

Blueprint Institute

From recovery to resilience

Budget Blueprint 2022



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This series

This paper forms part of our Budget Blueprint series. The Australian Federal Budget is a major annual event. It's an opportunity for the Government of the day to set out its vision for Australia's future. With this document, Blueprint does the same. In it, we offer our assessment of the position Australia finds itself in—a valuable context-setting exercise a week out from the Budget. And we suggest the priorities we believe are most worthy of public support in the coming year and beyond. The list is not exhaustive. Nor is it fully costed. But it contains ideas we believe would serve Australians well.

About Blueprint Institute

Every great achievement starts with a blueprint.

Blueprint Institute is an independent public policy think tank established in the era of COVID-19, in which Australians have witnessed how tired ideologies have been eclipsed by a sense of urgency, pragmatism, and bipartisanship. The challenges our nation faces go beyond partisan politics. We have a once-in-a-generation opportunity to rethink and recast Australia to be more balanced, prosperous, resilient, and sustainable. We design blueprints for practical action to move in the right direction.

For more information on the institute please visit our website - blueprintinstitute.org.au

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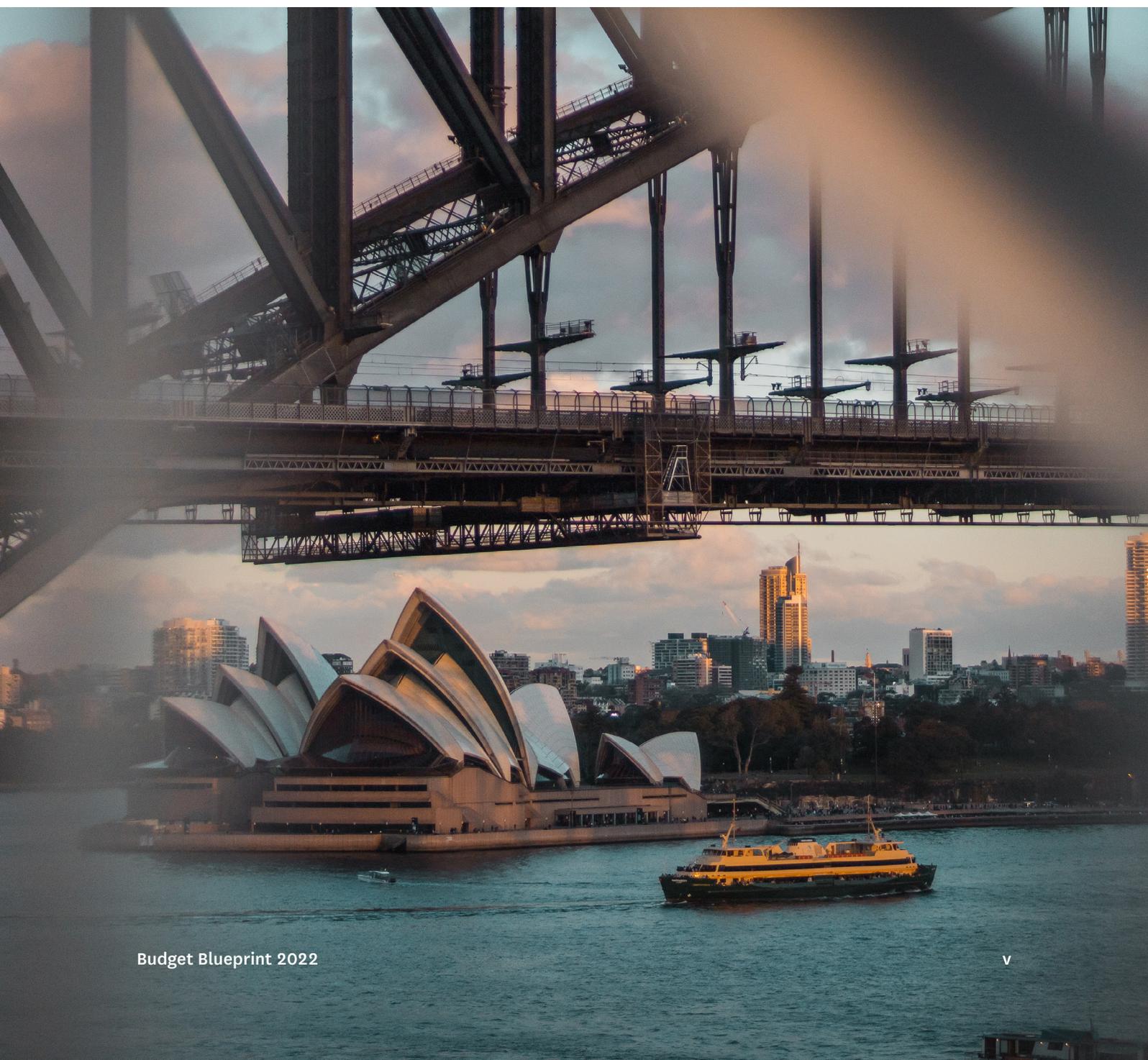
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Summary

Since Federation, Australia has grown from a colonial outpost to a leading global economy on the back of a series of commodities booms. Successive generations have benefitted from continually improving living standards. But by inheriting lucrative, plentiful natural resources like coal and iron ore, our development has not cultivated the diversification necessary to thrive in an interconnected 21st century economy—an economy that will be defined by a shift away from the fossil fuel resources that have powered the globe since the industrial revolution.

Our historical good fortune has bred complacency within the public policy community. A ‘she’ll be right mate’ attitude permeates public policy decision making ranks on both sides of the political divide. Seduced by the simplicity of reactive policy making, we are sleepwalking into a future that will be defined by long-term, existential threats to our prosperity and way of life. Put simply, decades of geopolitical, economic, and social stability have dulled Australia’s understanding of risk—and its willingness to proactively confront it.

It is tempting to write off the Black Summer bushfires and the COVID-19 pandemic as isolated, anomalous events that can be discarded into history. But these events have revealed that Australia is disconcertingly reliant on global supply lines that are ill-equipped to deal with disruptions and disasters. As we write, the world is coming to terms with the security and economic implications of Russia’s invasion of Ukraine, while floodwaters imperil whole communities. Australia is not immune.

A new virus or a conflict in Ukraine carries consequences that ripple far beyond national borders. Our vulnerability to global events is unprecedented. We can no longer use our geographic isolation to shield us from the trials and tribulations of our peers.

As we emerge from the pandemic, our first priority must be to improve our nation’s capacity to respond to, and withstand sudden catastrophic disturbances like pandemics, climate events, and regional conflicts. If we can better anticipate and address these crises, we can soften or even

avoid the need for impromptu interventions that are both inefficient and inflict unintended, second-order harm. To achieve this, we recommend policies to future-proof our supply chains, establishing an institution to oversee our preparedness and responsiveness to crises, and ensuring that we have adequate labour supply to withstand future shocks.

While improving our capacity to address crises is important, we must also recognise that a series of worsening structural deficiencies in our economy imperil our future resilience and prosperity. We highlight two structural reform priorities: productivity and equality of opportunity.

Reigniting productivity growth—which has been almost static for more than a decade—is critical because it determines the long term trajectory of wages and living standards. A more productive society is better equipped to prepare for an uncertain future. To boost productivity, we must reform the way we fund basic research, and get the incentives right to foster productivity enhancing investments from businesses. To that end, our policy recommendations would raise innovative R&D funding, increase the productivity of our research universities, and deliver reform to our creaking tax system.

The resilience of our nation depends not only on economic arithmetic, but also the social bonds that tie us together. One of the most important factors correlating with lower COVID-19 cases and death rates is not healthcare capacity or pandemic preparedness, but [trust](#) in “[one’s government and fellow citizens](#).”

Yet the resurgence of populism is straining these bonds of trust as never before. Politicians of all ideologies are increasingly exploiting people’s mounting cynicism with the government for political gain – appealing to the frayed emotions of the electorate by disregarding factual accuracy and simply telling people what they want to hear.

Worse, when factual inaccuracies are highlighted, media commentators and politicians alike now deem it acceptable to pour scorn upon whomever is pointing out the falsehood. Teachers, scientists, academics, and other individuals with

deep area knowledge are now derided as ‘out of touch’ or ‘not living in the real world.’ To reject the advice of teachers is to assert autonomy. To reject the advice of experts is to demonstrate independence from nefarious elites.

Yet this scorn for vaguely defined ‘elites’ has its roots in the increasing divide between rich and poor. An economic system that rewards the richest without offering equality of opportunity has the potential to cause long-term damage to the foundations of liberal democracy.

We know that pervasive inequality [corrodes our social fabric](#)—if people believe they are unfairly excluded from opportunity, they are less likely to embrace policies advocating for the common good. Closing equity gaps must therefore be at the heart of every federal budget.

Our policy recommendations to boost equality of opportunity and ensure everyone has a ‘fair go’ include action on housing affordability, measures to improve access to vocational education for young people who choose non-academic pathways, and true unemployment insurance to give people the security they need to pursue the best job for them.

This Budget should herald the beginning of a new period of reform—much like the major reforms of the 1980s and early 1990s—to set the stage for tomorrow’s Australia. If we get it right, we can be sure of a secure society in an uncertain future, and set up our economy for generations of growth.

This Blueprint shows how.



National resilience

The next challenge is just around the corner. The Government must focus on increasing national resilience to minimise the impact of crises, such as the floods that have swept across New South Wales and Queensland, or the economic effects of the war in Ukraine, or the pandemic. We must be able to respond quickly and effectively—and that begins by building resilience.

Institutionalising resilience

Establish a true Research Institute for Sudden Catastrophes (RISC). Akin to the Productivity Commission, RISC would provide independent advice to policymakers on how to minimise and insure against a broad range of future risks.

Securing supply chains

Assess supply chain risks ahead of time. Assign responsibility to the RISC to systematically detect and classify vulnerabilities in supply chains for essential goods. The RISC's determination would, in turn, trigger action to address the relevant vulnerabilities.

Address skilled labour shortage in critical industries by reducing visa processing delays. Increase funding for the Government's citizenship, visas, and migration team to address escalating visa processing delays.

A strong economy

We can only effectively respond to the challenges ahead with a strong economy. We must now look to boost innovation and ensure that our tax system works efficiently—so that we have the resources to respond to future crises, and no Australian worker or business is held back.

Driving innovation

Boost R&D tax incentives. To boost R&D, the Government should abolish minimum spending requirements and expand the definition of R&D.

Simplify application process for Government research grants. The existing application process is far too inefficient and cumbersome—we suggest several proposals to streamline the process.

Fund two pilot projects to harness the productivity of our world-leading academics.

