EMBARGO: 11.59pm, Friday 4 September 2020

Business Council of Australia

SUBMISSION

Budget Submission 2020-21
The Road to Recovery

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CONTENTS

FOREWORD

We believe in a strong Australia that is fair, inclusive, outward looking and prosperous.

A country with an abundance of opportunities for people to be their best, to get ahead and be successful.

A nation that gives those who have lost their jobs every chance to get back into work; ensures people can access the skills they need; and looks after its citizens, especially the most vulnerable.

A country that can create the new jobs that will be needed as technology and innovation transform our economy.

Secure, meaningful and rewarding jobs are crucial to a growing economy which is the bedrock of our future. Secure and meaningful work is the essential ingredient for people to realise their potential and lead fulfilling lives of dignity and purpose.

Unprecedented levels of cooperation have guided the health response to the COVID-19 pandemic. This must now be translated into a unity of purpose around a jobs-led, economic recovery.

We cannot standstill and wait until the health crisis has been completely resolved before we begin rebuilding. Measures to manage the virus need to continue as we reopen the economy, beginning with the easing of domestic border restrictions.

Business is part of the fabric of the community and alongside keeping people safe, our top priority is job creation. It is our core responsibility to Australians.

The task is massive and we need to generate about 1.5 million jobs, replacing those that have been lost during the pandemic and those needed to respond to technological change.

Business is up to the task. Business wants to invest, expand, innovate, create, export and compete with the rest of the world again. We want to employ more people, pay higher wages and contribute more to government revenue, shareholder returns and superannuation balances. Just as people want to be better off by working, saving and investing in their families and future.

By removing the obstacles and disincentives that make it harder to do business here, we can stop holding Australia back and meet the challenges we face.

Australia has weathered the global downturn better than most and this should give us hope. We can be confident of reversing the tide.

This budget is the first of a decade-long recovery process.

Over the preceding decade, a strong budget has been one that worked to come back into balance following the GFC induced deficits. In these extraordinary times, we need to reappraise our definition.

For the next three to five years, we will need to learn to live with debt, but only where it is an investment in rebuilding our economy and society.

During the emergency response to the pandemic, fiscal support held the nation together.

From now on, every dollar we spend should move the country forward and be guided by these overarching principles – is it creating jobs and is it solving a competitive weakness or a social problem and setting us up for the future?

Ours is an ambition to transform the nation, making it more competitive and attractive to investment, developing the skills of Australians and setting us up to be the world's leading digital economy. We must be considered, but also move decisively and boldly. A tectonic shift is underway, creating opportunities for other countries to attract and build new industries and businesses. To stand still, go slowly or move incrementally, is to lose ground.

These extraordinary times require us to reaffirm the strengths that have underpinned our proud record as a country: an open economy, immigration and strong institutions. They also require us to fully embrace a growth agenda by taking calculated risks and developing the new capabilities that will springboard our success.

Our policy and spending decisions should meet the twin objectives of getting people back to work and positioning our country for a stronger future.

So, our personal income tax system should better encourage people to work, save and invest and the company tax system needs to incentivise investment, employment and expansion.

Our power should be more affordable and reliable while we transition to a more carbon efficient economy. Congestion can be reduced in the cities while growing the regions, closing the geographic divide.

Our infrastructure needs to create jobs while also enabling growth, making it easier to do business, go about our lives and address problems such as social housing. We also need to drive the industries of the future.

Careful and targeted spending to support and create jobs while firming the nation's foundations puts us on the road to recovery. More people working, businesses investing and projects underway equals increased activity that generates greater government revenues and faster economic growth.

We believe the merits of this budget should be judged by its ability to instil hope, inspire confidence, ignite aspiration, address disadvantage and ultimately strengthen the country and move it forward.

Jennifer Westacott AO, Business Council of Australia Chief Executive

Tim Reed, Business Council of Australia President

Alison Watkins, Chair of the Business Council's Economic Policy and Competitiveness Committee

OVERVIEW

The Australian economy – where are we now?

Australia is not alone in this crisis. We are in the midst of a global pandemic that has created a global recession. And the geopolitical environment has become more challenging.

We have never before seen a crisis like this one. But Australia has performed well in the face of other global crises because our fundamentals are good. We are an open economy with a wealth of natural resources, strong institutions, a well-educated population and social cohesion. Our experience in managing the COVID crisis remains relatively successful compared with other countries.

Our strength and resilience has helped us in the past but responding to the current crisis will need us to build on those strengths and consider new strategies. We are the lucky country but we have to make our own luck, now more than ever.

We have to position ourselves to compete in a more challenging world and seize the opportunities it presents. We can do this, but it requires change. Business as usual will not cut it. We need to reopen policy debates that have been put in the 'too hard' basket if we are to create the conditions to compete and unlock our potential.

We need to get in front of the world, not fall behind. The cost of inaction is high and the largest cost will be lost jobs. There are already 1 million people out of work and nearly 1.5 million on JobSeeker. If we don't act now more people will be out of work for longer.

We face the triple challenge of managing the health crisis to enable the release of constraints on the economy, rekindling confidence and demand, and taking the decisions now that create the kind of economy that will guarantee longer term prosperity.

Business is ready to get on with the job of recovery. This submission sets out our plan for economic recovery and a stronger economy on the other side of the crisis.

Business is adapting

2020 has been a challenging year for everyone as the impacts of COVID have been felt through the entire community. Business has worked hard to maintain a connection to its workforce, with the assistance of JobKeeper support and through business committing its own resources through the provision of direct support such as pandemic leave.

Business has adapted workplaces to be COVID safe and redirected activity to support the health response through the production of masks and protective equipment. It has dealt with the uncertainty of lockdowns and safeguarded supply chains – keeping food on the shelves. Many businesses have had to pivot towards more digitally based operational models.

Around 911,000 loans worth around $274 billion have been deferred by Australia's banks, around 10 per cent of the value of loans. Utilities and other businesses have dramatically expanded hardship programs and rents have been renegotiated across the economy.

Many of these challenges remain and business will continue to play its part in supporting the community. We are ready to get on with the recovery task.

Recovery can't wait until the virus has been eliminated. We will need to learn to live alongside it for a period, possibly an extended period. The rest of the world is moving back into gear and Australia can't sit in the slow lane.

The business community wants to work with National Cabinet to drive a practical and predictable response to outbreaks so we can get the economy moving again while keeping the community safe. Businesses are struggling to rekindle the activity needed to save jobs under the weight of continued restrictions and in the face of uncertainty about what governments are trying to achieve. Most businesses have seen falling profits in this reporting season, with around 70 per cent of major listed companies reporting flat or negative profits.

Moving on from emergency measures

Government support is still needed but needs to switch to the task of job creation.

Every month of delay puts us further behind and is a lost opportunity. Every month of delay comes at a huge economic and fiscal cost. We lose more than $8 billion in economic value every month the international borders are closed and for each month of restrictions the Government spends around $12 billion on JobKeeper.[1]

Government borrowing is already expected to grow by nearly 20 per cent of GDP by June 2021 and could expand a further 10 per cent of GDP per annum if current levels of fiscal support continued. And this fiscal support is being provided just to stay still. This can only be a short-term strategy as debt driven growth will over time create debt levels that are difficult to sustain.

Fiscal policy needs to pivot from emergency support to recovery. One month of JobKeeper payments could fund a year of tax reform. That reform would support sustainable jobs.

Government restrictions are impacting markets for goods and services. The services sector, which accounts for 70 per cent of economic activity and is the major employer, is constrained by restrictions to reduce the spread of COVID. The Government is underwriting large parts of the labour market and providing a backstop to the financial sector. We need to transition back to a private economy.

An unprecedented level of fiscal support has been provided to support the economy through the crisis. This support is all the more important with support from monetary policy largely exhausted. Fiscal responsibility in this context is about supporting recovery not pursuing a return to surplus in the short term.

While this support should not be removed too rapidly, ultimately there are fiscal constraints and growth will need to come from the private sector. Fiscal support is needed to kickstart the economy but this needs to be targeted in a way that lays the groundwork for structural improvements. This will set a path for sustainable growth on which fiscal repair can be built. Every dollar spent now must help create jobs and contribute to solving a longer-term problem.

The Jobs Challenge

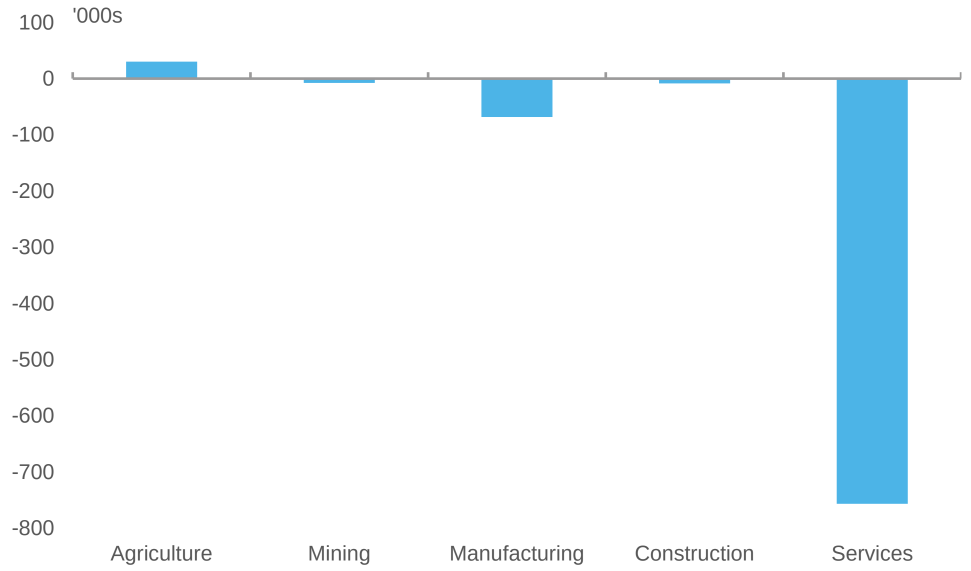
Official forecasts suggest an unemployment peak of around 1.3 million people. With usual labour force growth and the need to transition away from JobKeeper the number of jobs that

[1] EY Analysis 2020, The role of aviation in Australia's economic recovery.

need to be created to return to normal conditions will be around 1.5 million. As a matter of urgency, we need to create new jobs, get people back to work and get businesses up and running again.

