ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA

AUGUST 2020

2020-21 PRE-BUDGET SUBMISSION

ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA SUBMISSION TO:

THE TREASURY

ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA

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24 August 2020

The Hon Michael Sukkar MP
Minister for Housing and Assistant Treasurer
Parliament House
CANBERRA, ACT 2601

By email: prebudgetsubs@treasury.gov.au

Dear Assistant Treasurer,

Re: Pre-Budget Submission from the Academy of the Social Sciences in Australia

The Academy of the Social Sciences in Australia welcomes the opportunity to contribute to the identification of priorities for the 2020-21 Federal Budget.

Rightfully, this Budget will focus on supporting recovery of Australian businesses and individuals from the ongoing impacts of COVID-19. Our Academy commends the Australian Government on its economic, social and public health response thus far, and supports the need for continued stimulus at scale for as long as required to see Australia through the worst impacts of the crisis.

The Academy of the Social Sciences in Australia has also contributed to the development of a joint submission from the Australian Council of Learned Academies regarding the need to increase support for early- and mid-career researchers over the coming years. We fully endorse this joint submission.

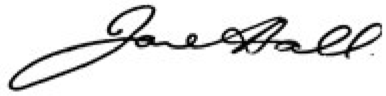
The following recommendations draw on the work of the Academy's expert Fellowship, who stand ready to work with Government to provide further input and advice regarding these measures.

Recommendations

1. Support young Australians entering the labour market during the COVID-19 recession through policies to maintain their connection to the labour market and build human capital (without imposing extra debt)
2. Introduce revenue-contingent loans to help businesses and households affected by the COVID-19 recession and 2019-20 bushfire crisis, and to incentivise start-ups and SMEs to collaborate with university researchers
3. Establish an independent income support commission to set the rate for JobSeeker and other income support payments before the Coronavirus Supplement is phased out
4. Support the Australian Council of Learned Academies to develop an Australian Energy Transition Research Plan
5. Extend financial support to Australian universities to ensure they maintain world-class teaching and research capacity until the international student market recovers
6. Enhance the accessibility and use of public sector data by researchers to facilitate and enhance research that advances Australia's national interests.

The Academy would welcome the opportunity to further discuss these proposals.

Yours sincerely,



Professor Jane Hall FASSA FAHMS
President

Recommendation 1*:* *Support young Australians entering the labour market during the COVID-19 recession through policies to maintain their connection to the labour market and build human capital (without imposing extra debt)*

The COVID-19 recession will exacerbate the already difficult conditions experienced by 15 to 24-year olds in the Australian labour market. Evidence from past economic downturns suggests many of the young Australians graduating during a recession will experience lasting negative impacts on their economic wellbeing, typically earning less and working less than those graduating in better years. [1, 2, 3]

The Academy strongly recommends that the Australian Government consider policies to support this group to maintain a connection to the labour market or build human capital through education and training (without imposing extra debt), which will be critical to avoiding negative and persistent social impacts in the years to come.

Recommendation 2*:* *Introduce revenue-contingent loans to help businesses and households affected by the COVID-19 recession and 2019-20 bushfire crisis, and to incentivise start-ups and SMEs to collaborate with university researchers.*

The Academy recommends that the Australian Government consider revenue-contingent loans as an efficient means of delivering financial support to businesses affected by the economic downturn, and to those seeking to invest in new R&D, particularly in collaboration with universities. Such a scheme would not only support strong and viable businesses and their employees to effectively weather the downturn, but would promote new investment in innovative products and services as the economy transitions.

Contingent public finance is not a new concept;[4] with the best-known example being Australia's Higher Education Contribution Scheme (HECS) through which repayments are tied to the individual's future wages or salary. Unlike HECS, revenue-related loans to businesses would be repaid as a proportion of gross business revenue and collected by the Tax Office through the

[1] Reference: https://treasury.gov.au/sites/default/files/2020-06/p2020-85098-202006.pdf
[2] Reference: https://www.pc.gov.au/research/supporting/jobs-ladder
[3] Reference: https://drive.google.com/file/d/1p8AuGhqj5pBXDtJrqtMUJVd67peadQY5/view
[4] See for example Chapman, B. 2006. *Income-contingent loans as public policy.* Available: https://socialsciences.org.au/wp-content/uploads/2017/03/2006_No2_Income_contingent_loans.pdf

Business Activity Statement. This would make such a scheme extremely efficient in public sector administrative terms.