- **Introduce an academic grant lottery.** As a pilot project, the Government should put aside \$20 million of existing grant funding and allocate it to a lottery that will randomly select grant awardees from a pool of proposals that have passed peer review.
- **Incentivise private-sector investment in basic research with donation matching.** As a pilot project, the Government should incentivise the private sector to fund basic research with donation matching—capped at \$50 million.

Tax reform to boost productivity

Broaden the GST and raise it to 12.5%. As part of a revenue-neutral tax package, the GST should be broadened and raised to 12.5%. Additional revenue raised should be allocated toward lowering income tax rates for low-income earners, both to make the tax system more economically efficient and counter the regressive effects of GST.

Introduce a broad-based tax on the unimproved value of land to replace stamp duty. The Government should disincentivise rent-seeking and make the tax system more efficient by introducing a revenue-neutral tax on the unimproved value of land. Proceeds would be allocated to abolish stamp duty.

Reduce the corporate tax rate and make full expensing permanent. Applying a 25% corporate tax rate to all companies, and making full expensing permanent (with some tweaks) would put a rocket under investment, jobs, and wages.

Introduce a \$3,000 standard deduction. Blueprint's [standard deduction plan](#) would remove the need for 80% of Australians to claim tax deductions, paving the way to eliminate 7–9 million tax returns, and cut taxes by \$400–600 on average.

Trust and opportunity

Nothing is more corrosive to our resilience than a lack of trust in our democracy, and a lack of opportunity in our economy. The Government must restore equality of opportunity so that all Australians have the ability to reach their potential.

Empowered population

Make childcare costs (broadly defined) tax deductible. Tax-deductible childcare would offset the tax wedge between in-home and formal care. Parents can then enjoy more security and make the choice that is right for them.

Introduce JobMatcher unemployment insurance. Blueprint's [JobMatcher](#) provides an additional, time-limited unemployment benefit equal to 70% of a newly unemployed person's prior wage for six months. It's real unemployment insurance.

Create school-industry partnerships. The vocational education and training system should be improved with strategic industry engagement to ensure that courses adequately equip students with relevant skills.

Affordable housing

End capital gains tax concession for housing. The capital gains tax concession for homes is hugely expensive, mainly benefits the wealthiest households, and, by preferentially treating capital allocated to housing, distorts value and pushes up house prices. It should be abolished.

Federal-led housing market reform. Since many important housing policy levers sit at the state and local levels, the Federal Government should bring state and local governments together to strike a grand bargain.

- 1. End stamp duty.** Stamp duty reduces opportunity and mobility by making it more expensive for people to move to where they can be most productive. It is one of the most inefficient taxes in the tax code, and should be abolished—replaced with a broad-based land tax.
- 2. Address zoning regulations to expand supply.** The Federal Government should work with state and local governments to reform restrictive zoning regulations in support of increased medium-density housing.

State of the economy

The Australian economy is recovering from the pandemic downturn at a remarkably rapid pace. Unemployment and underemployment [rates](#) are at lows not seen since before the Global Financial Crisis in 2008. Labour participation and total hours worked are at decade [highs](#).

The latest data, just 18 months after a six-percent fall, shows that gross domestic product has rallied to pre-pandemic levels. Unlike in many other developed economies, most notably the United States, inflation in Australia is currently [moderated](#) and within the Reserve Bank of

Australia's (RBA) target range.¹ The economy is now healthy enough that there is talk of [normalising monetary policy](#) by raising interest rates and initiating [budget repair](#) by withdrawing government fiscal support.

Downside risks remain, however. The uncertain geopolitical environment has drastically raised commodity prices. While [sanctions on Russia](#) are unlikely to have much of an effect here in Australia, disruptions to the global economy if the conflict spreads and intensifies certainly would bring its share of economic pain.

Key economic indicators²

Unemployment rate

4.0%
(14-year low)

Underemployment rate

6.6%
(14-year low)

Participation rate

66.4%
(0.5% higher than March 2020, pre-pandemic)

Part-time share of employment

31%
(0.8% lower than in March 2020, pre-pandemic)

Gross domestic product growth

4.2%

Consumer price index (inflation)

3.5%

Wage price index

2.3%

Multifactor productivity growth

0.2%

¹According to the RBA's preferred 'trimmed mean' measure of inflation as of December 2021.

²All statistics from [Australian Bureau of Statistics](#). All growth rates are on an annual basis from Q4 2020, to Q4 2021. Labour market indicators are for Q4 2021.

Full employment?

The labour market has experienced huge swings during the pandemic. Initially, lockdowns and restrictions on social activity acted as a dramatic shock to the employment market. And predictions were dire.

The RBA predicted the unemployment rate would peak at [10%](#)—in fact, it only hit 7.5%, and is already down to 4.0%. Our sound, albeit on-the-fly, pandemic management bought us radically fewer job losses at the peak, which becomes especially obvious when comparing to nations that were hit much harder by the pandemic, particularly the United States (Figure 1). It has also bought us a radically faster jobs recovery.

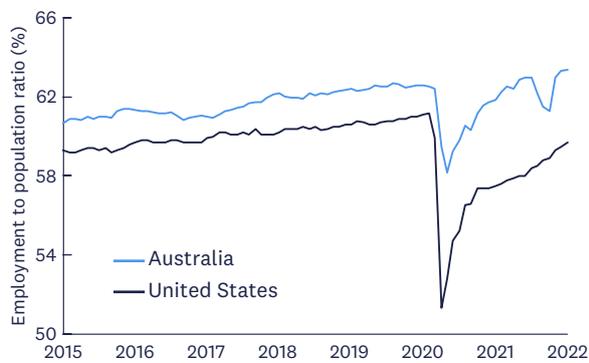


Figure 1 Monthly employment to population ratio (2015–2022, seasonally adjusted)

Source [ABS](#), [US Bureau of Labor Statistics](#)

Given that unemployment and underemployment are at decade lows, and aggregate hours worked and the employment-to-population ratio are at, or close to, decade highs, we may be [close to reaching](#) full employment—a state where there is minimal spare capacity in the labour market and everyone who wants a job can get a job.

While a tight labour market is certainly good for workers, we must also be aware that a lack of labour supply in specialist fields is a bottleneck to growth.

Firms have issued [many warnings](#) that there is a severe shortage of workers with specialist skills. Certainly, the lack of immigration while borders have been closed has only [exacerbated the problem](#). In the 2020–21 financial year, Australia experienced a net loss of overseas migration for the first time since World War II, with immigration falling [71%](#) from the previous period (Figure 2).

We must ensure economic growth is not held back by inadequate labour supply.

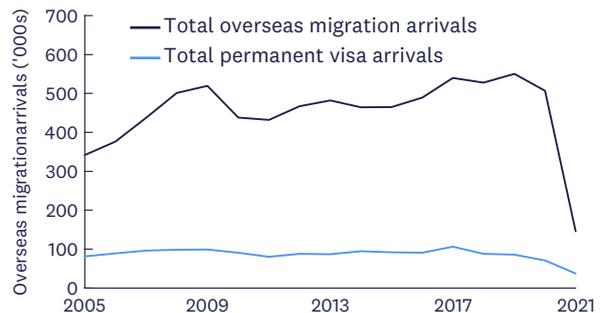
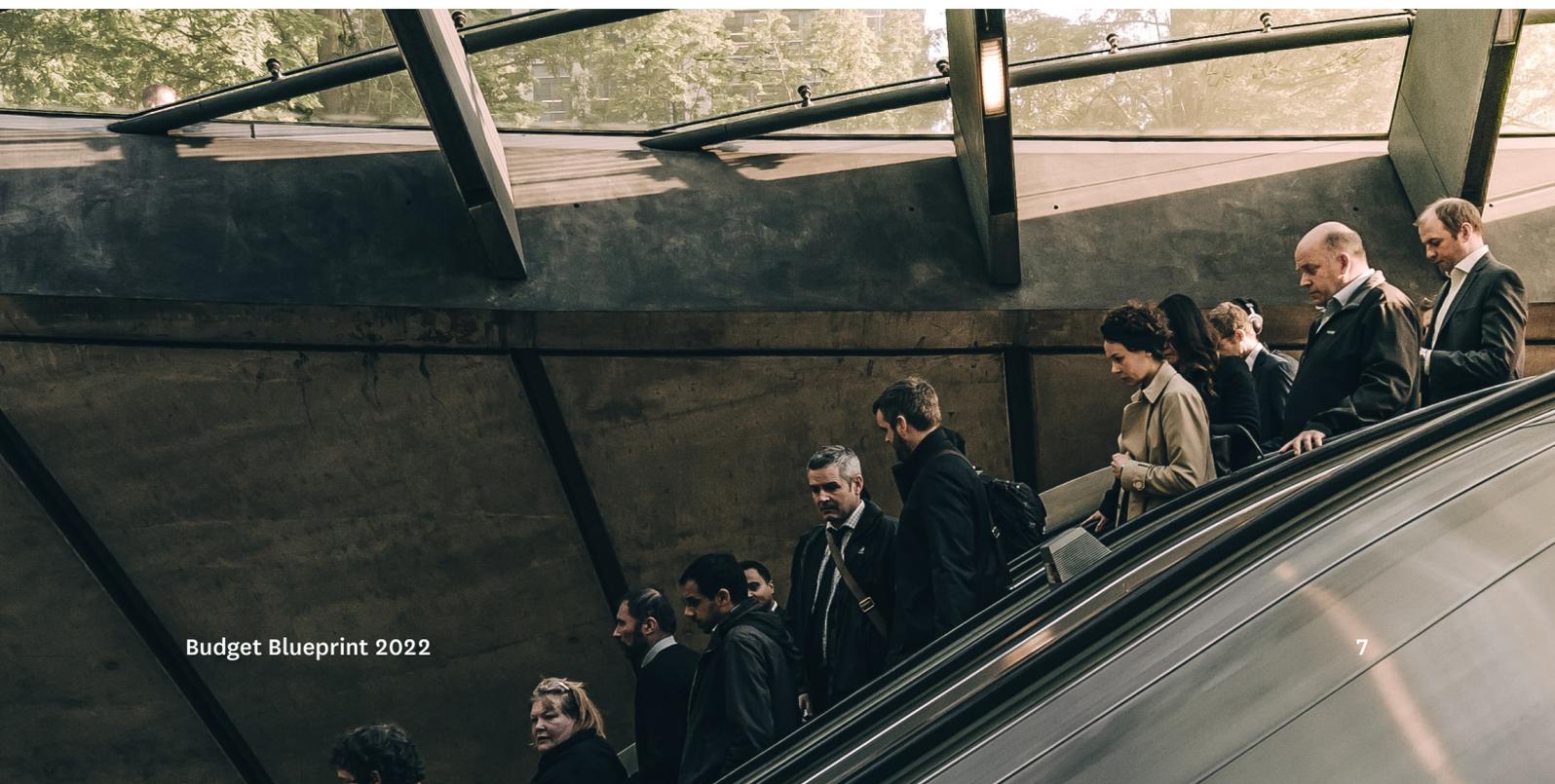


Figure 2 Overseas migration arrivals (2005 to 2021)

Source [ABS](#)



What about inflation?