The services sector accounts for nearly 80 per cent of Australian jobs and has accounted for 93 per cent of the jobs lost during the peak of the crisis.

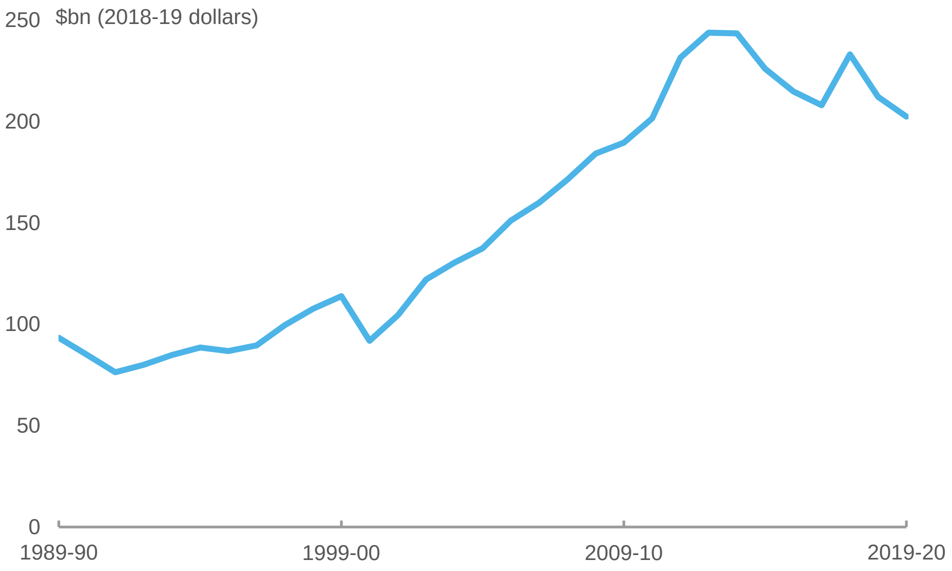
Figure 1: Job losses through the crisis (February to May 2020)



Source: ABS cat. no. 6291.0.55.003.

The construction sector is the next largest employer in the economy accounting for nearly 10 per cent of the workforce but it has experienced far fewer job losses to date. However, recent weakness in construction activity means many of these jobs are at risk.

Figure 2: The value of construction work done is at its lowest level in almost a decade



Source: ABS cat. no. 8755.0.

Policy measures to bring back jobs need to take account of where the jobs have been lost or are at risk. Jobs in the services sector will depend first and foremost on the lifting of restrictions (nearly 300,000 of the jobs lost are in accommodation and cafes). Stimulus measures that are broad in their application will be important to ensuring demand supports the services sector as it enters the recovery phase. It will also be important that measures to stimulate investment consider all forms of capital, including investment in areas like digital that are important in a modern economy and noting the transformations businesses are making in response to COVID. Broader measures can be complemented by direct stimulus to the construction industry through major projects.

Increasing business activity is the only way to create jobs and grow people's incomes. Around 8 in 10 workers are employed by businesses. Business helps generate the bulk of tax revenue – around $95 billion of company tax was collected in 2018-19 or around 20 per cent of all Commonwealth tax revenue. The majority of the $228 billion of personal tax collected in 2018-19 was paid by employees working in businesses.

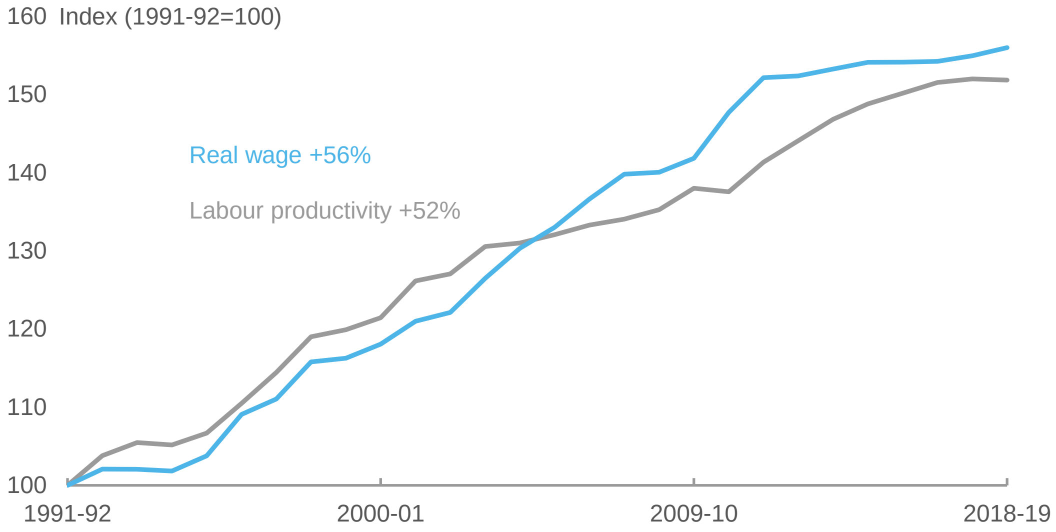
Productivity, which measures how much we can produce from a given set of resources, has been the single most important driver of Australia's economic growth and it is investment that has driven productivity growth. In the 25 years leading up to this crisis, investment drove about 60 per cent of Australia's productivity growth.

We need to focus on job creation in the short term, with an eye to addressing longer term structural challenges which will drive incomes growth and government revenues through advances in productivity.

Unleashing Australia's potential

Australia has many strengths. We are an open economy in a fast-growing region of the world. We have a wealth of natural resources, quality institutions, a well-educated population and enjoy social cohesion. These have supported almost 30 years of economic growth, which delivered real wages rises of more than 50 per cent, supported by labour productivity growth. It also helped the unemployment rate fall back towards full employment and provided the revenue growth needed to return to a balanced budget.

Figure 3: Real wages and labour productivity growth track closely



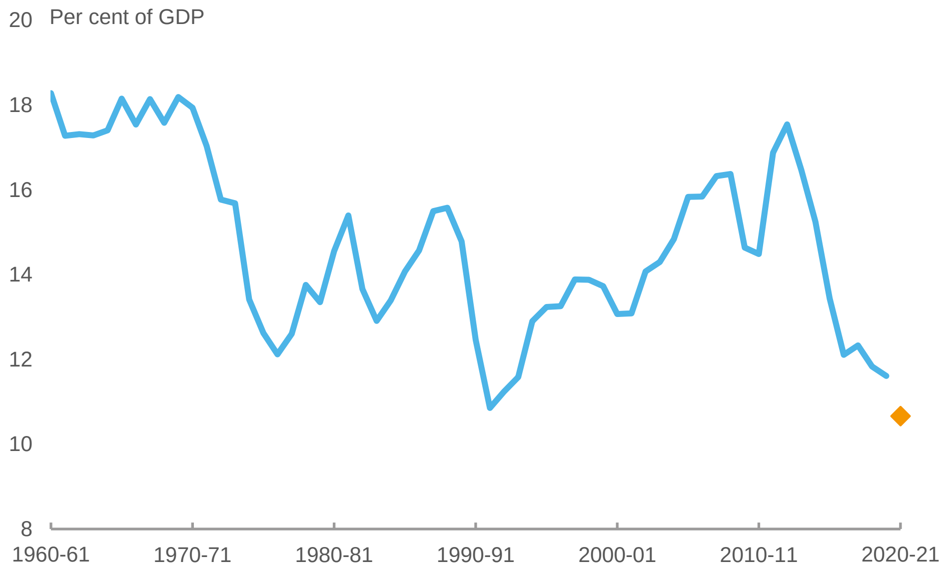
Source: BCA calculations based on ABS cat. no. 5206.0

Yet on many measures we just 'do alright' compared with other nations and real incomes growth has levelled off. Australia is not in the more competitive group of nations – it can be more expensive and harder to do business here, and we weigh ourselves down with a heavy regulatory burden.

So, what holds us back?

Companies are not investing as much as in the past. Official forecasts released as part of the July Economic and Fiscal Update suggested business investment as a share of GDP could fall to levels not even seen during the early 1990s recession. This forecast is driven by a dramatic fall in non-mining business investment – almost 20 per cent in 2020-21. Even before the COVID crisis investment, especially outside the mining sector, was relatively weak. Uncertainty is high with business confidence at low levels. Heightened levels of uncertainty can cause companies to delay decisions that are costly to reverse (such as major investments) and for households to be more cautious and reduce consumption.

Figure 4: Business investment could fall to levels not seen in the last recession



Source: ABS cat. no. 5206.0 and Economic and Fiscal Update July 2020. Note: Marker represents forecasts from the Economic and Fiscal Update July 2020.

While credit is continuing to flow in the economy, and at record low interest rates, demand for business credit is weak reflecting subdued confidence. For example, the RBA recently noted that “demand for new loans – especially from SMEs – had been low, reflecting the weak economic conditions and the unusually uncertain outlook”.[2] On top of this, around 70 per cent of companies have reported flat or negative profits so far in the current reporting season. This means less money to reinvest into the economy and lower returns for big investors like the superannuation funds that are growing the retirement incomes of working Australians.