Such a scheme would allow the Australian Government to provide additional support to affected businesses by means of a loan, and Government could expect to recoup all or most of its investment for other purposes, including future economic stimulus.

Specific policy considerations and examples of how revenue-contingent loans can be applied to the bushfires context is enclosed with this submission, and the COVID-19 context is available here.

Recommendation 3: *Establish an independent income support commission to set the rate for JobSeeker and other income support payments, before the Coronavirus Supplement is phased out.*

Prior to the introduction of Coronavirus support measures in March 2020 there had been no legislated changes to JobSeeker (formerly Newstart) rates in over 20 years.[5] While the Academy commends the Government's swift economic response to assist existing income support recipients and newly unemployed people during the COVID-19 pandemic, these measures are currently time-limited.

The recent Senate Community Affairs References Committee's inquiry into the *adequacy of Newstart and related payments and alternative mechanisms to determine the level of income support payments in Australia*, recommended for Government to collaborate with academic experts and the community sector to set a national definition of poverty [*Recommendation 1*] and to increase income support payment rates to ensure all eligible recipients do not live in poverty [*Recommendation 27*]. The Academy strongly supports these recommendations.

The Academy recommends that the Australian Government establish an independent commission to determine rates of payment and indexation for JobSeeker and other income support schemes. Such a commission should be resourced to work with leading experts to determine payment levels that balance incentives to work with dignity in living standards, while also minimising the risk of social isolation, adverse health outcomes and psychological harm to recipients and their dependents.

Recommendation 4*:* *Support the Australian Council of Learned Academies to develop an Australian Energy Transition Research Plan*

The Academy recommends the Australian Government contribute to the development of an Australian Energy Transition Research Plan that has been initiated through the Australian Council of Learned Academies (ACOLA).

The objective of this plan is to identify and promote research priorities that will be critical for a successful Australian energy transition to net zero emissions by 2050 or before. This plan will identify knowledge gaps and research funding priorities, and facilitate the collaborations across universities, industry, and other research organisations that are best positioned to address them. In doing so, it will provide the best and most efficient allocation of effort and resources on the part of Australian governments and industry as we transition to new and upgraded energy infrastructure over the coming decades.

[5] Reference: https://theconversation.com/election-factcheck-qanda-is-it-true-australias-unemployment-payment-level-hasnt-increased-in-over-20-years-59250

This project has been initiated by ACOLA, guided by a steering committee chaired by Drew Clarke AO PSM, Chair of the Australian Energy Market Operator and former Secretary of the Commonwealth Department of Resources and Energy. It has already consulted widely with energy companies and government agencies, research organisations and community stakeholders and secured in-principle commitments of support to progress the plan.

An investment over three years by the Commonwealth Government will ensure the development of a high-level fit-for-purpose road map that will guide and inform Australia's energy futures for decades to come.

Recommendation 5: *Extend financial support to Australian universities to ensure they maintain world-class teaching and research capacity until the international student market recovers.*

Disruption to the international student market – Australia's fourth largest export earner in 2019 – has had a significant impact on the viability of the majority of Australia's 41 universities. Specifically, international student fees across institutions amount to almost $9 billion per annum; over 25% of gross revenue.[6] The sharp reduction in international student enrolments and slow prospects of recovery mean that universities are having to take dramatic cost saving measures.

These measures are resulting in significant loss of highly experienced teaching and research staff, and threaten real and long-term damage to the capacity of Australia's higher education sector to recover its standing as an international study destination of choice, and its ability to deliver high-quality research and education outcomes to Australians.

The Academy strongly recommends that Government include the university sector in eligibility for future stimulus and support measures designed to minimise the impact of the economic downturn on businesses and industries that are critical to our national future.