Full employment is inextricably linked to inflation. A tight labour market means that firms must compete harder to hire new workers and retain their existing employees, which leads to higher wages. Higher wages, in turn, feeds inflation.

At the present, wage growth remains below the three-percent level that the RBA believes is necessary to fuel its target rate of inflation. Nevertheless, some policymakers are beginning to worry that there is too much money chasing too few goods in the economy, and that the potential prospect of sustained and high inflation outranks COVID-19 as a threat to economic recovery. In response, inflation hawks are advocating that the Government rapidly pull back fiscal support.

While this is an important debate, the truth is nobody can really predict what is going to happen with inflation. Numerous studies have shown that even the ‘pros’ have a dismal track record when it comes to forecasting inflation.

More importantly, we already have robust institutions and policy frameworks in place to respond to inflation in a timely fashion as the macroeconomic environment evolves. The RBA has an excellent track record when it comes to steering Australia’s economy through choppy waters and delivering price stability.

There is a chance that fiscal policy is overly stimulative in the short run, and there may be negative effects if the RBA has to hike interest rates rapidly in response. For example, homeowners with large and variable rate mortgages would feel the pain in the form of high monthly payments should interest rates rise rapidly. However, there is no reason to panic.

Inflation expectations have not become unmoored (see Figure 3). It would be an overreaction to preemptively tighten monetary and fiscal policy, and slow the economy to stave off the mere threat of sustained excess inflation. Our current framework is sufficiently flexible and reactive to manage inflationary pressures as they occur.



Figure 3 Actual inflation against inflation expectations (2004–2022)

Source RBA, ABS

The Debt!

While we should not fixate on public debt, we cannot forget about it either. The Government was right to spend big to support the economy at the height of the pandemic—notwithstanding some poor targeting in policies like JobKeeper. Austerity in the name of reducing public debt would have been a disaster. But at some point, the party has to end.

Since the GFC, we have seen a ratcheting up of public debt over time (see Figure 4). It was sizable going into the crisis, and now it's ballooned further, predicted to reach over [35%](#) of GDP by next year. At this stage, it is nowhere near unsustainable, especially since the stock of Government debt is projected to level off in the coming years. But in the long run, there is a limit.

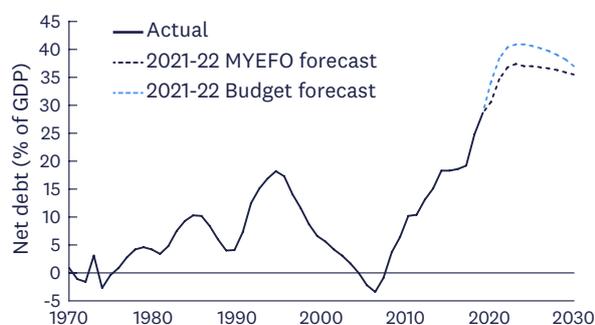


Figure 4 Australia's net debt, expressed as a percentage of GDP (1970–2030, forecast)

Source [Budget Archives 2021](#), [MYEFO 2021–2022](#)

Over the past decade, governments of both stripes have made significant new spending commitments, and yet have maintained the post-GFC cap on government receipts of [23.9%](#) of GDP. With massive spending pressures in health, aged care, and early learning, how long will we remain in this fiscal straitjacket?

Starving the beast works better in theory than in practice. We need less talk about the size of government and more emphasis on efficient, effective government. We should recognise what we have agreed to publicly fund as a society. And then set about raising the revenue we need to pay for it in the lowest-cost way we can.

With more efficient taxes, we can keep rates constant and raise additional revenue. And achieve faster economic growth, which not only generates more tax revenue, but also helps shrink debt as a share of the economy. Smarter,

not lower, should be the mantra. The level of public debt should not be used as an excuse to delay or forgo sorely needed structural reform.

Wholesale reform is what we need

A return to the pre-pandemic status quo would be disastrous for the Australian economy. Real wage growth was anaemic for [years](#) before the pandemic and has yet to show signs of acceleration—wage growth only rebounded to its tepid [pre-pandemic trend](#) late last year (see Figure 5). Productivity growth, which determines wage growth and our living standards in the long run, was stuck in a [multi-year rut](#) before the pandemic and remains sluggish today (see Figure 6). Investment, too, has been falling as a share of the economy for almost a decade, and is now near a two-decade low (see Figure 7).

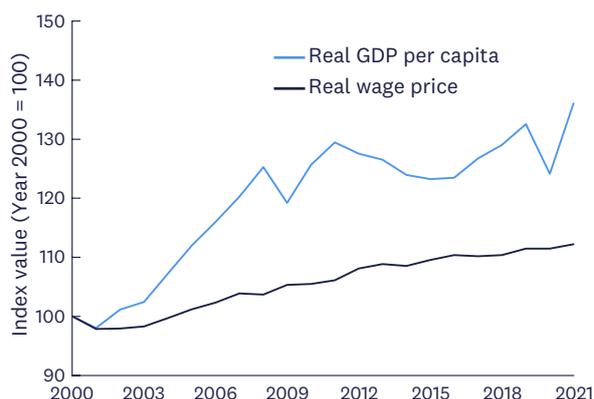


Figure 5 GDP per capita and wage growth, indexed using the consumer price index (2000–2021)

Source [ABS](#), [ABS](#), [ABS](#)

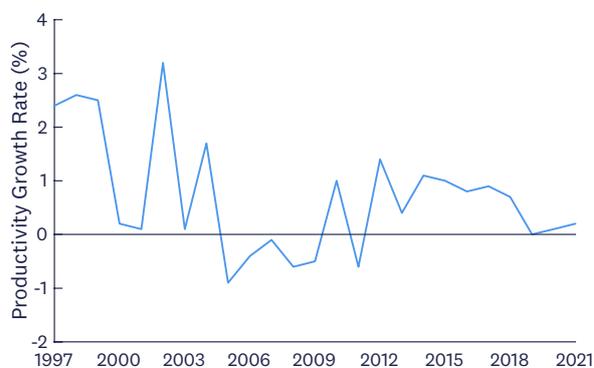


Figure 6 Growth in multifactor productivity (1997–2021)

Source [ABS](#)

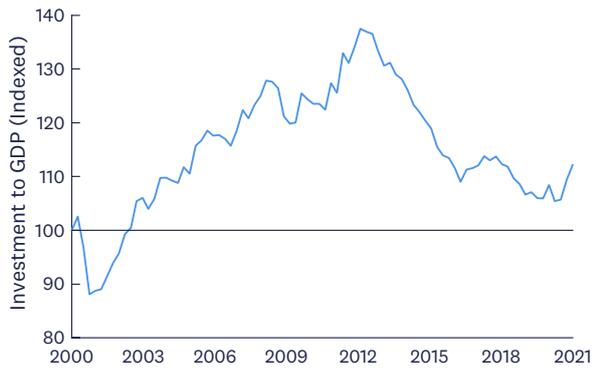


Figure 7 Proportion of investment to GDP, seasonally adjusted (2000–2021, indexed to 2000)

Source [ABS](#)

With all that has happened during the pandemic, it may be difficult to remember that the dominant narrative preceding the arrival of COVID-19 revolved around measures to boost long-term economic growth amid a [stagnant](#) and “[structurally deficient](#)” economy.

On the eve of the Federal Election, the debate surrounding economic policy in Australia is instead concerningly shortsighted—it mostly centres on house prices and [inflation](#).

It is now more important than ever to break away from the short-term political cycle, and address the difficult reforms that are needed to ensure a prosperous and resilient Australia.



National resilience

National resilience is the capacity to withstand, adapt, and grow in the face of regional and national crises. Building such resilience in Australia will require a coordinated government and proactive institutions that anticipate and plan to address vulnerabilities in advance.

Enhancing our resilience will mean that Australians will be less dependent on rushed, ad-hoc policy that merely reacts to crises as, or after, they occur. More organised management can and should allow us to respond to inevitable shocks more effectively and at lower cost. Just think of the pandemic.

Thankfully, the Government acted swiftly to ensure that the worst impacts of COVID-19 were relatively contained. Across many dimensions, these efforts should be commended. Yet, from [quarantine failures](#) to [Jobkeeper fraud](#), policy responses over the past two years could have been much more efficient with earlier planning and greater attention to detail.

While some were hoping for a ‘normal’ 2022, that wish has quickly been quashed. On the contrary, the unpredictability facing the world, and Australia, only seems to be increasing.

If nothing else, the ongoing uncertainty of the pandemic raises as many questions as answers. Thanks to the latest Omicron variant, our third year of the virus began with a [wave of new infections](#) sweeping across the globe. Loosening borders were again restricted and closed. Having recently escaped months of wider lockdowns, weary citizens were forced back into individual isolation. Supply shortages of vaccines morphed

into the inability to find tests. Things are looking better now, but there is still [no telling](#) where we are going next.

As if nature’s biological aggression was not creating enough unease, war has also reemerged in Europe on a scale unseen in recent memory. [Russia’s invasion of Ukraine](#) has produced immense suffering on the ground, and raised second-order concerns of security and supply of food and energy the world over. As geopolitical tensions flare dramatically in Europe, fears of [China’s territorial ambitions in Taiwan](#) only grow. Peace in our time suddenly looks far more fragile.

And record flooding has created havoc here at home. Many Brisbane regions have received [up to 80%](#) of their average annual rainfall. Nearly [50,000](#) insurance claims have already been lodged as a result of damage throughout Queensland. Officials were also forced to advise commuters to avoid Sydney trains [for a whole week](#) and parts of regional New South Wales [were devastated](#) due to flood-related damage.

These crises represent single events. But as time goes on, climate change is [expected to increase](#) the frequency, intensity, and economic cost of all manner of uncertain threats, ranging from future [pandemics](#) and [wars](#) to natural disasters and extreme weather events. And additional systemic risk stems from our globalised and interconnected world, where even the production of pencils requires the timely delivery of countless intermediate goods.

Our resilience will be more important than ever. We must be prepared.