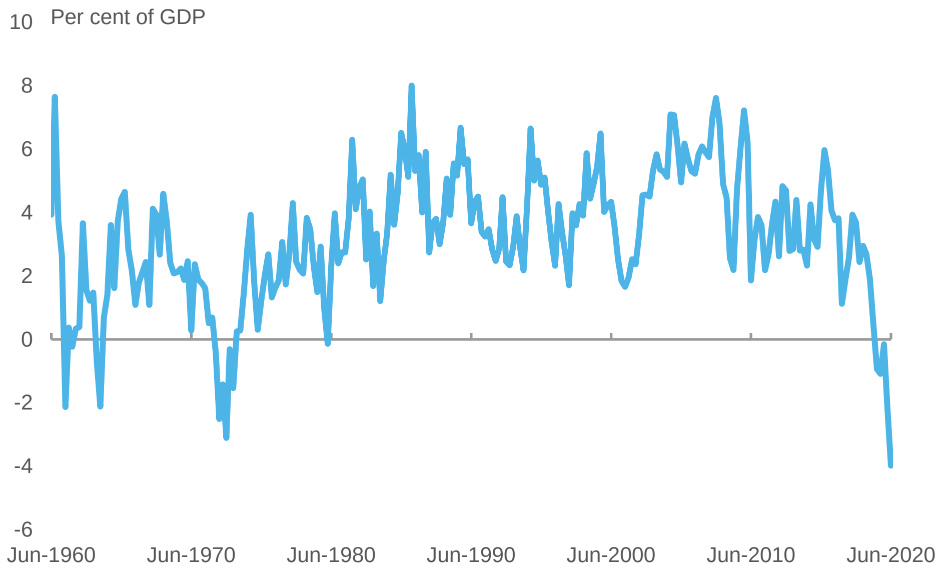
The pandemic is a clear source of heightened uncertainty, but there are risks that can be controlled. There are billions of dollars of investment in the energy sector, for example, that could be unlocked by clearer articulation of policy. This investment would in turn raise the competitiveness of other sectors. But businesses will not put billions of dollars of investment on the line without a clear plan from government on how Australia’s longer-term energy needs will be managed.

Australia’s corporate tax burden is higher than that of other comparable countries. Australians rightly want corporate Australia to pay its fair share of tax (and it pays around 20 per cent of Commonwealth tax revenue). But at the same time foreign investors have a choice and opportunities will not flow to Australia if returns are pushed down by a relatively high tax burden.

Australians are also now investing more offshore than overseas investors are investing here, with the capital and financial account in sustained deficit for the first time since the 1970s. Similarly, recent US tax reforms have seen a lot of capital move back to the US. US direct investment flows into Australia fell sharply in 2019, to around $600 million after averaging $15 billion per year in the previous decade.

[2] RBA, Minutes of the Monetary Policy Meeting of the Reserve Bank Board, 4 August 2020.

Figure 5: Capital is flowing out of Australia



Source: Capital and financial account balance, ABS cat. no. 5302.0 and 5206.0.

A positive legacy of the crisis is that it has accelerated digital transition in the Australian economy. There is scope to build on this. We rank low globally on information and communications technology (ICT) adoption, behind countries like China and Russia – we can and should close the digital gap with other countries. We need to enable digital uptake for small and medium businesses

We need a flexible workplace relations system that provides a safety net for workers but at the same time supports business transformation and helps businesses reconfigure to grow employment opportunities. The more inflexibility there is in the system the more likely it is that persistent structural unemployment problems will emerge and the less competitive Australia will be. Workers want the flexibility to manage work and family and study. It is essential that we find a way forward on workplace relations.

Regulation at different levels of government which is poorly designed and creates red tape holds us back. Rethinking regulatory approaches is needed to avoid the accumulation of regulations that do not meet their original objectives but hold back business in unanticipated ways, such as things that delay project approvals, restrictions on trading hours and curfews which restrain the movement of freight. These have all been identified as areas that hold back business operations and that needed to be relaxed to respond to the crisis.

We need to continue to look for ways to cut red tape, improve project approvals processes and ensure agencies are effectively resourced. A better process is needed for the formulation of new regulation. One approach would be for the Productivity Commission to do a regular stocktake of regulation and report to National Cabinet on priorities for reform. It could start with a review of barriers to digital uptake.

A more competitive Australia will deliver jobs and incomes growth

All of these things hold us back and prevent us from unlocking our potential. These things are also within our control to change.

Australia needs to put its best foot forward. Australia ranks 16th on the World Economic Forum Global Competitiveness Index. This is not a bad result, but what if we were in the Top 5 most competitive countries in the world? Singapore ranks first in infrastructure and labour market (which measures flexibility and incentives), while the US leads in business dynamism. Hong Kong leads on product markets (domestic competition and trade openness) and with its financial system, while Switzerland leads on skills. Australia can improve in all these areas, and particularly lags these top countries on ICT adoption and innovation capability. There is scope to lift our game.

The Business Council believes that strengthening business investment will be critical to improving economic outcomes in the short term and to help close the gap on other countries in the longer term. In the short-term, investment is needed to create jobs for 1.5 million displaced workers and in the longer term to support productivity growth and incomes. Following the early 1990s recession, it took around a decade for unemployment to reach pre-recession levels. This period also saw strong labour productivity growth – averaging over 2 per cent a year.

The following stylised example illustrates how a higher investment path will create jobs faster and raise incomes.

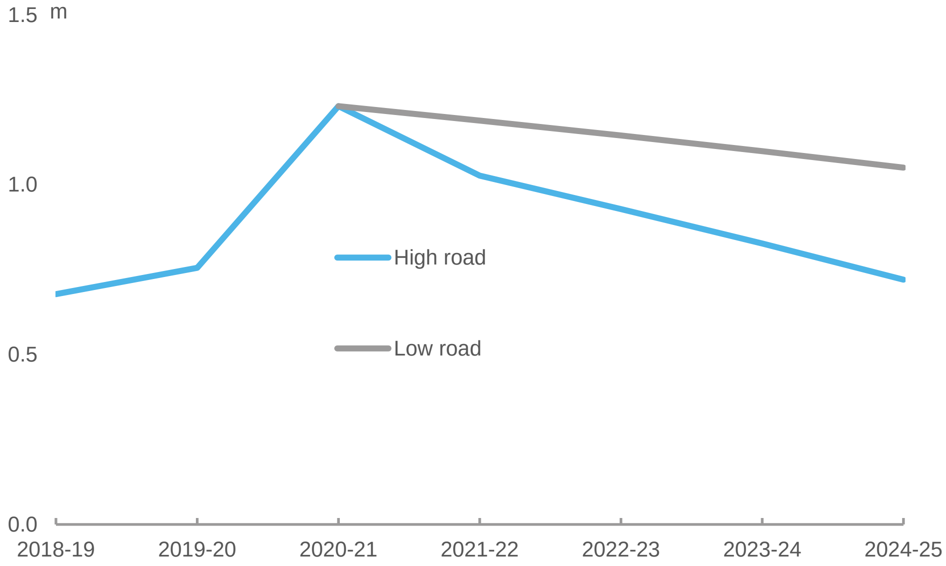
In the **high road** scenario of stronger investment Australia pursues the types of policies outlined in this submission to raise business investment to 14 per cent of GDP, broadly consistent with previous recovery phases. These policies include investment incentives, support for major projects in energy and infrastructure and actively supporting areas of comparative advantage. If higher investment could be achieved to this level, then GDP could return to levels expected pre-crisis in five years. The faster recovery of GDP creates sufficient jobs for the labour market to return to full employment in five years. Higher investment also leads to higher productivity and incomes growth.

Under the **low road** scenario business investment recovers more gradually and GDP returns to trend levels slowly, taking a decade to recover. Consistent with this, jobs are created more slowly and unemployment takes at least a decade to return to pre-crisis levels. Longer term productivity growth and incomes growth are weaker.

The high road strategy could:

- Bring unemployment down twice as fast as the no policy change scenario.
- Ensure around **two million more people** are in employment over the decade than under the low road scenario.
- Generate around an additional **$500 billion of GDP** over the decade that would otherwise be lost.
- Generate around an additional **$120 billion of tax** revenue over the decade.
- Support **higher productivity growth** through growing the economy's capital, supporting sustainably higher incomes in the longer term.

Figure 6: The high road with faster growth could see unemployment recover much quicker than the low road/low growth scenario



Source: Business Council of Australia analysis.

Further, through pursuing policies to raise its competitiveness Australia could lift its longer-term productivity levels and boost incomes. If Australia were to reach the productivity growth of the 1990s, which averaged 2.2 per cent a year, rather than the 0.7 per cent of the past five years, this would lift income growth substantially. Productivity increases raise the value of what workers produce and this flows through to higher wages over time. With the 1990s productivity rates, real wages would be around 8 per cent higher than over five years. For the average weekly wage earner, this translates into annual wages that are around $5,500 higher.

REFORM AGENDA

The challenge facing the Government in forming its Budget strategy cannot be underestimated and the measures required to support economic recovery will require a national unity of purpose. We have seen this unity of purpose in managing the health crisis and this needs to translate to the economic recovery task.

The immediate priorities for the October Budget will be to build confidence through setting a clear forward plan, create jobs and speed recovery by boosting demand and start setting the groundwork for the structural changes needed to improve Australia's competitiveness. This submission presents practical measures that can be implemented quickly to support near term goals while setting out some broader policy ambitions for the May 2021 Budget and beyond.