Recommendation 6: *Enhance the accessibility and use of public sector data by researchers to facilitate and enhance research that advances Australia's national interests.*

Australian Governments collect and store a vast amount of data on individuals and public services that has the potential for use by researchers to inform and drive significant gains in national productivity, health, and wellbeing.

The Academy strongly supported the proposals outlined in the *Data Sharing and Release: Legislative Reform Discussion Paper* and recommends that these proposals are implemented in full.

About the Academy of the Social Sciences in Australia

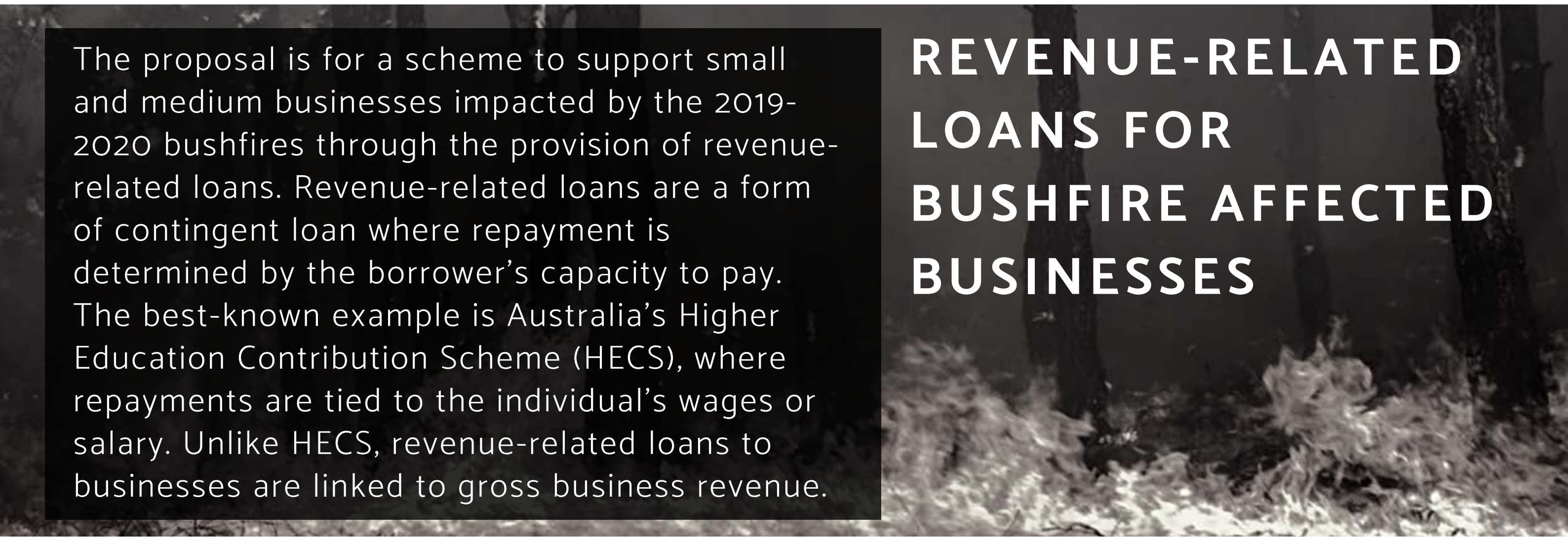
The Academy is an independent, not-for-profit organisation comprising an elected Fellowship of almost 700 leading social science researchers. The Academy draws on the expertise of this Fellowship to provide practical, evidence-based advice to governments, businesses, and the community on important social policy issues. The Academy actively promotes understanding of the social sciences and champions excellence across its many fields of learning and inquiry.

[6] Reference: https://franklarkins.files.wordpress.com/2020/08/shortfall-in-university-research-funding-1.pdf

Revenue-related loans for bushfire affected businesses

UNIVERSITY OF CANBERRA

ACADEMY OF THE SOCIAL SCIENCES IN AUSTRALIA



REVENUE-RELATED LOANS FOR BUSHFIRE AFFECTED BUSINESSES

The proposal is for a scheme to support small and medium businesses impacted by the 2019-2020 bushfires through the provision of revenue-related loans. Revenue-related loans are a form of contingent loan where repayment is determined by the borrower's capacity to pay. The best-known example is Australia's Higher Education Contribution Scheme (HECS), where repayments are tied to the individual's wages or salary. Unlike HECS, revenue-related loans to businesses are linked to gross business revenue.