The need for long-termism

Politics is inherently reactive. Governments allocate serious resources to combat risks, but often only after the fact. In Australia, the Productivity Commission estimated that 97% of disaster funds are spent on recovery, while just three percent are spent in preparation. For instance, hundreds of billions of dollars were allocated domestically in response to the effects of the COVID-19 pandemic, but a mere pittance was spent on pre-pandemic preparation.

We must work to overcome the inertia in the political system. If we dismiss these scenarios as unlikely and wait for them to actually occur before seriously devoting resources toward mitigation, the cost will be astronomical—we have seen this play out during the COVID-19 pandemic. It is both economically rational and prudent to invest modestly in preparation now to avoid expensive rescue-and-recovery costs after the fact.

Institutionalising resilience

Our vulnerability to risk speaks to the spread of a mistaken paradigm that has taken root in the unusual relative calm of the post-World War II era of globalised economies—namely the equating of productivity and efficiency. Efficiency is only productive in a secure political and physical environment. For example, highly efficient, lean, and rigid ‘just-in-time’ supply chains are fragile. As we have all experienced, a distant blocked canal, factory fire, or diplomatic incident can lead to backlogs that ripple through supposedly efficient supply chains in complex and unpredictable ways, affecting innumerable products.

Safeguards—whether in the form of institutional arrangements, stockpiled inventories, or planning to withstand the worst-case scenario—may seem like costly waste that should be scrapped in the name of efficiency if nothing goes wrong. Once a crisis hits, though, they are essential.

In order to ensure that government is prepared, we must take action to establish an institution that oversees and advises government planning with the perspective that it is possible to predict that many types of crises will happen, sooner or later.

Establish a true Research Institute for Sudden Catastrophes

In the last Budget Blueprint, we recommended a Research Institute for Sudden Catastrophes. While progress has been made, there is still a long way to go.

During the intervening period, the Federal Government established the National Recovery and Resilience Agency (NRRRA) and, at a state level, New South Wales created Resilience NSW. These institutions are largely limited to natural disasters, however, which are only a fraction of the high-impact and low-probability disasters that Governments should be concerned with and plan for (Figure 8).

The NRRRA’s narrow mandate is to make communities more resilient to high-risk hazards, yet it does not take a broad enough view as to what these could be—limiting its efficacy. The NRRRA has neglected risks that have lower probabilities, but potentially enormous consequences.

Many of these risks may seem far-fetched, until they actually occur. Nuclear sabre rattling, for example, has only increased since the beginning of the Russian invasion of Ukraine, leading the Secretary-General of the United Nations to conclude that nuclear conflict is back “within the realm of possibility.”

An example that sits a little closer to home, and reared its head mere weeks ago, is the reliance on very few or only one supplier for critical goods. It was feared that Australia would run out of AdBlue, a critical diesel additive for our freight fleets, because of a [global urea shortage](#). The Government was able to avert the crisis only after scrambling to find another domestic supplier to assure users.

Australia needs an institution to regularly stress test our resilience against crisis scenarios and provide recommendations for additional policies to mitigate new and emerging risks.

As such the NRRR should undergo a rebrand and become the Research Institute for Sudden Catastrophes (RISC). This institute would have its remit expanded to include the study of all manner of risks that pose a threat to a prosperous Australia. Moreover, its budget for staffing should be expanded from [\\$12.4 million](#) annually to \$36 million, in line with the Productivity Commission.

The institute will evaluate potential crisis scenarios, assess strategic readiness, and address vulnerabilities. For example, it could assess threats ranging from foreign election interference, to a future pandemic, or the

introduction of sanctions against China.

The goal would be to create a costed playbook of mitigation policies for crisis scenarios, practise executing policy responses across levels of government, and thus avoid the inefficiencies and waste of the ‘on-the-fly’ response seen during the pandemic. This independent advice would enable policymakers to better prepare for unlikely but catastrophic events.

Overseas, the [UK Health Security Agency](#), which deals with biological, chemical, and nuclear security threats, represents inspiration for RISC.

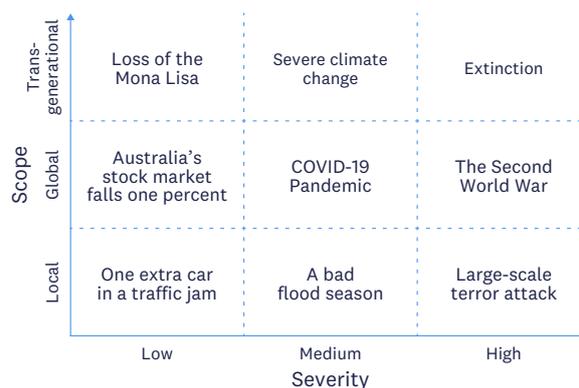


Figure 8 Qualitative risk categories

Source Blueprint Institute analysis

The Productivity Commission as a blueprint

The structure and function of the Productivity Commission provides a good analogy for the establishment of RISC. The Commission is independent and provides advice on a range of issues—economic, social, and environmental—that affect Australians.

Two key features of the structure and role of the Productivity Commission must be replicated in order to establish an effective RISC.

1. Freedom to conduct inquiries in response to government requests and of its own volition, allowing it to explore areas of long-term risk that are not front-of-mind for the government of the day.
2. Establishment by legislation, and independence from government. Independence is crucial to be able to effectively investigate issues that affect

Australians, even where that calls into question government policy.

The budget of the Productivity Commission is just under [\\$36 million](#) per year. The vast majority of expenses are employee salaries, and a relatively small portion spent on consulting and services. An identical \$36 million annually for staffing costs would aid RISC in delivering on its remit and setting up what would then become ongoing reviews of scenarios and systems.

The structure of the Productivity Commission currently involves 7 commissioners and additional assistant commissioners. RISC should replicate this structure with commissioners specialising in risk areas such as supply chains, pandemics, artificial intelligence, climate change, natural disasters, global financial crises, and foreign influence.

Securing supply chains

While we strongly believe in the efficiency of the free market, in crisis situations the infrastructure that allows free trade of critical goods around the globe often breaks down, as we have experienced through soaring prices and lengthy delays for sea freight during recent shocks such as the [COVID-19 pandemic](#) and [invasion of Ukraine](#). As policymakers increasingly call for “[an end to dependence on hostile and authoritarian states](#)” in response to the war in Ukraine, it is clear that supply chain disruptions are to be expected in the future.

The European Union’s April 2021 [seizure of 250,000 doses](#) of AstraZeneca’s COVID-19 vaccine intended for export to Australia should serve as powerful proof that contracts to purchase critical goods on the international market may not necessarily be fulfilled in the midst of a crisis. Failure to secure a diverse range of supply contracts or develop a domestic manufacturing capability left Australia short of COVID-19 vaccines during a critical period of the vaccination drive.

When the free market is unable to function, such as during a crisis, the government has a role in securing the supply of critical goods. Efficient and effective execution of this goal entails preparation in advance to ensure that supply chains are robust to foreseeable risks.

Assess supply chain risks ahead of time

Governments should be risk averse to the supply chain implications of economic and environmental shocks, both because of the [extreme cost](#) associated with attempting to secure critical goods when supply is unreliable and demand is elevated, and the [dire consequences](#) of shortages.

We need to be proactive with regard to this risk, recognising that severely stretched supply chains are to be expected, especially in times of crisis, and sacrifice a bit of efficiency in return for reduced fragility in the supply of critical goods.

So long as the cost is not prohibitive, we should take out insurance policies against the worst effects and support either the stockpiling or capacity for domestic production of key essential goods, even if there is a cost to efficiency in non-crisis situations.

It is challenging, but possible, to systematically identify vulnerabilities in supply chains and anticipate shortages of critical goods. The list of [vulnerable supply chains](#) developed by the Productivity Commission last year, along with a framework to detect vulnerabilities, is an excellent starting point.

In fact, on occasion, supply chain vulnerabilities are immediately obvious. One of the clearest examples is the case of fire retardants during the 2019–20 Black Summer fires. Many states fought [bushfires](#) during that summer and, as a result, the national stockpile was unduly stressed. The strain brought to light that Australia [relied on a single supplier](#), based in the United States, for fire retardants and purchased supplies sufficient for [only one fire season](#). While Emergency Management Australia managed to resupply that summer, the key insight of this anecdote is that responsibility and accountability must be assigned to detect these weaknesses before they rear their head in the midst of a crisis.

Assigning a civil service agency to carry this function out as a regular background process has two major benefits. First, it would insulate elected officials from political charges of wasteful spending in the event that the relevant crisis does not happen—making it more likely that we maintain access to critical goods across electoral cycles. Second, it would lead to more robust and secure supply chains in the long run as opposed to ad-hoc attempts to secure essential goods on distressed international markets.

One of the functions of our proposed [RISC](#) would be to identify and classify the vulnerability of supply chains according to rational criteria, which, in turn, would trigger appropriate government responses. For example, the institute should examine the risk of Australia’s [strategic oil reserve](#) being housed within the United States.

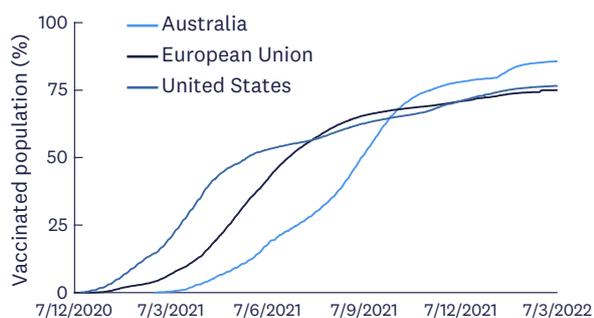


Figure 9 COVID-19 vaccine rollout in Australia, European Union, and United States (2020–22)

Source [Our World in Data](#)

If an essential good is reliant on a single overseas supplier, the Government may respond by either diversifying suppliers and stockpiling the relevant good, or, if cost-effective, influencing private actors to establish the capacity for production domestically by guaranteeing investment and purchase.

As an example of the latter approach, in the last [Budget Blueprint](#), we advocated that Australia become a regional leader in mRNA research. Establishing efficient domestic mRNA manufacturing capacity would ensure that Australian lives are not placed in jeopardy due to a delayed vaccine rollout during the next pandemic, as they were during COVID-19 (see Figure 9). Commendably, the Government has announced \$25 million in funding to develop the sector and Moderna is opening manufacturing facilities—the [first mRNA manufacturing facility](#) located in the Southern Hemisphere—to begin production in [2024](#).

Address skilled labour shortage in critical industries by reducing visa processing delays

One of the most visible aspects of the pandemic shutdown has been the reduction of immigration to nominal levels. The lack of immigration has created a bottleneck on economic activity and growth in a wide range of fields where Australia has suffered from long-standing shortages of appropriately skilled workers. This includes, but is not limited to, [finance](#), technology, [construction](#), and [education](#).