Creating the conditions for reopening and recovery

1. Reopen the economy

Protecting community health must continue to be the priority but economic recovery cannot wait until the health crisis has been completely resolved. We need to find ways to work alongside the virus while measures to control the health impacts continue.

Our next steps need to simultaneously meet four objectives:

1. Continue to manage, suppress and contain the virus so our health system does not become overwhelmed.
2. Protect vulnerable Australians.
3. Promote increased economic activity by staying the course on opening the economy.
4. Build confidence within the community.

The most urgent and pressing priority is to develop national, consistent protocols to provide greater certainty about the rules for businesses and individuals in the event of outbreaks and in relation to our domestic borders. The focus must be on localised containment, with a three-month plan to reopen domestic borders.

Domestic border closures should only be used as an emergency management tool in extreme circumstances and for the short term, not as a permanent COVID control measure. Given that we are many months away from a vaccine at best, we must learn to live with the virus and focus on managing outbreaks. This requires a set of national standards that provide certainty to the community and guide decisions made in the name of public health. These standards must be based on risk management and govern:

- thresholds or trigger points for any closures and containment measures
- exemption pathways and permit protocols
- compliance strategies, including non-compliance discretion and penalties.

The recovery process cannot even begin under a stop-start approach. No business can have confidence to make new investment plans and no individual can confidently make plans around work, travel or leisure in the midst of a stop-start recovery. Not only will ongoing closures hamper our economic recovery, but the detrimental impact on Australians' mental wellbeing cannot be understated.

National Cabinet should drive this process to ensure we can mobilise quickly and ringfence local outbreaks, apply track, trace and testing protocols and make clear to the general public its responsibilities when they are in areas affected by outbreaks.

A priority is to manage the movement of essential workers and clarify the rules around border towns where closures inflict particularly high costs on citizens.

- **Recommendation 1.1:** National Cabinet should focus on developing protocols for managing virus outbreaks and state borders that are predictable, consistent and promote confidence. The focus must be on localised containment, with a three-month plan to reopen domestic borders.
- **Recommendation 1.2:** Domestic border closures should only be used as an emergency management tool in extreme circumstances and for the short term, not as a permanent COVID control measure.

Another immediate challenge is to risk-manage our international borders through the opening of travel corridors to allow the controlled re-opening of key commercial channels: education (international students); skilled migrants and business travel. Important parts of the economy have become paralysed by uncertainty about the plan for reopening our borders. There are obvious impacts on the university sector which is suffering large job losses but also the range of industries that depend on entry of skilled workers to progress projects.

International aviation generates around $100 billion in export revenue and supports around 515,000 jobs.[3] While international borders remain closed, Australia is losing $8.3 billion per month in economic value – from international students, business travellers, high value exports and tourism.[4]

The closure of our borders does not just affect tourism. Passenger aircraft carry much more than people. International passenger aircraft carry over 80 per cent of air freight in the cargo hold. Air freight on passenger planes generates about $34.5 billion in export revenue and creates about 129,000 jobs.[5] Education services are one of Australia's largest exports with international students supporting around 248,000 jobs.[6]

The closing of Australia's borders is having an inevitable impact on migration flows. A fall in net overseas migration is expected from 232,000 in 2018-19 to 31,000 in 2020-21.[7] As a

[3] EY Analysis 2020, The role of aviation in Australia's economic recovery.

[4] Ibid.

[5] Ibid.

[6] Ibid.

[7] Economic and Fiscal Update July 2020.

result, annual population growth is estimated to slow to 1.2 per cent in 2019-20 and to 0.6 per cent in 2020-21 — the lowest annual rate of growth since the First World War. This will have enormous impacts for economic growth, with serious impacts on the operation of the housing and construction markets and on skills acquisition. We should examine targeted steps to bringing in migrants while waiting for a fuller scale opening of the borders to become feasible.

- **Recommendation 1.3:** Urgently implement the findings and recommendations of the Halton Review into hotel quarantine to ensure we have a national and robust system where there is no/very low community transmission risk from people entering Australia.
- **Recommendation 1.4:** Set out a six-month, controlled approach for opening international borders, with priority access for international students and in-demand skilled workers, and the gradual development of travel corridors with other countries.
- **Recommendation 1.5:** National Cabinet to agree to a detailed COVID safe plan and timeline for the return of international students. This must be communicated to our international markets to signal that Australia is open and remains an attractive place to study and live.

Continue to facilitate trade and streamline regulation in the face of ongoing border controls. A new 'Single Window' trade platform was a 2016 commitment of the Australian Government. The Single Window trade platform establishes one location for cross-border traders to submit regulatory customs documentation.. The implementation of the Single Window trade platform in Singapore reduced the time taken to process trade documents from four days to 15 minutes.

- **Recommendation 1.7:** Continue temporary border measures that facilitate trade and fast track the Single Window trade platform.

We need to be ready to reopen and send the right signals to the world that we have a plan for reopening. Other countries are doing this better and we risk losing markets and opportunities while the rest of the world moves on.

2. Staying open for business

The Australian economy must remain open to trade and investment and have a plan for reopening borders to the movement of people. Access to global capital and larger foreign markets is critical to promoting dynamism in our economy. One in five Australian jobs relate to trade, and one in 10 jobs to foreign direct investment. Foreign capital brings with it technology and the newest ideas from the rest of the world to promote innovation in our own businesses. Now is not the time to look inward and retreat behind the walls of 'Fortress

Australia'. Australia must maintain its strong relationships with trading and investment partners and keep the doors open.

The short-term reduction in the FIRB screening threshold for all investment proposals has drawn a significant amount of routine cases into the FIRB net. The original rationale for the measure was that falling equity prices would encourage opportunistic buying by foreign investors. In the absence of any evidence of such behaviour occurring and with the Australian share market recovering around 60 per cent of its losses from late February, the rationale for applying this extra level of red tape is weak.

- **Recommendation 2.1:** Immediately remove the temporary zero-dollar FIRB screening threshold which is unnecessarily hampering the adjustment process.

The Government should design and implement the FIRB regime in a way that ensures it really is welcoming foreign investment. There has been a progressive tightening of the FIRB regime since the legislative changes in 2015 and with the proposed national security test. The Business Council understands the need for the Government to strengthen the system where there are risks to national security. To complement these changes, the Government should consider streamlining processes for the vast majority of investments that are not sensitive. In a world where there will be increasing competition for capital, the Government should seek to actively facilitate investment - creating express lanes for the foreign investment needed to support recovery.

- **Recommendation 2.2:** Streamline the FIRB system for non-sensitive cases by introducing a registration process, rather than substantive approval process, for non-sensitive transactions.

3. Get rid of barriers to doing business

Governments have indicated a willingness to remove red tape and this needs to translate to real action by policy makers and regulators. A rethink of regulatory approaches is needed to avoid the accumulation of regulations that do not meet their original objectives but hold back business in unanticipated ways.

Since the onset of COVID, we have seen governments at all levels act quickly to remove unnecessary red tape where there has been a short-term imperative to do so. Changing local government curfews on truck movements to keep our supermarket shelves stocked, extending retail trading hours for customers, and permitting electronic signatures for the execution of documents – these are no regret regulatory changes that just make sense. Governments must retain these changes as we begin to recover, there is no sense in taking a step backward.

Going forward, we need a better process for the formulation of new regulation. One approach would be for the Productivity Commission to do a regular stocktake of regulation and report to National Cabinet on priorities for reform.

- **Recommendation 3.1:** Government must stay the course on removing antiquated and unnecessary regulation, including freight curfews, reforming major project approval processes, retail trading hours and mutual recognition of labour market skills.
- **Recommendation 3.2:** Task the Productivity Commission to conduct a regular stocktake of regulation and report to National Cabinet on priorities for reform.

There is need to modernise the Corporations Act and business communications. Retaining temporary amendments to the Corporations Act that allow electronic signatures, virtual AGMs, and electronic distribution will increase the ease of doing business and support acceleration towards a digital economy.

Retaining the changes to shareholder class actions in combination with strong disclosure obligations. If left unchecked the rise in shareholder class actions will make it difficult to attract and retain talent on Australian boards and increase the cost of doing business. Directors and officers liability insurance availability is a real and growing problem, particularly for medium and smaller listed companies.

- **Recommendation 3.3:** Modernise the Corporations Act and business communications by retaining temporary amendments to the Corporations Act that allow electronic signatures, virtual AGMs and electronic distribution.
- **Recommendation 3.4:** Retain the changes to shareholder class actions in combination with strong disclosure obligations.

It is likely that the economic aftershocks from COVID-19 will be felt by Australian businesses for a number of years. Industry experts anticipate that SMEs will experience the most financial distress early on, but given the global economic downturn, large and international companies will increasingly suffer.

Implementation of a fast-track restructuring process for SMEs should be given consideration that allows relevant SMEs to enter an arrangement with their creditors to pay out debts and continue to trade. The Government should also take this opportunity to consider long-term reforms to Australia's restructuring and insolvency regime, with a view to continuing to support viable businesses, and streamlining formal processes to recycle capital back into the economy.

There are a number of reforms that the Government should consider via such a vehicle, including adopting practices in other jurisdictions.

Recommendation 3.5: The Government should establish:

- a fast-track restructuring process for SMEs; and
- a formal process for long term reform of Australia's restructuring and insolvency regime, that gives consideration to adopting more efficient insolvency and administration regimes from overseas.

Workplace flexibility has helped saved thousands of jobs since the onset of the pandemic. Retaining this flexibility for as long as it takes businesses to recover will be critical to our recovery. We must create a workplace relations environment that gives business confidence to create new jobs and to reemploy staff that lost jobs in the pandemic

▶ **Recommendation 3.6:** Retain the workplace relations flexibility provisions that have made it easier for businesses to keep people employed during the pandemic, for as long as it is necessary to enable business to recover.