Advantages for government
As a loan (rather than a grant), the scheme will allow Government to be generous in responding to the needs of affected businesses without significant impact on the budget. Government could expect to recoup all or most of its investment for other purposes, including future disaster relief.

The use of a contingent loan minimises the requirement for new administrative systems as repayments are calculated, collected and enforced with high efficiency by existing ATO systems.

Other schemes which involve the ATO in the collection of money from taxpayers, such as the Child Support Scheme and HECS, have demonstrated that their administration is very low cost.

Advantages for businesses
Minimal eligibility criteria will allow business owners the freedom to access the loans for the purposes they judge to be best for their individual business needs. For some businesses, this may include debt reconstruction to minimise the hardship associated with repaying loans against destroyed or damaged assets. The risk of the money being "wasted" or spent inappropriately is offsetby the fact that it will need to be repaid irrespective of the purpose on which it was spent

<u>POLICY DESIGN CONSIDERATIONS</u>

Coverage
- This scheme could either be rolled out nationwide or piloted in a single geographic area (for example, East Gippsland) with alternative forms of support offered elsewhere.
- Alternatively, the scheme could be targeted at those businesses with highly variable, seasonal revenue flows – for example the tourism and tourism-related industries.
  - For industries that rely on a few months of very high turnover to survive, this type of loan will be far easier for businesses to manage than a conventional loan that requires regular repayments of a fixed amount.
  - An important characteristic of contingent loans is their contribution to income-smoothing. By requiring lower absolute repayments in times of lower income/revenue, the potential for hardship or default is greatly reduced.

Amount
- The amount of the loan could be capped (for example, at $100,000) or it could vary by business type and/or past revenue performance.
- For some businesses where the impact has been mostly on cash flow as a consequence of reduced activity, the amount may be quite small.
- For those where there is a need to rebuild/purchase business assets, plant, or equipment, more will be required
- An appropriate cap on the loan could be applied based on the size of the businesses being assisted

Eligibility
- SMEs that can demonstrate bushfire impact
- Any business-related expenditure

Repayment mechanism
- Quarterly through the Business Activity Statement (BAS)

- In the event of bankruptcy:
  - The balance of the loan or a proportion would be paid by the receiver or liquidator to the government.
- In the event of the sale of the business:
  - Balance of the loan reverts to an income-contingent loan against the Tax File Number (TFN) of business owners or, if a condition of sale, the loan would be paid out, retained by the original owner or transferred to the new owner
  - Need to attach all related TFNs to the ABN and/or ACN. For example, businesses operating through a partnership would need to have both their TFNs attached to the partnership ABN
- In the event of the death of the business owner:
  - Any existing debts would be paid by the executor. For example, the business could be sold by the executor and the proceeds would be used to repay the loan, or the loan could be forgiven if there were insufficient funds in the estate.
- Reconstitution of a partnership:
  - In the event of the admission of a new partner or the retirement of partner, a new partnership is formed.
  - When admitting a new partner, the TFN of the new partner and the remaining partners would be attached to the ABN carrying the loan.
  - In the event of a retiring partner, the TFN of the retiring partner would be removed and the remaining partners would be liable for the debt.
- Sale of businesses operating through Proprietary Limited Companies:
  - The TFNs of shareholders would need to be linked to the ABN and ACN
  - When a shareholder sells their share/s, the loan could either be attached to the TFN of the new shareholder or the exiting shareholder would either payout their portion of the loan or retain the debt.
  - Likewise, new shareholders would need to be linked with the ABN and ACN
- Multiple ABNs/ACNs through related businesses would need to be linked to the TFNs of the owners/loan recipients

Level of repayment

- Repayment could either commence immediately or after a grace period, e.g. 1-2 quarters
- There would be no repayment threshold. As repayments are related to revenue, in very low-income periods only a very small amount would be collected, increasing in absolute terms as the business recovers.
- The optimal repayment rate would need to be modelled using historical ATO data to assess the impact on businesses
  - 5% of gross revenue is suggested as a starting point but further modelling is required using ATO data
- An implicit subsidy could be provided by making the loan interest free, or tied to CPI as is the case with HECS.