Besides its economic repercussions, it is not an exaggeration to say that the labour shortages in critical industries like [healthcare](#) have life-and-

death consequences. Inadequate staffing has been a [significant factor](#) in the aged care crisis. The Committee of Economic Development of Australia has already [warned](#) of a shortfall of 111,000 workers in the sector over the coming decade.

Over the long run, it is perhaps possible to fill the nurse shortage with Australian workers by improving our Vocational Education and Training program, as recommended in detail in a later section. In the short to medium term, however, if we do not find a way to at least partially fill the gap from overseas, the shortage will surely grow larger as the [burden on current carers](#) grows ever more unsustainable.

As the economy reopens, visa wait times have grown to unacceptable levels. There are some reports of individuals required to wait [as long as 30 months](#) for a 48-month visa. It now takes up to [three times longer](#) for even prioritised and employer-sponsored Temporary Skill Shortage visa applications to be processed. No wonder firms are [crying foul](#) as they attempt to fill their staff shortages with overseas applicants.

We should not lose sight of the fact that we compete for skilled workers on a global marketplace. We are losing skilled workers to other countries that impose lower costs. If we make it overly difficult for nurses to migrate to Australia, there are alternative destinations that would be happy to receive them. For example, a skilled economic migrant might wait approximately [six months](#) for a visa in Canada. In Australia, the waiting period for a comparable visa can be between [21 and 27 months](#).

In the 2020–21 financial year, the Government budgeted \$706 million to be spent on citizenship, visa processing, and migration. This figure is [projected to decline](#). We recommend that, in the face of the current backlog, the Government increases funding by at least \$100 million (restoring it to [2018–19 levels](#)) and use this to increase departmental capacity in areas that are bottlenecks, such as a [shortage of personnel](#) in the visa processing team.

One hundred million is a small price to pay considering the economic benefits that increased skilled migration would bring. It would allow businesses to access and employ

the most productive workers. The Productivity Commission found that a [50% increase](#) in net migrant intake—approximately [177,000](#) persons per year at the time of the study—would result in productivity gains across the economy—boosting GDP per capita by [0.27%](#).

Beyond economic arguments alone, the [shocking reports](#) of deteriorating conditions in aged care

facilities represents the antithesis of what a resilient society should look like. Even during a pandemic, Australia should do better than forsaking a broad and vulnerable swath of society. Reforming the immigration system to address the lengthy delays faced by skilled workers in critical fields is an important and concrete step toward rectifying the problem.

A strong economy

Our nation’s capacity to marshal the resources necessary to prepare for and recover from crises depends largely on a strong economy—resilience does not come cheap. That is why productivity growth—which determines our wages and living standards in the long run—is critical.

Long-run economic growth is only possible through some other process by which one is able to combine the same amount of labour and capital input to produce more output. This process is known by many names—knowledge, innovation, technological progress, or gains derived through ‘learning-by-doing’. In other words, it is productivity, and its growth is the only way we can sustainably raise our living standards in the long run.

Unfortunately, in recent years, productivity growth in the Australian economy has slowed to a crawl. The performance between 2017 and 2018 is typical of recent years—GDP grew by 2.8%, but this growth was fuelled almost entirely by a [2.3% increase](#) in inputted labour and capital.

Low productivity growth has become entrenched in the economy. Between 1994 and 2005 labour productivity growth averaged [2.7%](#). Between 2004 and 2018 it averaged just [1.5%](#). And in the five years ending in 2021 it averaged a mere [0.91%](#).

The lack of productivity growth over the past decade and a half has had concrete consequences—it has caused the slowest per-capita growth of production and income in the [last 60 years](#). The Productivity Commission estimates that if productivity growth had continued at its pre-2012 rate, average incomes would have been [\\$11,500 higher in the 2019–20 financial year](#).

Everything—dealing with climate change, inequality, and housing affordability, or building resilience—would be easier were it not for the productivity slowdown.

Driving innovation

When we stop to think about exactly what we mean by productivity, it becomes obvious that a big part of this goal relies on basic knowledge creation. Basic knowledge remains an area in which we systematically underinvest. There are all kinds of reasons for this—the returns to research spending are not always immediate, linear, or easy to isolate into convenient political ‘announceables’.

The evidence shows, however, that basic research is one of the most critical parts of the productivity pipeline, and we ignore it to our own detriment. As just one example, [Deloitte](#) found that every dollar allocated to the National Health and Medical Research Council over a 15 year period, yielded \$3.20 of economic benefits.

At the end of the day, the flow of basic research is held back by inadequate funding. In 2018, we spent just [1.8% of GDP](#) on research and development, compared to the OECD average of [2.35%](#). Something needs to change.

Boost R&D tax incentives

R&D spending in Australia has declined significantly over the past decade, in contrast to many of our peers (see Figure 10). Of 16 potential incentives for R&D globally, only [tax credits](#) are available in Australia.

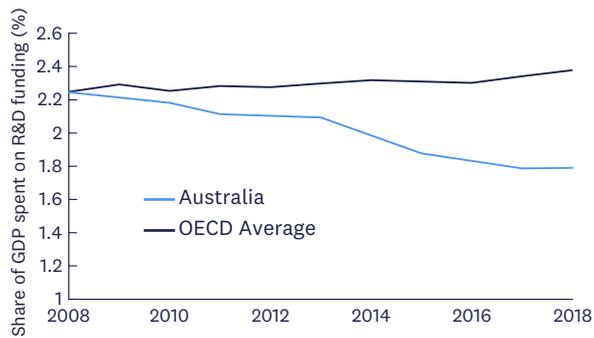


Figure 10 R&D spending across OECD countries (2008–2018)

Source [OECD](#)

Changes in tax policy last year raised the annual R&D deduction limit from [\\$100 million to \\$150 million](#), boosted R&D tax incentives for most businesses, and encouraged businesses with higher turnovers to engage in higher-intensity R&D expenditure. But the maximum rate of the tax offset incentive—generally [43.5%](#) for small businesses, [41.5%](#) for mid-sized businesses, and a maximum of [46.5%](#) for large businesses—still lags behind many other countries. China has a deduction rate between 150% and 175% of R&D spending. In Denmark, the rate can be up to 130%, and in the UK the deduction can be up to 100%.

Given the fact that R&D spending in Australia significantly lags behind these countries as a proportion of GDP, the government should consider increasing the tax incentive once again.

Moreover, the Government should liberalise its overly [rigid definition](#) of R&D to unlock more private spending.

In the UK, R&D is classified simply as those actions which resolve a scientific or technological uncertainty. In Australia, [R&D is limited](#) to those “activities whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that is based on the principles of established science and proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions.”

By requiring an explicit process, and very specific hypothesis, the Australian definition creates barriers to entry and discourages early-stage R&D where uncertainties are rife, and hypotheses not always clear.

In a similar vein, the minimum spending requirement of [\\$20,000](#) should be abolished, as it creates barriers to entry for smaller firms to innovate. Small- and medium-sized enterprises generate between [0.9 to 1.5 additional dollars](#) for every dollar of tax foregone—more than double the 0.3 to 1 dollar for larger firms. Every big firm started as a small firm.

Reforming funding of basic research

The relationship between basic research output and patent production is strong—approximately [61% of patents](#) closely reference a scientific research article. Even when papers are not directly cited in a patent application, they can be critical for creating the background ideas that fuel innovation.

[ARC Discovery grants](#) are characteristic of the way in which the Government funds basic research—about \$250 million a year is committed to the program. With an acceptance rate of just 19% in the [most recent round](#), they are incredibly competitive. Application processes are rigorous for a reason, and governments are right to demand that research funding be spent effectively.

However, the current system of grant application and competitive, project-based funding does not incentivise the effective allocation of researcher time and is likely leaving innovations on the table.

The solution to these problems is twofold. First, the application process for government grants requires simplification. Second, two pilot programs should be run to improve the allocation of grants by neutralising bias in existing assessment methods, and encouraging the flow of private money to basic research.

Simplify application process for government research grants

The application process for government-funded grants should be radically simplified.

Australian researchers spent an average of [38 working days](#) preparing each National Health and Medical Research Council (NHMRC) grant application in 2013, consuming [550 working years](#). The NHRMC recently [tweaked](#) their

application process in response to these concerns; however, there is still room for experimentation and improvement across the various institutions that award scientific grants. Grant applications should not take so much time. The current situation harms our productivity—stopping our brightest minds from actually producing productivity-enhancing research.

Obvious and easily implementable time-saving recommendations were generated by a [2018 inquiry](#) into the process of allocating government grants—including a [two-stage](#) grant application process. The first stage is competitive and considers scientific merit through peer review, but applications include only the most necessary information for the evaluation of the research itself.

For example, an applicant is initially only required to provide a rough estimate of cost instead of a time-consuming detailed budget. The second stage is then a non-competitive process for those who passed the first stage to provide a detailed budget, thus sparing rejected applicants valuable time and effort.

This two-stage application should be implemented to free our academics from the endless bureaucracy of writing grants—so that they can spend time researching—providing us with the productivity enhancing technologies and research that we sorely need. The core proficiency relevant to science should be research, not writing grant applications.

Beyond this quick fix, the Government should also fund two pilot projects that could revolutionise our ability to harness the potential of our world-leading universities.

Pilot project: Academic grant lottery

The current system for allocating grants is compromised with bias.

Firstly, the government-mandated “[national interest](#)” test ‘picks winners’ according to political palatability, rather than funding research that could drive greater innovation. Secondly, evidence also suggests that peer reviewer scores—those that currently underpin Australian grant processes—can be [poor predictors](#) of the future performance and influence of a piece

of research. Peer reviewers can also be overly conservative, with evidence indicating that novel research grants can be up to [31%](#) less likely to receive funding.

Moreover, the immense cost of the grant-writing process favours well-resourced, senior, and well-known researchers who have particular skills in grant writing or the resources to outsource the work. In fact, a further recommendation from the parliamentary inquiry looked to address this selection bias towards late-career, well-known researchers by [reweighting](#) the application process.

To address these biases, as a pilot project, we propose that the Government set aside \$20 million of grant funding for a streamlined, two-stage grants process. A first competitive stage would act as an initial screening process—applications are peer-reviewed for their eligibility. However, entry to the second stage would be mediated by a lottery system rather than determined by peer review. The structure of this program would resemble that of the [Explorer Grants](#) in New Zealand, where [grants](#) are awarded at random after an initial screening process.