Budget measures to get the economy moving again

4. Switch stimulus to job creation

The immediate priority for the Budget should be to get the economy moving again. This should be done in a way that uses the strength of the public balance sheet but is fiscally responsible and does not harm the structural budget position going forward.

The Government's Personal Income Tax Plan has already been legislated and factored into medium term budget planning. Bringing the next two stages forward would put money back in people's pockets when most needed and complement other measures to stimulate demand. These tax cuts are real dollars for Australians. The two tranches would bring forward and put around $10-15 billion in people's pockets. The ATO reported that within a fortnight of last financial year ending, it had already paid more than $1 billion in tax refunds – as more and more Australians lodge their tax returns early to access the tax offset that has already been implemented.[8]

Recommendation 4.1: To further boost demand the Government should bring forward Stages 2 and 3 of the Personal Income Tax Plan.

Stages 2 and 3 of the Personal Income Tax Plan are no regrets structural changes that will improve incentives to work and save and support growth beyond the crisis, while maintaining a highly progressive tax and transfer system overall. It makes sense to bring forward tax relief to people that would have received their cuts later under the legislated plan.

The cost of one month of JobKeeper is equal to about one year of tax reform

JobSeeker

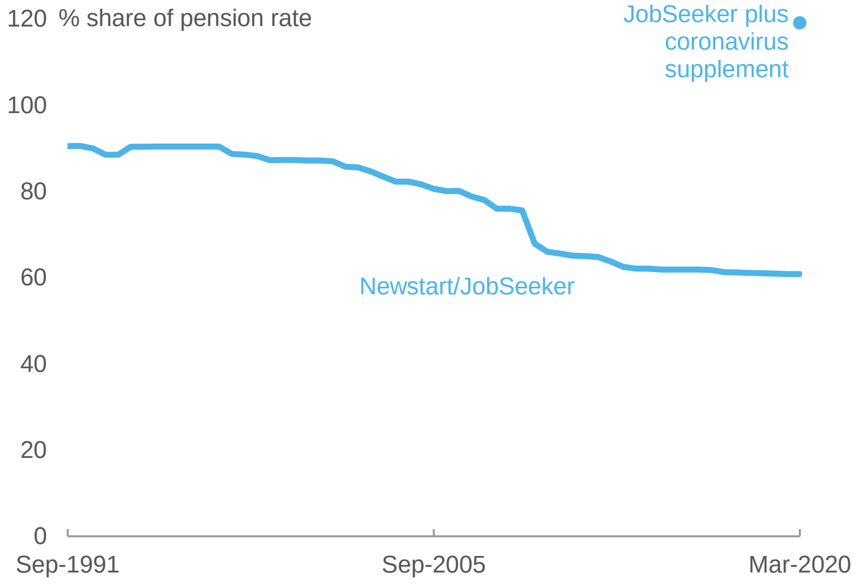
While the rate of JobSeeker will need to return to long run levels, the longer-term rate should be reconsidered. The Newstart rate for single people that applied pre-crisis had fallen in relative terms over time, from around 90 per cent of the Age Pension to around 60 per cent, with indexation arrangements that would ensure it continued to fall in relative terms over time.

To support unemployed Australians and ensure nobody gets left behind, the rate of JobSeeker should be set at levels more consistent with historical relativities with the Age Pension (in the 75-90 per cent range). A JobSeeker rate in this range (which is around

[8] ATO Media Release, 2020

50 per cent of the minimum wage) would address the need to preserve incentives to work while improving the adequacy of the payment. Together with already implemented tax cuts and the bring forward of tranches 2 and 3, the increase to the permanent rate of JobSeeker would ensure all Australians received some boost to incomes which would help get the economy restarted.

Figure 7: Unemployment benefit as a share of the pension rate



Note: Rates are for a single adult over 21 years old with no dependants. Source: DSS historical benefit rates

> **Recommendation 4.2:** The permanent rate of JobSeeker should be set at levels more consistent with historical relativities with the Age Pension.

An additional smaller scale measure to support working Australians would be to extend the 80 cents per hour shortcut method for claiming deductions for working from home to 30 June 2021. Extending the arrangements recognises the real changes in work patterns, simplifies the tax affairs of workers, reduces compliance costs and supports demand.

State taxes

Supporting the Australian economy is not solely the job of the Federal Government. The States have and will need to continue to play a role. The RBA Governor has called for a 2 per cent of GDP contribution to stimulus from the states and territories. One way to provide support would be through extending payroll tax relief. With many businesses expected to struggle and have difficulty taking on new employees, this relief should be extended for 12 months to support the job creation task.

The provision of relief by the states during the lockdown period acknowledges the harmful effects of such taxes, Payroll taxes are a blunt revenue raising instrument which hit businesses whether they are profitable or not (and currently many are not). They act as a tax on jobs by penalising businesses for taking on new hires.

An extension of payroll tax relief would provide the opportunity of a reset of payroll taxes when they are reintroduced. In the absence of more broad-ranging changes to the tax mix, this would ideally involve a move to a nationally consistent scheme set on a broad base (all salary and wages) and a lower uniform rate.

State based taxes such as stamp duty are among the most inefficient, and the GST tax base has been shrinking as a share of the economy. Reforming these taxes is a major task and the States must have a leading role in any reform effort. The Commonwealth Government should support a process in National Cabinet to review inefficient state taxes which place a fundamental drag on the economy. Federation should continue to cooperate in ways it hasn't before, raising the bar of ambition of the National Cabinet to address some of these long running and costly barriers to growth.

Recommendation 4.3: States and territories should extend the period of payroll tax relief for 12 months and transition to a uniform national scheme set at a lower rate on a broad base.

5. Create incentives for companies to invest again

Action must be taken to reverse the current freefall in business investment to help get the economy moving again and protect jobs. Incentives to get firms to invest early in the recovery would have a powerful effect in lifting growth and confidence, in tandem with other measures to unlock restraints on projects.

The effectiveness of an investment allowance – or any tax incentive to encourage investment – will be maximised if it applies to companies small and large. Large businesses represent less than 1 per cent of all businesses, but they account for some 80 per cent of investment. The 10 biggest companies accounted for around $16 billion of investment in 2019 – or around 7 per cent of all business investment. We are seeing many capital budgets being scaled back in 2020. Supporting larger projects has a big impact in terms of job creation and creates significant opportunities for small businesses that form part of the supply chain for major projects.

- **Recommendation 5.1:** The Business Council recommends a 20 per cent investment allowance to spur the recovery process.

Every dollar released through such a measure would have a multiplier effect through the economy when most needed, with the biggest gains coming from the larger projects. These projects have a big impact in terms of job creation and create significant opportunities for small businesses that are important to the supply chain for major projects.

Preliminary analysis by EY suggests a 20 per cent investment allowance applied to all businesses could lift business investment around $200 billion and help create over 500,000 jobs over a decade. The measure could cost around $10 billion per annum.

A 20 per cent investment allowance could lift investment around $200 billion and help create over 500,000 jobs over a decade.

A tax loss carry back could also support investment by allowing companies to offset current losses against previously paid taxes. This would support the cashflow of previously profitable businesses in the current downturn. It would also support cash constrained businesses as well as investment by reducing the bias against investing in riskier projects, particularly for SMEs.

Longer term Australia needs a more comprehensive look at its company tax system to enhance its long run growth prospects. Easing the tax burden would improve rates of return and counter the excessive risk premiums being faced in the current environment. Australia has the third highest company tax rate among the 37 OECD member countries. The OECD also estimates that Australia has the third highest effective marginal tax rate in the OECD, which measures how much tax increases the hurdle rate on an investment project.

Reforms to make the company tax system more competitive would send a strong message to global markets and show the Australian Government is prepared to back business in. The Business Council recommends a review of the corporate tax system to improve competitiveness, examining options around the tax base and tax rates compared with our global competitors.

Investment allowance stylised examples

Mining Ltd

Mining Ltd is looking to invest $1 billion in a new mine in Australia. The board of the mining company has set a 15 per cent rate of return for the investment to go ahead, reflecting the riskiness of the project.

Under the current tax system, the project has a rate of return of 14.8 per cent so the project cannot fully recoup its cost of capital. However, with a 20 per cent investment allowance, the rate of return is now 16.2 per cent. The project is now viable and it will proceed. The project has a large multiplier effect and will support many small and medium sized businesses along the supply chain.

Retailer

A large retailer has a capital expenditure program across Australia involving new stores, refurbishments and expansions of existing stores. The introduction of a 20 per cent investment allowance allows for a greater range of projects to be approved.

For every $500 million of capital expenditure, around 4,300 jobs will be created. This includes around 1,200 construction jobs and 3,100 ongoing jobs in the stores. These projects will also support the thousands of suppliers across their supply chain and stocked on their shelves.

6. Unleash the balance sheets of business and government

Major infrastructure projects provide opportunity to propel the economic trajectory of the country for the better, helping improve liveability and equality, making the economy more competitive and activating regional Australia for economic growth and a growing population.

To support this, a continuous project pipeline, underpinned by consistent annual funding, will increase investment certainty and community confidence. The Government should prioritise projects that will:

- drive export opportunities
- support lower emissions and decarbonisation
- reduce congestion
- support regions (discussed in Section 9)
- promote innovation and growth precincts
- provide social benefits.

The Government should work with the states and territories to maintain a consistent flow of $30 - $500 million sized projects (smaller in regional areas) involving tier 1, 2,3,4 contractors; these should be projects with high employment outcomes, based on per dollar spent. The aim should be to release early works contracts for committed projects to ensure a continuous workflow throughout the supply chain. As projects are brought forward, renew housing and infrastructure pipelines to replace those projects to maintain a continuous supply.

