas for improvement
- Introduce a system of productivity payments to foster and reward ‘bottom-up’, state-led competition and regulatory reforms

Climate change (pages 70-74)

- Reduce emissions across the economy in line with our international commitments
- Drive technological change to improve the energy efficiency of our homes, industries, cities and transportation
- Greater focus on adaption and mitigation of climate-related risk, including development of a comprehensive adaption and risk management plan
- Implement a price signal that places a value on lower emissions, more efficient technology and encourages innovation to drive this technological shift
- In line with the 5-year review mechanism under the Paris Agreement, review the national emissions reduction target

Energy and lower prices (pages 75-80)

- Reduce wholesale electricity prices by driving investment in new generation supply

Managing population growth and immigration (pages 84-88)

- Make more occupations eligible for the four-year temporary work visa
- Make the Global Talent Scheme a permanent program

Delivering infrastructure (pages 89-95)

- Long-term infrastructure plans and forward-looking population triggers
- State governments should develop 15-year infrastructure plans
- Utilise innovative funding and financing models for all new infrastructure
- Greater use of and better user pays models
- Use clear Consumer Service Obligations to achieve social welfare objectives
- Greater use of asset recycling initiatives
- Federal government funding support for state-led projects where they are recommended by Infrastructure Australia and state-based independent infrastructure agencies
- Reserve future corridors for nationally significant projects

Strong regions (pages 96-101)

- Government investment decisions should build on existing city and regional hubs

Making cities work better (pages 102-103)

- Expand infrastructure provision under the 'city deals' program and incorporate advice from independent statutory infrastructure advisors
- Replace stamp duties on housing with a broad-based land tax (with appropriate transitional measures)
- Improve the operation of cities through the adoption of new technology, large-scale generation of data (e.g. sensors) and smart grid management
- Facilitate infrastructure deployment and design regulations to support electric, autonomous vehicles
- Develop critical gateway infrastructure (airports, ports, intermodal terminals, etc) and remove regulatory barriers to their efficient use

A better plan on tax (pages 110-115)

- Broad-based, comprehensive tax reform, reduce reliance on direct taxes, reform state taxes
- Have reduced the company tax rate to 25 per cent for all companies

Foreign investment and trade (pages 116-120)

- Introduction of single window arrangements

Making it easier to do business (pages 121-127)

- Reform land use regulations
- All governments to assess the total cost of regulation under their jurisdiction every three to five years
- PC to undertake regular reviews of the cumulative burden of regulation by sector & propose reforms to improve sector competitiveness

Stronger jobs growth and higher wages (pages 138-143)

- Modern Awards streamlined to their core purpose of being part of a safety net

Equipping Australians for a strong future (pages 144-150)

- Move to a broad post-secondary education and skills system but maintain the unique characteristics of the VET and HE sectors
- Introduce a single funding model that is sector neutral and places the learner at the centre of the system

- Design the single funding model as a Lifelong Skills Account that is comprised of a subsidy and access to an income-contingent loan
- Broaden engagement and learning options in schools, including inquiry-based learning
- Ensure all teachers, especially maths and sciences, have qualifications in the disciplines they teach

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