Pilot project: Incentivise private-sector investment in basic research with donation matching

Block grants are one of the main ways that the Australian Government funds research at the university level. \$935 million in block funding was allocated to the [Research Support Program](#) in 2022. We would ideally like to see more federal funding committed. However, there is also a [growing movement](#) of private philanthropists in the United States who prioritise funding of breakthrough basic research—particularly in [life sciences](#)—through non-profit organisations.

Increasingly, academics are bypassing the formal university funding structures and going to private sources for grants. For example, [Fast Grants](#) provides decisions on grant proposals related to COVID-19 research of up to US\$500,000. The program has been immensely [successful](#), quickly dispersing 260 grants to labs in five countries.

To incentivise similar organisations in Australia, the Government should establish a pilot donation-matching scheme of up to \$50 million

per year. Specifically, the Government would match, on a dollar-for-dollar basis, donations to non-profit organisations that commit to funding basic research. The only requirements, beyond the regulations already governing non-profit organisations, should be commitments to open-access science and to fund only those researchers already eligible for government grants with projects that pass initial peer review screening.

Enabling research to disseminate

One of the main causes of the slowdown in productivity growth in developed economies over the last decade has been the decline of knowledge diffusion—that is, a slowdown in the take up and development of new technologies. This can be caused by the inappropriate use of intellectual property regimes to stifle innovation rather than to incentivise progress, or simply by providing inadequate incentives.

The Government should close loopholes in the ARC Open Access Policy that allow grant recipients to avoid Open Access publishing. Only 40% of research in Australia is open access. Research hidden behind paywalls harms the spread of knowledge that drives innovation. Closing this loophole will make it easier for open access journals to gain access to high quality research that otherwise would have gone to more prestigious publications that are hidden behind paywalls.



Figure 11 GST as a share of tax revenue (2011–2020)

Source [ABS](#)

Tax reform to boost productivity

Productivity growth depends not only on basic research, but also on firms investing to commercialise and bring those productivity boosting innovations to market. But investment as a share of the economy has fallen significantly from the heights it reached in the midst of the mining boom. Part of the problem is a creaking tax system that has, over the years, accumulated all manner of special interest giveaways that reward rent seeking while disincentivising productive investment.

Our tax system remains as complex as ever. Distortions abound. We tried to introduce whole new tax bases in the carbon and mining taxes—with merit, at least in theory—but they were summarily rescinded. Tax reform is hard going.

At some point, we need to get out of our rut. Tinkering is not going to cut it with more than one trillion in public debt, and fast-growing demands on the public purse in health, the NDIS, and aged care, among others. We are going to need to raise more revenue in the years ahead. That puts increased emphasis on doing so in a way that protects growth and our future prosperity. We need to reform the tax code to raise taxes on capital gains from housing, broaden the tax base, and incentivise productive investment.

Broaden the GST and raise it to 12.5%

Even as the share of tax revenue raised by the GST has declined (see Figure 11), the broad-based consumption tax has become increasingly important. As the Australian population ages and a smaller proportion of the population works, our overreliance on income tax means that the public sector will be increasingly revenue challenged.

In 2019–20, the proportion of total tax revenue contributed by the GST that year was 11.6%. This pales in comparison to the share of company and personal income taxes—59.5%.

The solution is not to increase income taxes, which are distortionary and poorly targeted, as the working-age population shrinks.

Rather, we recommend a broader and higher GST—which is used in part to cut income taxes

on lower-income individuals—to achieve a more efficient tax system.

Twelve and a half percent is a modest rate, and still well below the OECD average of [19.3%](#). PwC modelled the effect of raising the GST from 10% to 12.5%, and found that this increase, along with the reduction in exemptions, could raise as much as [\\$40 billion per year](#).

The efficiency benefits of GST compared to income taxes are well known and borne out by the [empirical evidence](#). A broad-based tax on consumption, as opposed to income tax, avoids discouraging work. Additionally, given that much retirement income is untaxed we also avoid the natural shrinking of the tax base caused by the so-called “[silver tsunami](#).”

The main objection to increases in the GST is that it is a regressive tax—that those with lower incomes end up paying a [higher effective tax rate](#). However, we argue that the revenue raised by an increase in the GST and a broadening of its base should be used, in part, to reduce income taxes in the lowest tax brackets—such that their tax burden, on average, does not rise.

Introduce a broad-based tax on the unimproved value of land to replace stamp duty

Stamp duty is one of the least efficient methods of taxation on offer. To avoid paying the tax, many opt to renovate or simply stay put. Indeed, with every one-percent increase in stamp duties reduced property transactions by [0.6%](#) if sustained over a three-year period. This significantly reduces mobility in the property and labour market, as Australians are unable to move for better jobs, expand their business, or up- or down-size their property.

As we will outline in more detail in the following section of this paper, we propose a broad-based tax on the unimproved value of land at a rate calculated to replace the revenue from [stamp duty](#). The [Treasury](#) has found that for every dollar raised through stamp duty, household welfare is reduced by a further 72 cents—an astronomical amount for a tax that raised [\\$19 billion](#) nationwide in the 2019–20 financial year.

An increase to the unimproved value of land is not in any sense ‘earned.’ If a developer builds a shopping mall near your house and the value of your land goes up as a result, you did not undertake any productive activity to earn that value.

This “unearned rent” from land, by [definition](#), does not incentivise productive activity. Instead, it often incentivises those in a position of wealth to rig the system to their advantage. For instance, existing landowners regularly oppose the rezoning of nearby land which would lead to an increased supply of housing, since artificial scarcity maintains high prices.

An annual tax on the unimproved value of land would directly tax these rents and increase the efficiency of the tax system. Economists since [Henry George](#) have theorised that taxing the value of unimproved land does not cause the distortions of stamp duty or income taxes, but instead simply eliminates economic rents.

A land value tax, at a rate sufficient to replace the revenue raised by stamp duty, should be implemented. It would have the added benefit of stability as opposed to the variability of stamp duty. The New South Wales Government has outlined that their proposed rate of land value tax will be between [0.3% and 1.1%](#).

A major historical barrier to land value taxes is the complaint that they are difficult to implement, since it is difficult to separate the value of the land itself from the value of the improvements built on the land. However, [advanced quantitative techniques](#) have in recent years improved the valuation of properties—thereby allowing the valuation of the land itself through subtraction.

We must mention the complication that under our proposal, the land value tax would be federally administered, while the stamp tax is collected and used by the states. This is not an insurmountable problem, however. The Federal Government already operates a program to equitably disburse GST revenue amongst the states. The same should be done for land value tax.

Reduce the corporate tax rate and make full expensing permanent

Ultimately, global capital can flow to wherever the after-tax rate of return is highest. And yet we are not even close to competitive with our peers—only two have higher rates—and the [gap](#) has widened over time (see Figures 12 and 13). While other countries have raced to the bottom, we have stayed out of it—to the loss of investment, jobs, and wages. The UK has signalled an end to this race to the bottom, raising its rate to [25%](#)—still lower than our current rate. And we do not have the advantage of being a major regional hub of corporate activity as they do.

Australia’s current system of corporate taxation is complex. We have a headline rate of 30% for the largest companies. But those with less than \$50 million in turnover face a 25% rate. This has two obvious distortive effects. First, it generates an incentive for firms with revenues just above the threshold to move below. This forms a constraint on their ability to generate additional revenue. It also generates an incentive for firms to break up into smaller entities that can each sit below the threshold.

The corporate tax structure should be flattened and reduced to 25%. Our current 30% tax rate [hampers](#) investment, and a one-percent decrease in the tax rate could increase capital investment by around [five percent](#). Moreover, corporate tax cuts can increase labour demand and that [increased labour demand](#) can, in turn, lead to higher wages. Lowering our rate to 25% would encourage investment by matching the UK’s planned 25% tax rate.

The Government should also make full expensing a permanent feature of the corporate tax system. The phrase “time is money” has real bite in the world of business investment. Full expensing allows businesses to write off the cost of an investment in the year they make the purchase, allowing them to receive the tax benefits now, rather than years down the track. Full expensing can increase business investment by up to [18%](#).

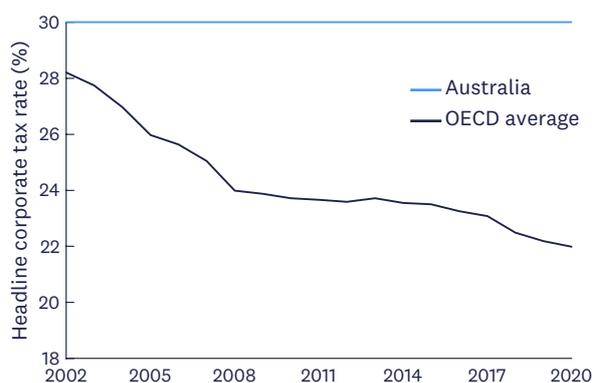


Figure 12 Corporate tax rate differential between Australia and OECD average (2001-2020)

Source [OECD](#)

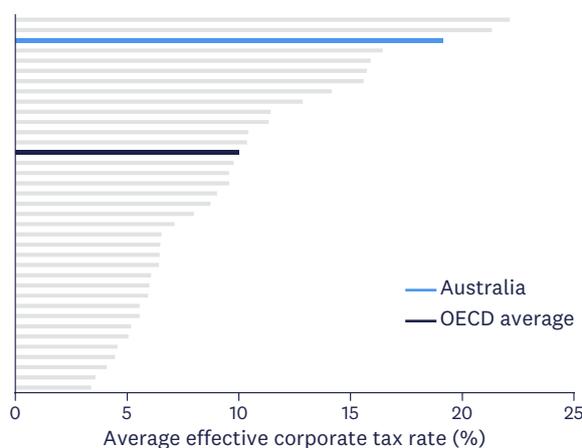


Figure 13 OECD corporate tax as a share of taxation (2018)

Source [OECD](#)

Introduce a \$3,000 standard deduction

Each year, tax professionals extract [\\$1.9 billion](#) from the [70%](#) of individuals who use their services. The main reason for this is the prevalence of tax deductions, which cannot be pre-filled by the ATO. These deductions cost us around \$6 billion a year in compliance costs alone. Vague, complex, and generous criteria mean tax deductions end up subsidising inefficient consumption. And many people game the system. But even for the honest taxpayer, the rules are difficult to interpret and apply. This also makes them expensive to enforce—\$4 billion gets sucked up by the ATO’s operations each year.

The Government should introduce an optional [\\$3,000 standard deduction](#), which would liberate 80% of Australian taxpayers from itemising their deductions. This would pave the way to eliminating between seven- and nine-million tax

returns. Those individuals with more than \$3,000 of deductions could still choose to itemise—so no one would be worse off. This would offer a tax cut for those who opt in of \$400–\$1,000 on average.