The aim should be to maintain a pipeline of projects and use these projects to solve longer term problems. For example, National Cabinet should consider projects that improve social housing and consider a national approach to initiatives such as Build to Rent schemes.

Many jurisdictions have made significant improvements to their planning approvals systems, however there are still project applications that take too long and impose too much cost, creating barriers to job-generating activity and meeting housing supply requirements of the nation. Governments should pursue simplification, reduce bureaucratic steps and streamline.

Wherever possible national coordination of infrastructure projects should be pursued through the use of more City Deals. This will ensure that major, transformative infrastructure projects will have maximum impact through greater jurisdictional coordination.

We strongly support the draft recommendations from the review of the EPBC Act to improve environmental standards while also speeding up approval times and devolving approvals to the states and territories.

- **Recommendation 6.1:** Identify a continuous 10-year National Revitalisation Plan with a pipeline of quality infrastructure projects funded by the Federal and state governments.
- **Recommendation 6.2:** All jurisdictions should implement best practice strategic planning and planning approvals systems that lead to faster and lower cost approvals for projects of all sizes.
- **Recommendation 6.3:** All jurisdictions to regularly report on their planning approval timeframes, including for consent and referral agencies and local councils.

A plan to improve our competitiveness

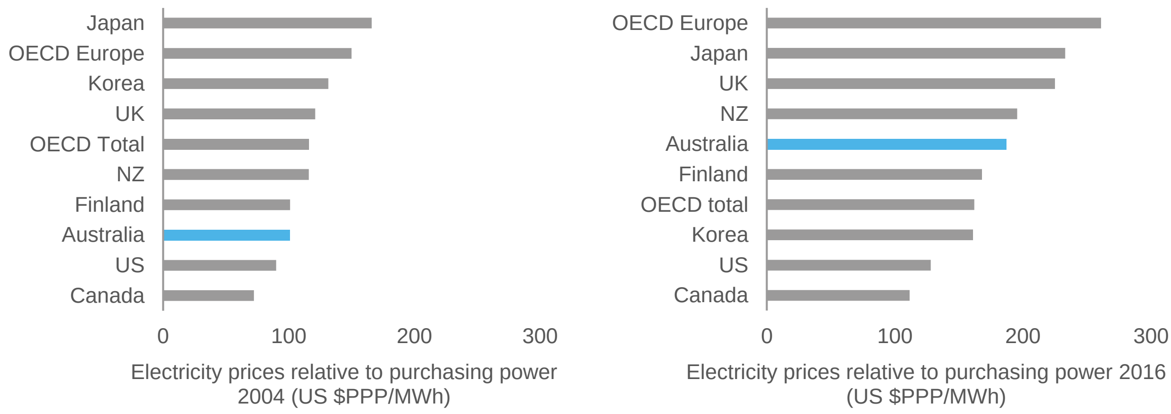
7. Invest in a new energy future

Investing to drive down electricity prices addresses the immediate challenge of kickstarting investment and improves the competitiveness of our industries. It also addresses existing global problems by creating a more carbon efficient economy.

In the past two decades, Australia has become increasingly less competitive on the world stage with respect to energy prices. We have gone from the fourth cheapest in the OECD in 2004 to the 10th cheapest in 2016 and above the OECD average. In the race for global capital, high energy input costs are a major deterrent. In recent times, wholesale prices have come down, so our focus must be on maintaining these lower electricity prices and delivering the lowest-cost system for energy in Australia.

Climate change and energy policies are inextricably linked. Driving down electricity and gas prices will be central to our ability to recover. At the same time transitioning to our future energy fuel mix must remain a priority and presents an opportunity to invest in new projects and create new jobs and industries. The best way to do this is to unleash the pipeline of queued up private investment in the energy sector.

Figure 8: Australia has become increasingly less competitive on the world stage when it comes to energy prices



Source: Infrastructure Australia, 2019, Australian Infrastructure Audit

The investment required to replace the National Electricity Market's retiring generation capacity and firm-up the renewables that will largely replace this energy output would yield up $53 billion NPV in capex investment over time.[9] There is more than enough market-driven investment in the pipeline – some $100 billion of potential projects already proposed – to fill this significant gap under any scenario, particularly when it comes to dispatchable or firming capacity.

[9] PwC, 2019. The Future of Energy, Australia's Energy Choice.

Up to $53 billion NPV in capex investment over time to fill the gap – with some $100 billion of potential projects in the pipeline.

Investors are not pulling the trigger on these projects in the pipeline because policy uncertainty is deterring investment. Companies are hesitant to commit to significant investment decisions on long-term assets when investment conditions are unclear. A decade of policy paralysis in relation to how emissions will be treated in the energy sector, combined with ad hoc government intervention in the market, has stymied investment in new projects.

Essential to retaining lower wholesale energy prices is to ensure the market has sufficient incentive to invest in firming generation. The private sector stands ready to deliver firming generation and storage, provided there is greater clarity on the investment climate.

To enable this investment, the Government needs to provide clearer guidance on its long-term emissions targets so that business can plan for future.

A clearer pathway will promote investment in the energy sector. The Government has the means to set clearer goal posts for investment in a sector of the economy that has some of the largest potential for new investment with long term economic benefits. Financial sector members of the Business Council identify strong demand from domestic and foreign investors if energy sector projects were released.

- **Recommendation 7.1:** The Commonwealth Government should commit to a net-zero by 2050 target across the economy.

Government intervention in energy investment has the intention of supporting the sector, but the unintended consequence is that it undermines private rates of return and pushes out private investment. The Government needs to step aside and let the private sector unlock the significant opportunities in this sector.

- **Recommendation 7.2:** The Government should fast-track projects that will speed up decarbonisation and increase reliability, and should remove government programs that discourage private investment, such as the Underwriting New Generation Investment (UNGI) Program.

As we transition to a clean energy future, gas will play an important role as a transition fuel – helping to keep the lights on as we continue to develop storage technology at scale. Gas is also a critical feedstock for many manufacturing and industrial processes.

Australia's manufacturing sector needs secure and affordable energy supply to be globally competitive and preserve the jobs of its highly skilled and well-paid workers.

Increasing the supply of gas is critical to getting prices down and the maintaining reliability.

- **Recommendation 7.3:** Governments should remove moratoriums on conventional and unconventional gas exploration and development.

Technology needs to drive our transition to a more carbon efficient economy. Not only will new technologies help us achieve net-zero emissions by 2050 but they will also create new jobs, and industries and maintain Australia's competitiveness. We welcome the government's commitment to the Technology Investment Roadmap. As this plan is finalised, agencies like ARENA and CEFC must be positioned to deliver on the roadmap's priorities, including being appropriately structured and resourced for the task.

- **Recommendation 7.4:** The Government should expand the scope of ARENA and the CEFC to include a wider remit of low and zero emissions technologies and provide stable long-term funding.

8. Accelerating the transition to a digital economy

Digital technology is now a core capability of any successful, modern economy and business. Skills in digital have become foundation skills for our workforce.

The crisis has seen an acceleration of digital uptake and a stronger appreciation across the community of the benefits of digital. There are clear productivity gains that could be made through removing regulatory impediments to digital uptake, in the Corporations Act and elsewhere, and accelerating digital uptake by smaller businesses.

Deloitte estimates that SMEs with advanced levels of digital engagement achieved 28 per cent more revenue growth and 60 per cent more revenue earned per employee in the past 12 months than SMEs with basic levels of digital engagement.[10]

[10] Deloitte Access Economics 2019, Benefits of small business digital engagement.

Greater use of digital can also improve service delivery in the health sector, with continuing use of telehealth and electronic prescriptions for consumers who want to access these services.

The Australian Government has a goal for Australia to become a leading digital economy by 2030. There is now a unique opportunity for our nation to embrace the changes that we have seen through COVID-19 and accelerate the transition.

The first step involves digital enablement — ensuring we are well equipped to accelerate our transformation to a digital economy with a particular focus on small-to-medium enterprises (SMEs).

- MYOB data tells us that more than a third (34 per cent) of SMEs have no online presence.[11] MYOB found that the benefits of going digital for SMEs are significant:
  - SMEs who have adopted digital are more than eight times more likely to create jobs;
  - SMEs who have embraced digitisation are seven times more likely to export; and
  - SMEs are 50 per cent more likely to grow revenue if they demonstrate advanced digital engagement.
- A CPA Australia survey of 27,000 small businesses across the Asia-Pacific region found that in 2019 Australia's small businesses continued to be the:
  - least likely to use social media for business purposes;
  - least likely to earn revenue from online sales; and
  - most likely to state that they did not make any investment in technology.[12]

▶ **Recommendation 8.1:** Retain the current Instant Asset Write Off policy past 31 December 2020 for eligible digital and telecommunications business assets only.

▶ **Recommendation 8.2:** Introduce an Australian Government 'Accelerating Digitisation' grant, which is available to eligible SMEs looking to develop their e-commerce capabilities and online presence or take part in approved training and professional development. It is recommended that the grant be provided on a dollar-to-dollar basis, with government funds matching private investment up to $10,000.

▶ **Recommendation 8.3:** The federal government should invest to create the required national e-invoicing infrastructure and should encourage all businesses to make use of e-invoicing before, in time, making e-invoicing mandatory.

▶ **Recommendation 8.4:** All governments should introduce 'digital by default' systems, where all interactions and notifications with government are undertaken through accessible online platforms. To ensure this does not disadvantage vulnerable segments of the community, members of the public can opt-in for alternatives (e.g. physical notification and in-person engagement).