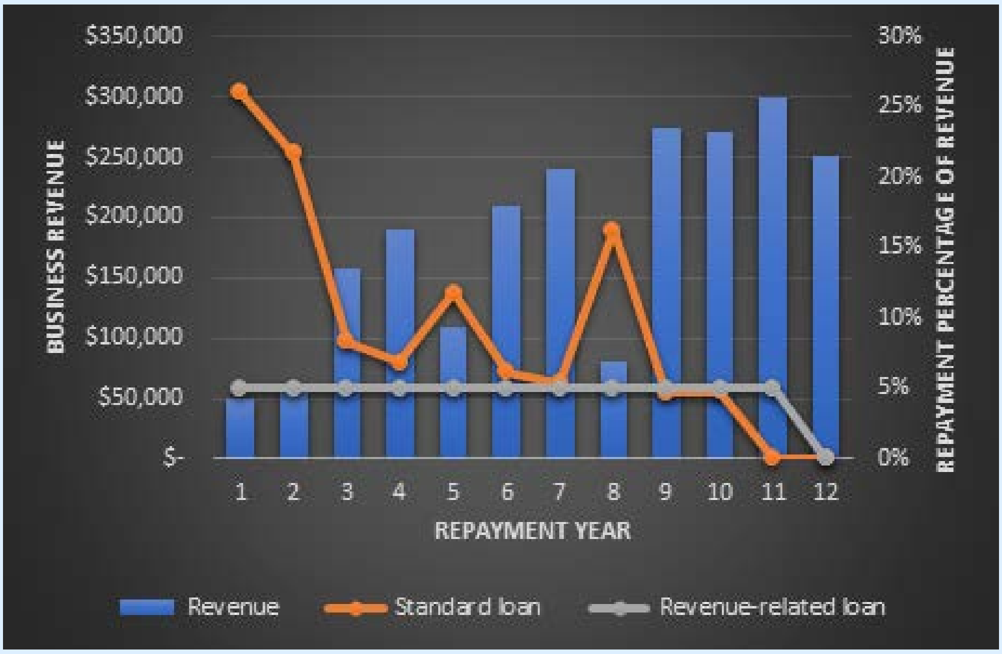


Figure 1: Standard vs revenue-related loan repayments as a percentage of revenue for a $100,000 loan indexed at 3% (revenue-related) compared to a 10-year unsecured small business loan at 10%.

FURTHER INFORMATION

Botterill, Linda, Bruce Chapman, and Simon Kelly. 2017. "Revisiting Revenue Contingent Loans for Drought Relief: Government as Risk Manager." *Australian Journal of Agricultural and Resource Economics* 61 (3):367-384.

- Includes modelling of the proposed drought revenue contingent loan

Chapman, Bruce, Linda Botterill, and Michael Egan. 2004. "Income Related Loans for Drought Relief." *Centre for Economic Policy Research* Discussion Paper No 472. https://ideas.repec.org/p/auu/dpaper/472.html

- For discussion of design issues to avoid problems of moral hazard and adverse selection
- Also includes examples of modelling of the impact of a revenue-contingent loan on government revenues

Chapman, Bruce. 2006. *Government Managing Risk: Income contingent loans for social and economic progress*. London: Routledge.

- Theory and practice of revenue contingent loans

Chapman, Bruce, Timothy Higgins, and Joseph E Stiglitz, eds. 2014. *Income Contingent Loans: Theory, Practice and Prospects*. New York: Palgrave McMillan.

- Theory and practice of revenue contingent loans

Cockfield, Geoff, Linda Courtenay Botterill, and Simon Kelly. 2018. "A prospective evaluation of contingent loans as a means of financing wild dog exclusion fences." *The Rangeland Journal* 40:591-601.

- Example of adaptation of revenue contingent loans to alternative policy applications