At a cost of \$5 billion, the policy would save around the same amount in administrative, compliance, and tax preparation costs. It would also provide a progressive tax cut. Lower-income taxpayers typically claim fewer deductions, so they are more likely to take up the standard deduction, and the benefit is a larger proportion of their income. It would also improve gender equity. As a proportion of their income, women and men receive around the same benefit at low and middle incomes. At higher-income levels, women benefit more on average (see Figure 14).

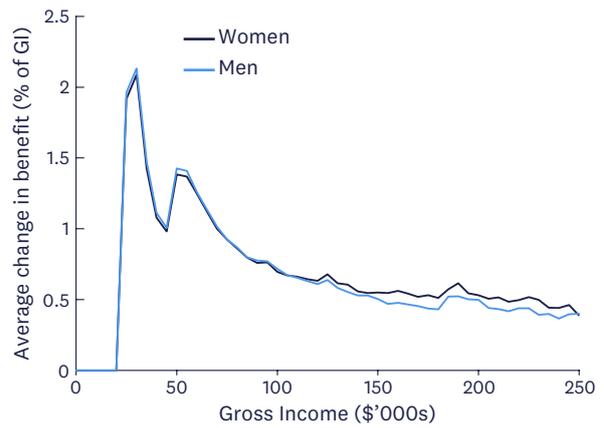


Figure 14 Average tax benefit of deductions today as a percentage of pre-deduction income

Source [ABS](#), Blueprint Institute analysis



Trust and opportunity

The link between societal trust and a resilient society, able to withstand negative shocks, is unbreakable. Indeed, one of the most important predictors of lower COVID-19 cases and death rates is not healthcare capacity or pandemic preparedness, but trust in [“one’s government and fellow citizens.”](#)

Pervasive inequality of opportunity is corrosive to societal trust. If Australians stop believing that society equips them with a fair shot at success, they are likely to splinter into competing factions and direct their anger at society itself.

By contrast, equality of opportunity exists when life outcomes are determined by effort and hard work, rather than place of birth, health, family, or other circumstances beyond one’s control.

The moral case for equality of opportunity is simple—we believe in the equal dignity and potential of all people. Every Australian should have the chance to make the best of their life, and should not be excluded from our national prosperity by disadvantages inherited at birth.

The practical benefits can build resilience into our society. Equality of opportunity ensures more Australians are likely to associate their wellbeing with the survival and success of the nation. It strengthens our willingness to cooperate, trust one another, and adapt, as we share an interest in the preservation of the status quo.

Our experience through the COVID-19 pandemic is a recognisable case study—many of us conformed to painful, extended lockdowns because we trusted that we would have more to gain from a strong and stable Australia than we had in shirking the rules for individual advantage.

What does equality of opportunity currently look like in Australia?

Worryingly, key indicators suggest that equality of opportunity is worsening in Australia. From [2003 to 2018](#), households in the top quintile

increased their assets by \$1.3 million. Over the same period, households in the middle quintile accumulated just \$148,700, and households in the bottom quintile barely increased their net worth at all.

The distribution of wealth is a reliable measurement of equality of opportunity to the extent that wealth inequalities persist over time—in other words, if economic mobility is limited.

In Australia, the Government traditionally supported economic mobility by providing public services like education and healthcare, and maintaining an open and accessible economy, so that all Australians can have a ‘fair go.’ However, inequities in the provision of these services—quality of education, access [to economic opportunities](#), access to [quality healthcare](#), and numerous other factors—combine to create a situation where the top and bottom deciles of the wealth distribution are the [least mobile](#). The wealthy are most likely to stay wealthy, while the poor stay poor.

Evidence shows that the wealthy use their resources to transfer advantages to their children. Wealthy kids in Australia go to [better-resourced](#) schools, while disadvantaged children are [disproportionately](#)—compared to other wealthy nations—concentrated in lesser-resourced schools. In turn, the socioeconomic status of a school is a [reliable predictor](#) of student achievement, as measured by Australian test scores.

This means our publicly accessible education system is not adequately empowering already disadvantaged Australian children to make the best of their lives. And the effects of subpar education carry through to employment and income outcomes.

Empowered population

Our capacity to endure increasing uncertainty and new crises, and maintain the political unity necessary to pursue systemic reforms, is

weakened if a growing volume of Australians feel they have a diminishing stake in the success of our society.

If this trend persists, it will mark a significant turning point as people—especially the young—begin to believe that society is structured in such a way that they [no longer have a fair shot](#) at moving up the economic ladder. Modern Australia has never experienced a political environment in which succeeding generations have a diminishing interest in the status quo. Given the insights from abroad, this is an experience worth avoiding.

To renew and revitalise our nation, we need a united community and an economy that enables all Australians to reach their potential.

Make childcare costs (broadly defined) tax deductible

During the pandemic, parents of young children had an extremely challenging experience as they attempted to juggle their work and childcare obligations in the midst of COVID-19 outbreaks, and [inaccessible and unaffordable childcare](#).

The Government's free childcare program, which lasted three months in 2020, was [welcome](#), if [expensive](#) and temporary. The program recognised an obvious fact—that society and the economy cannot function if parents of young children do not receive adequate support. As we enter the third year of the pandemic with the distinct possibility of future variants—not to mention countless other risks—we owe it to parents to offer them certainty in the form of a permanent solution.

We propose the Government make childcare costs tax deductible to ensure that parents are afforded the opportunity to decide—free of the burden of distortionary tax incentives—the most productive allocation of their time, whether it is work, childcare, or a mix of both.

When a parent looks after their own child in the home, they are both consumer and producer. And they are taxed as neither. When they put their child in formal childcare, however, they pay tax on their own earnings, and the person caring for the child pays tax on their earnings too. This double tax wedge can be enormous—60% on average, but up to 80% for high-income families. With the tax wedge so large, there's no doubt

parental choices are distorted in favour of home care.

When combined with the means-tested nature of the current childcare benefit, the disincentives are weighed even more heavily against productive parents returning to formal employment. Under the Child Care Subsidy, families on the lowest incomes receive an [85% subsidy](#). The rate tapers down to [20%](#) for families earning up to \$353,680 per year, and any family with a combined income over this threshold receives nothing at all. Whilst the Government has [announced](#) the \$10,560 cap on the subsidy will be removed for those earning between \$189,390 and \$353,680, it does not address the employment disincentive entirely.

We know that parental work is [significantly responsive](#) to changes to the cost and reward of paying for childcare. [Forty-five percent](#) of women in Australia say that they would work more if childcare was more affordable. When a secondary earner (or a single parent) currently returns to work or increases their hours, the [financial return may be negligible](#) or non-existent.

The effective marginal tax rate on secondary earners can approach [100%](#), particularly when work exceeds three days a week. Women, of course, bear the brunt of this burden. Parents who stay at home for longer periods erode their [human capital](#). And the longer a person is out of the workforce, the [less likely](#) it is that they will be able to find a job. If that is their choice, then so be it. But the system should not force them into it. Again, the goal should be neutrality.

The Government should classify childcare costs as a legitimate work-related tax deduction, so that childcare is treated like any other expense necessary to generate income—which, of course, it is. Australia's loose deductible expense rules enable people to reduce their tax burden by buying computer monitors or cars they do not really need. We should afford childcare the same. While this policy will reduce tax revenue, its benefits—greater choice, affordable childcare, empowered parents, and higher productivity—greatly outweigh its costs.

This recommendation only solves part of the problem—access to childcare. We do acknowledge that the quality of provision is [equally as important](#). Blueprint will be further

examining how the quality of childcare provision can be improved across the board in upcoming research.

Introduce true unemployment insurance—JobMatcher

Australia does not have true unemployment insurance. Instead, what we have is a universal, flat, and very low rate of unemployment benefit. We lump together the short- and long-term unemployed to create a one-size-fits-all approach that suits nobody well, and leaves the Government hamstrung—trading off living standards and work incentives.

This is in stark contrast to other advanced nations. All other OECD countries, other than the UK, Ireland, and New Zealand, offer a high, fairly generous, and time-limited initial payment—usually a portion of the former wage—that reverts to a lower rate at a later date. The initial high rate helps people weather the temporary income shock of sudden unemployment and provides them ample time and opportunity to search for a job that is right for them and their employer.

On the other hand, Australians experiencing short-term unemployment currently receive the lowest unemployment benefit relative to the average wage in the OECD, while support for the longer-term unemployed is closer to the average. The Government could get the right workers into the right jobs by introducing a generous, time-limited unemployment payment we call [JobMatcher](#) (Figure 15).

JobMatcher would pay newly unemployed people 70% of their previous wage for six months, providing more time for people to find the right job for them, rather than just the first one that comes along. After this six-month period, unemployed Australians would continue to be supported by the JobSeeker payment.

This would give financial security to people experiencing sudden or persistent unemployment, and in turn, increase their opportunities to access economic mobility. It would equip more people to take risks, start a business, explore entrepreneurial opportunities, and find a job that matches their skillset.

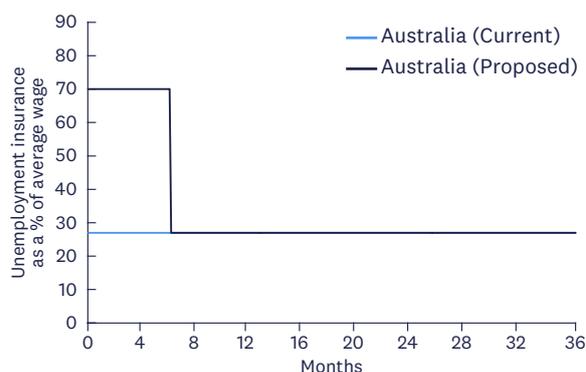


Figure 15 Blueprint Institute’s proposed JobMatcher scheme

Source [OECD](#), Blueprint Institute analysis

The policy would be budget neutral and paid for as true insurance. The Government would charge workers an annual ‘JobMatcher Premium’—about one percent of their income—which would fully fund the scheme (see Figure 16). Importantly, a higher initial payment would boost job-match quality, productivity, worker retention, innovation, and wages.

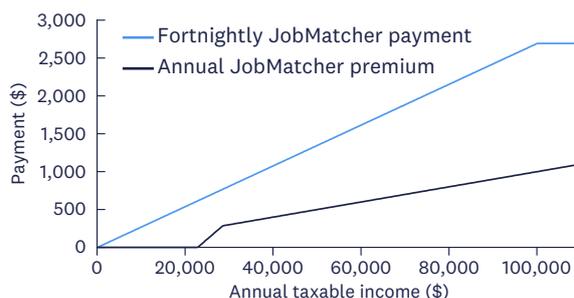


Figure 16 JobMatcher Premium and payments at different income levels

Source Blueprint Institute Analysis

Create school-industry partnerships

Our education system offers very strong pathways into university for school-leavers. It is effectively drilled into students from the moment they enter high school. Most students have a clear idea of the ATAR they need to enter a range of different university courses, and the Year 12 curriculum is effectively structured to prepare high school students for university learning.