[11] MYOB Business Monitor December 2019.

[12] CPA Australia's submission on digitising business, National COVID-19 Co-ordination Commission.

Supporting these measures, the right infrastructure is needed for a digital economy — ensuring we have the right policy and regulatory frameworks in place to encourage investment and innovation in key digitally enabling technology infrastructure. We need to set a technology upgrade path for mobile telecommunications for the next decade. Investing in the critical infrastructure that underpins the next generation of telecommunications technology will be a key enabler of economic activity.

For example, the mobile industry contributed $23 billion to Australia's GDP in 2017-18, through direct and indirect impact on related industries. For every FTE role directly employed in the mobile industry there are 3.7 employed in flow-on industries.

Increased investment in digital regulatory infrastructure, such as Single Touch Payroll and the Single Window trade platform initiative, would also support the digital transition.

- **Recommendation 8.5**: NBN Co should maintain part or all of the current wholesale CVC pricing arrangements that have been in place since March 2020 to help Australia cope with COVID-19.
- **Recommendation 8.6:** To promote greater affordability and inclusion the Australian Government should:
  - Require that the nbn offer for education be a standard product (as opposed to a time limited offer).
  - Develop nbn product offerings specifically designed for those on low incomes.
  - Undertake an independent review of the longer term NBN Co pricing and the impact on downstream digital markets.
- **Recommendation 8.7**: To support the roll out of the 5G network, the Australian Government should update the regulatory framework to fast track the deployment of low impact upgrades which are critical to the implementation of the 5G network.
- **Recommendation 8.8:** To support investment in the network, the Government should consider spreading the cost of spectrum licences over the life of the licence to reduce upfront costs.
- **Recommendation 8.9**: To reflect the extensive social and economic benefits that flow from the use of mobile networks, a waiver of Crown land fees should be considered, together with expedited approvals for new assets on Crown lands.

The COVID crisis has also accelerated the use of digital platforms to provide health services. These innovations should be considered as more permanent features of the health system.

- **Recommendation 8.10:** Retain the new MBS telehealth items temporarily introduced during COVID but revise the rates and introduce strict clinical and quality controls (i.e. a governance framework) to guard against low-quality care and an upswing in MBS billing.

- **Recommendation 8.11:** Accelerate the transition to a digital health system by establishing a phased timetable to normalise e-scripts, e-referrals and imaging by 2022.

The COVID crisis has put new pressures on the digital capabilities of government and this has been an area of chronic under-investment. A modern digital economy requires a public sector that leads not follows in respect of digital uptake. Additional funding to enhance this capability should be prioritised.

- **Recommendation 8.12:** The Government should prioritise investment in enhanced digital capability in the public sector.

9. Skills for the future

Driving the economic response post COVID-19 will require Australia maximising the contribution from its population, including enhanced participation and productivity through skills and worker mobility. Skills utilisation and alignment of skills to job needs, together with technology integration and digital literacy will become increasingly important.

The Government's response to the pandemic has been significant. The Government had already commenced a significant reset of VET, including the creating of the National Skills Commission, the National Careers Institute and the proposed change to the National Agreement for Skills and Workforce Development. Recent action in relation to the $2 billion investment in the JobTrainer fund and support for the Apprentices and Trainees wage subsidy demonstrates the laser-like focus the Government has on aligning people, skills and jobs as part of our recovery.

- **Recommendation 9.1:** Governments must stay the course on skills reform which includes strengthening the role of VET and TAFE, costing skills that are in demand, introducing a national micro-credentialing system, dramatically improving careers guidance and revitalising the apprenticeships system.

However, the shock to the economy, with 1 million Australians unemployed and a further 1.5 million underemployed, will see individuals that are unlikely to find immediate or longer-term work. The rate of unemployment is expected to significantly grow post JobKeeper, presenting a high risk to Australia’s capacity to maintain its human capital.

Job creation will require a new level of coordination across governments and industry. There are several additional specific actions government could take to meet ongoing challenges.

In addition to the rising unemployment level, some 300,000 students will graduate this year from both secondary and tertiary education. While traditionally 56 per cent of this cohort can be expected to move to tertiary education, the remainder are the most at risk of being unemployed, potentially for a lengthy period.

Building on the Government's strategy, in the short term there is an opportunity to improve the matching of skills to jobs and to increase the capacity of job seekers and mitigate some of the employment risk for employers.

Government could streamline employer engagement with potential job applicants, and make it easier for jobseekers, by introducing a candidate-centric approach to job advertisements and information by consolidating existing government job portals and collating information in one location, that lets people more easily find out what jobs are being advertised.

Governments should collaborate with the private sector, recognising that to be effective these job portals need to be dynamic technology platforms with intuitive user interfaces and intelligent search and matching capability.

The growing impact of digitisation on all jobs, creates the opportunity to trial digital apprenticeships, aimed at building skills across key areas including data analytics and information technology.

As already evident in tertiary admissions applications, the lack of available jobs will place significant pressure on Australia's tertiary education systems. Government could increase the capacity in higher education to meet the projected surge in demand at undergraduate and postgraduate, through the adjustment of student caps in targeted qualifications and short courses in areas of employment growth.

Governments could also further increase the number of places available in targeted qualifications in VET, including the provision of foundation skills, including language, literacy and numeracy.

As part of the reopening strategy, we should focus on upskilling the human services workforce with rapid and targeted micro-credentialing in aged care and healthcare. These will continue to be areas of employment demand for some time as we live with COVID and it will be essential that this workforce is equipped to manage and control outbreaks quickly.

- **Recommendation 9.2:** Improve the job matching system. Candidates must have access to a streamlined set of portals where they can easily see the jobs that are available, and employers must be encouraged to list jobs in these portals.
- **Recommendation 9.3:** Invest in the technology that is required to create more sophisticated job matching**.**
- **Recommendation 9.4:** JobKeeper and JobSeeker recipients should have priority access to micro-credentials and these courses should be targeted to meet demand.

Examine whether this cohort should be given a pilot skills account model to access and stack micro-credentials more readily.

- **Recommendation 9.5:** Micro-credentialing should be targeted at upskilling the human services workforce, with a particular focus on aged care and healthcare as we continue to manage and respond to COVID.
- **Recommendation 9.6:** Prioritise funding in the tertiary system to those areas of the economy that will be in employment demand, including digital skills, automation, data analysis and statistics, and project management.
- **Recommendation 9.7:** Examine the creation of a digital apprenticeship to improve skills formation in growing occupations.

10. Unlocking the potential of our regions

The COVID-19 pandemic has proven the advantages of living in regions, and increased acceptance of remote working. There is an opportunity to capitalise on these strengths and promote regions as a great place to live, work and do business.

Incentivising infrastructure and investment in regional locations will drive economic activity and population growth. As many corporates look to onshore their operations following the COVID-19 lockdowns there is an opportunity to make regions a preferred onshoring location. Cutting payroll tax, fast-tracking planning approvals, establishing skills hubs would all provide incentives for companies to onshore their operations and consider regional locations.

We need to rethink the way we plan and prioritise around our regions and unlock their potential. National coordination of regional activation will be essential to the success of this approach.

Australia has become stuck in a pattern of projects, rather than places. We need to identify the places around Australia that can make the greatest economic contribution to their regions, their states or territories, and the whole country.

It is not the job of the Business Council to provide a short-list, but we should look to places that:

- Have nearby gateway infrastructure such as an airport or major transport routes.
- Are home to one or two existing and successful industries and have the capacity to attract more investment.
- Are strategically important such as Darwin and Cairns.
- Are close to major power grids.
- Have a university and a TAFE that will need to work together to drive the new skills agenda.
- Have quality health services that can support an expanding population.

- Have the capacity to increase the supply of housing and industrial land.
- Have an appetite for more people to take pressure and congestion off the major cities and in doing so create economic activity in their region.

The Government's City Deals framework is a good starting point, with many of the existing City Deals being very successful. The NSW Government has also introduced Special Activation Precincts (SAPs) to bring together planning and investment with a focus on growing jobs and economic activity in an area. SAPs use a simpler planning approval process to help fast-track projects and accelerate industry and regional growth. The Commonwealth Government should consider embracing the SAP model in their City Deal framework to maximise the benefits for regional locations.

It will be essential that different state and federal, and even local, approaches do not dilute the strategy to activate our regions. A single, best-practice governance model will drive national coordination and ensure each level of government is able to contribute where the most value can be added.

▶ **Recommendation 10.1:** Leverage City Deals and the Special Activation Precincts model to identify the regional places that will deliver new projects that maximise wider economic and community benefits.

Use this enhanced model to provide national coordination of regional activation and to incentivise corporates to relocate to the regions. As part of this model create skills hubs through regional targeting of the skilled migration program.

Each City Deal and location, plus other potential city deal locations which can absorb population growth, should be audited for the infrastructure needed to drive development in these areas. The question to ask should be: what are the 10 major projects that will provide an economic uplift? These projects should then be fast-tracked. For example, in Far North Queensland, candidate projects might include the road crossing from the Atherton Tablelands to Cairns Airport and the Hells Gate Dam. In other states projects like the Fast Rail to Geelong, and energy transmission and generation projects that will support decarbonisation and increase resilience should be supported.

Infrastructure Australia priority project and initiative lists currently focus on nationally significant projects. While regional projects are more localised in terms of significance, the positive long-term effects on their communities, and ability to take pressure off the cities, make them high value options.

▶ **Recommendation 10.2:** Infrastructure Australia to undertake and audit and produce a list of major infrastructure projects that are significant to regional areas and identify those that will have a positive multiplier effect, provide economic uplift and can be fast-tracked.