However, a significant proportion—**40%**—of school-leavers do not attend university. For the students who do not aspire towards tertiary education, the default focus on funnelling students toward university comes at a cost to their future prospects, as they are not afforded

the same easy and informed access to vocational education and training (VET) opportunities.

What’s more, those with the drive and initiative to do their own research and push through the barriers to gain access to VET are not rewarded with skills that match industry demands. Less than [18%](#) of people who engage with the VET system are employed at a higher skill level after training.

The lack of attention paid to the 17- to 20-year-olds who do not attend university is a key factor behind the [overrepresentation](#) of young people in our national underemployment and unemployment figures. We can and should better equip young Australians with the skills to realise the full range of opportunity available to them in the economy.

The Federal Government should bring states together through the National Cabinet and incentivise them to adopt recommendations similar to those made in the 2021 [Gonski-Shergold report](#) commissioned by the NSW Government. This includes improving strategic and purposeful industry engagement in VET through school-industry partnerships so that employers can have a more influential role in planning and designing relevant educational and training courses, thus ensuring that VET attendees leave with the skills necessary to access greater opportunities.

Affordable housing

Wealth has become disproportionately concentrated among older generations, limiting many young Australians from accessing a ‘fair go.’

A significant contributor to growing generational wealth disparity is that younger Australians are being excluded from the excess returns older generations continue to make on housing. Home ownership has become the exclusive wealth vehicle of older generations, challenging equality of opportunity in our economy (see Figure 17).

While Australia’s overall home ownership rates have hovered at about [70%](#) since 1961, the rate for people aged 25–34 has fallen from a peak of 61% in 1981 to 44% as of 2016, the most recent census.

Extremely strong [growth](#) in house prices since the 1990s has made homeownership a pipe dream for many young Australians. Older generations have inflated entry level prices by buying up the nation’s housing stock and making it [difficult](#) to build new houses, limiting new supply that could place downward pressure on prices. In turn, younger generations have been forced to keep on renting—transferring further wealth from the young to the old.

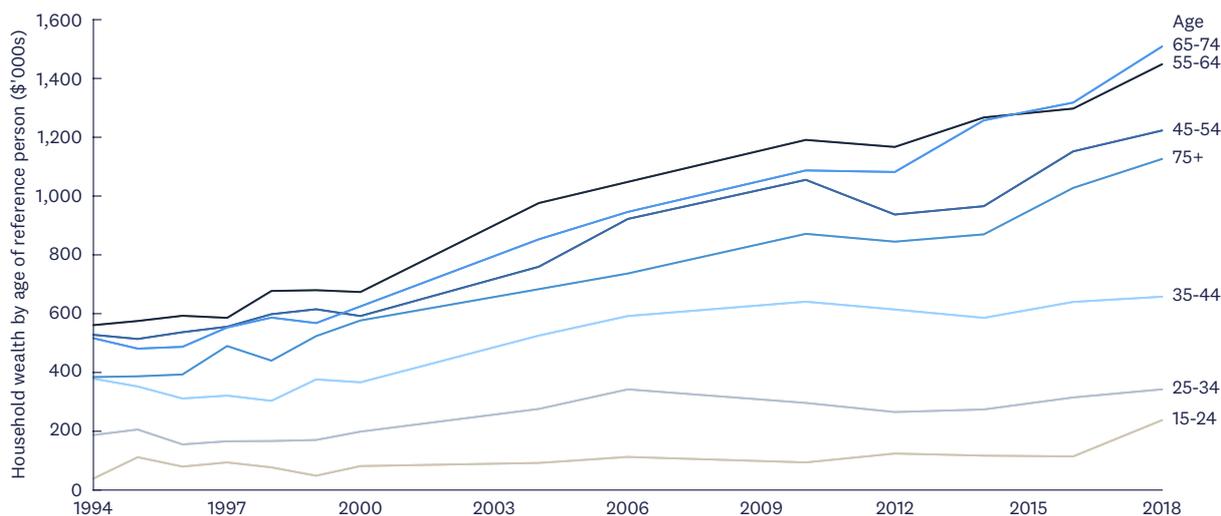


Figure 17 Household wealth by age (1994–2018)

Source [ABS](#), [ABS](#), [Australian Institute of Health and Welfare](#)

Housing has transformed from a consumption industry, where each homeowner buys for their needs and generates financial security from enhanced savings and reduced living expenses, to a speculative one where housing is, for many buyers, an investment good. Fiscal settings such as negative gearing and our tendency to avoid taxing capital gains, alongside low interest rates, have supported this change.

Most of the [wealth gains](#) during the pandemic have been contained to residential housing assets. Given that barely [37%](#) of 25- to 34-year-olds own a home, compared to 72% of 45- to 54-year-olds and 78% of 55- to 64-year-olds, the pandemic has reinforced longer-term trends towards worsening generational wealth disparity.

Affordable housing is critical if we are to ensure all Australians can participate fully in the economy. High housing costs and unaffordable house prices weaken labour mobility—it limits the opportunities for workers in less-productive regions to relocate to centres of growth where housing prices tend to be higher. For equality of opportunity, we need a housing market that empowers people to move between local economies where they can make the best use of their skills.

For those younger Australians who have managed to buy a home, an [increasing volume](#) are relying on the “bank of mum and dad” to finance their first home purchase. The challenge for equality of opportunity is obvious—if one’s parents have not owned a home and benefited from the associated wealth gains, their children are unlikely to do so as well. As RBA assistant governor Luci Ellis recently [warned](#), “People whose parents rented are going to be in a much more difficult situation to actually get into housing themselves.”

This [growing link](#) between parental wealth and homeownership diminishes the ability of each Australian to build economic security from their own efforts and talents. There is nothing strong and sustainable about a society in which life outcomes are determined more by inheritance than each citizen’s own contribution.

End the capital gains tax concession for housing

To encourage home ownership, owner-occupied homes are [indirectly subsidised](#) by the Government through main residence exemptions on capital gains tax. Capital gains on investment homes also receive a [50% discount](#) on capital gains tax if held for more than 12 months.

Although designed to combat the country’s housing crisis, this policy is decidedly unhelpful, particularly for those in lower income brackets. Those in the top 20% of household incomes receive around [82%](#) of the benefit from the capital gains tax discount. Only 14% of the concession is accessed by the bottom 70% of household income brackets.

Aside from the distributional effects, it is counterproductive in a housing affordability crisis to encourage more capital and demand to flow to housing through a tax concession. It is a distortionary concession that provides opportunities for [tax sheltering](#).

This ineffective policy comes at a massive cost to taxpayers. In fact, the main residence capital gains discount is the most expensive concession the country offers, with the Government forgoing [\\$55 billion](#) in revenue in the 2020–21 financial year, which is expected to increase to \$64 billion this financial year. Ending the capital gains tax exemption for housing would have [little impact](#) on lower-income households, but it would hand a much-needed boost to government funds, which could be utilised to relax tax rates on more productive aspects of the economy, which is of benefit to everyone.

Federal-led housing market reform

One of the complexities around housing policy reform is that many important policy levers sit at the state and local government levels. A patchwork of regulations and distortions are reducing housing supply, mobility in the housing market, and labour mobility in the economy.

This is not a reason for the Federal Government to avoid championing two necessary reforms. Specifically, the Federal Government should bring state and local governments together and strike a grand bargain to replace stamp duty and reform zoning regulations at the state and local level in exchange for revenue from a broad-based land tax, which we advocated for in the previous section, administered at the federal level.

A key responsibility will be to allay state government concerns over revenue stability. This can be done by substituting the variable proceeds from stamp duty with stable and consistent revenue from a broad-based land tax, as we advocated earlier.

1. End stamp duty

Logically, the surge in home prices escalating across the country goes hand-in-hand with a jump in stamp duty costs. But this relationship is not linear—stamp duty costs have also risen as a percentage of median property prices in the [last decade](#), placing a significant burden onto the shoulders of both sellers and buyers in the property market. For many, it is the final barrier to transitioning to a more well-suited home.

Abolishing the tax would have beneficial short- and long-term effects on our ever-tightening property market. A 2021 proposal from the New South Wales Government to replace stamp duty with a smaller, annual tax in perpetuity, for example, would potentially see house prices reduced by [four percent](#) and increase home ownership in the state by six percent. In areas most affected by the housing crisis, the

productivity benefits are expected to be around [30 times](#) higher than the cost of removing stamp duty, meaning more jobs and greater increases in wages. Axing stamp duty would put money directly into people’s pockets over the long term.

As a major source of state revenue, simply abolishing stamp duty is almost unimaginable. But it can be replaced with less-distortive taxes that do not lock Australians out of home ownership. Economic rents can be eliminated through taxing the value of unimproved land without the same distortions from stamp duty or income taxes. As we proposed in the prior section, an annual land value tax could simultaneously replace stamp duty revenue and improve the efficiency of the tax system.

2. Address zoning regulations to expand supply

Much of Australia’s housing crisis can be blamed on a ‘missing middle’—a gap in housing between high-density living and detached family homes (Figure 18). A lack of housing diversity widens the [wealth divide](#) by [pushing key workers](#) and hopeful homeowners to the city fringes.

For many, their options become long commutes to work or giving up their dream of home ownership. Some governments are filling this gap better than others. With their [Low Rise Housing Diversity Code](#), the New South Wales Government addresses the needs of a changing population, whereas Brisbane City Council has caused a stir by [banning townhouses](#) in low-density suburbs to ‘save the backyard.’



Figure 18 The “missing middle” of Australia’s housing market

Source [New South Wales Government](#)

If we hope to address this issue, we need to start by reforming zoning laws. Not only do these laws often restrict the development of mid-tier density housing, but they are also partly responsible for the sustained inflation of housing prices across the country. As of 2016, zoning restrictions raised the price of detached housing by [73%](#) above marginal costs in Sydney, and 69% in Melbourne. As demand increases, this effect only worsens.

Zoning laws are determined at state and local levels and vary widely, meaning each jurisdiction needs to be considered separately. To achieve this, the Federal Government should form an oversight committee with the intent of filling the 'missing middle.' Housing affordability is a complex challenge, and there is no single solution. But after decades of ineffective housing affordability policy, it is time to get this right.