11. Planning for the future

The COVID crisis has put a spotlight on supply chains and Australia's capacity to deliver goods and services when these supply chains are disrupted. A large part of this is maintaining reliable access to global supply chains, which further underlines the importance of maintaining open channels for trade and investment. Another part is identifying where Australia best adds value to global supply chains, that is where it has comparative advantage.

There are many areas of the economy where Australia has clear capability, including mining and agribusiness. With broadly supportive regulatory and tax policy settings businesses can succeed in these areas without the involvement of government.

There are other areas where we have natural advantages, but government support could help better develop capabilities to gain a competitive edge in particular industries. In designing industry policy, governments need to be very specific about what they are trying to achieve and identify capabilities where additional government support may unlock national benefits.

Time is critical and we must lay the groundwork now. We must signal to industry and investors that Australia is thinking about the markets, industries, and technologies of the future. That we want to lead here, be at the forefront of innovation and disruption and invest in the capabilities and skills of the future. The risk is if do not get organised now, we will be left behind. If we want to become one of the most competitive economies in the world, then we need to have the structural readiness to develop the new markets and industries as we recover from this crisis. This is what other countries will be doing.

To achieve this there are three main priorities: reconsidering the proposed changes to the R&D Tax Incentive; identifying priority research and commercialisation capabilities and areas; and, establishing a robust governance model and delivery mechanisms to ensure taxpayer dollars are invested efficiently.

R&D Tax Incentive

Experience from the Global Financial Crisis showed R&D is one of the first areas of business expenditure to be cut in times of economic uncertainty. R&D investments are highly sensitive to uncertainty because they are irreversible and risker than investments in physical capital.[13]

Changes to the R&D Tax Incentive were proposed in the 2018-19 Budget. The proposed intensity measure rewards certain company structures – not necessarily R&D spending. It will disadvantage large companies that employ, operate, purchase materials and conduct R&D in Australia relative to companies that primarily conduct R&D.

- **Recommendation 11.1:** Revise amendments to the R&D Tax Incentive to preserve incentives to invest in R&D. This includes not proceeding with the proposed intensity test in its current form.

[13] Barrero, Bloom and Wright (2017), Short and long run uncertainty (NBER Working Paper No. w23676).

Priority research and commercialisation areas

Good industry policy is about prioritising and focusing our efforts. It is about identifying capabilities for success by prioritising capabilities and research areas that cut across the economy and contribute to multiple industries.

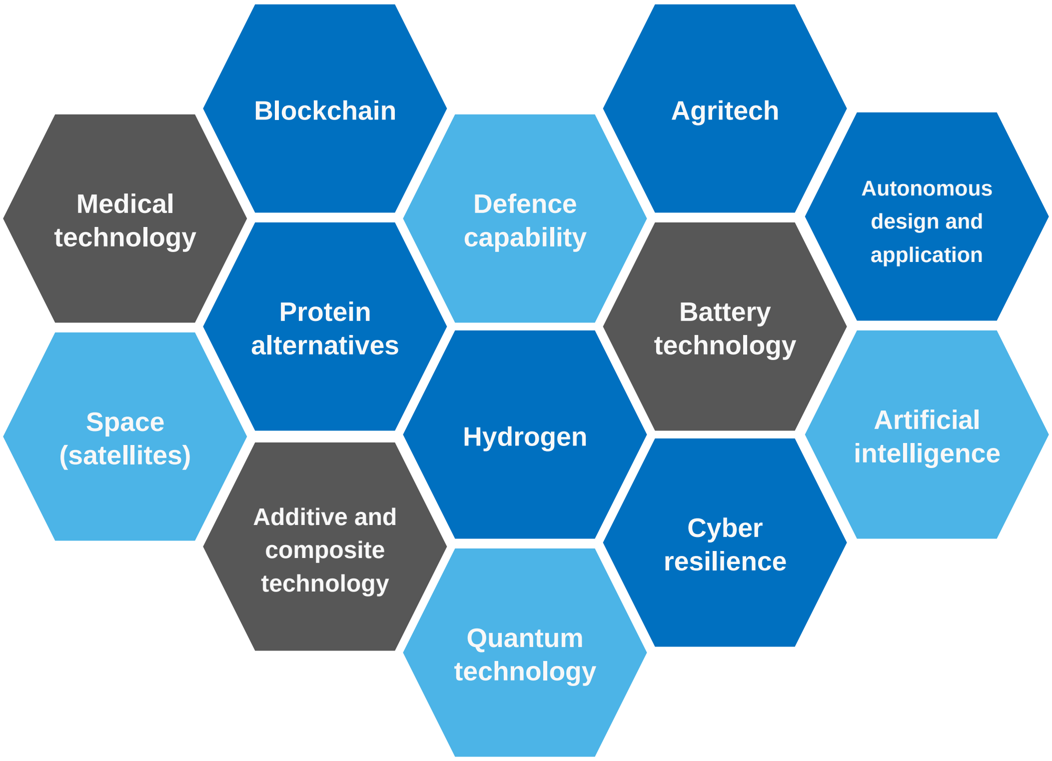
For the Australian economy to be globally competitive, its needs to play to the strengths of its natural advantages by marrying them with the most relevant capabilities. This means identifying where Australia's real competitive strengths lie and establishing a pathway for Australia to secure investment, improve productivity growth and strengthen export capabilities by reimagining industry policy through a capability approach that has relevance and impact for multiple industries and sectors.

In a post-COVID world, government has a unique opportunity to adjust industry policy to drive the development of new industrial opportunities, enhance our competitiveness and increase productivity based on Australia's technical and research capabilities, geographic and other advantages. It must establish a clear strategic overlay to its policy and funding decisions that prioritise commercialisation, job creation and productivity growth. By establishing clear national capabilities for industry policy, government can put in place the market incentives and signals to ensure this happens. It can open global export and market growth opportunities for Australia.

Identifying and prioritising the capabilities and research areas that have the potential to reconfigure Australia's economic potential is not an exact science, but the criteria below could be used as a guide.

1. Support the capabilities and areas where Australia has value added capacity and can enter premium markets.
2. Prioritise capabilities and research areas that seek to solve national challenges. The CSIRO has outlined six national challenges that the nation must overcome and turn to our advantage:
   - Resilient and Valuable Environments
   - Food security and quality
   - Health and Wellbeing
   - Future Industries
   - Sustainable Energy and Resources
   - A secure Australia and region
3. Developing the capabilities in high demand that will service global supply chains, and
4. Contribute to an examination of sovereign capabilities.

Given these criteria, a potential list of priorities could include:



- **Recommendation 11.2:** Develop a set of national industry, research and commercialisation priorities that deliver on:
  - our ability to value add and enter premium markets;
  - solving national challenges;
  - developing the capabilities in high demand that will service global supply chains; and
  - a careful examination of sovereign capabilities.
- **Recommendation 11.3:** Prioritise funding and support for these national research and commercialisation priorities.
- **Recommendation 11.4:** Application of national priorities at a precinct level with co-investment from governments and industry to deliver on commercialisation and job creation.

Governance and delivery

Translating R&D and innovation activity into productivity growth and commercial success requires the critical commercialisation of ideas and discoveries at scale. Currently in Australia, there is a real funding gap between the development of R&D and the time it takes to realise commercial benefits.

There is also currently no effective mechanism to develop and coordinate industry policy across the federation. This results in Commonwealth, State and Territory Governments making funding and policy decisions with limited insight about what is happening nationally.

Governments should consider different delivery mechanisms, such as:

- Innovate UK catapult model – one-third core funding (Commonwealth grant), one-third commercial funding, and one-third collaborative (public and private) research and development funding.
- Patient equity fund – Commonwealth provides a subsidy during loss phase (negative company tax) then taxes fund when economic profits are made.
- Conditional grant – Commonwealth provides grant funding which is repaid if and when a threshold return on equity is reached. The CSIRO would be well placed to deliver this mechanism, similar to the Canadian model of commercialisation.

▶ **Recommendation 11.5:** Maintain existing levers but improve coordination and make it easier for industry to partner. Examine how CSIRO could play a greater role in the delivery mechanism, similar to the Canadian model of commercialisation.

Conclusion and the way ahead

We can't solve all of Australia's problems in one budget. But the proposals outlined in this submission provide a positive plan for reopening, stimulating the economy and moving policy in the right direction in areas key to our competitiveness.

The fiscal task ahead will be challenging. While fiscal consolidation should not be the priority of this budget there will ultimately need to be a plan to pay down the debt.

The measures suggested in this submission would help shift the dial on our productivity and growth performance. They are the sorts of policies that would get Australia closer to the top five of most competitive nations globally. They would bring us closer to the productivity rates of the 1990s and lift us from the lacklustre pre-COVID rates of productivity growth of the past five years. If instead Australia were to achieve the 2 per cent plus productivity growth rates of the 1990s over a decade that would add almost $2 trillion of cumulative GDP and bring with it around $500 billion of revenue, compared with current productivity performance. This would make serious inroads into the public debt.

A credible fiscal consolidation path will also need to be supported by a tax system that can deliver sustainable revenues into the future. The current tax system is not fit for purpose in this respect. It is over-reliant on bracket creep from personal income taxes and relies on a company tax system that is uncompetitive and already turning away global capital. Taxes applied at the state level are highly inefficient and provide a drag on growth. A fundamental review of our tax system, with policy action, is overdue.

Any major review of the tax system will also open issues in respect of how our Federation is organised to deliver key public goods. We have seen the Federation tested in ways it hasn't been before through this crisis. Unprecedent cooperation between different levels of government will be needed to design a credible and sustainable fiscal plan into the future.

We should do everything we can to maintain Australia's openness to trade and investment. The biggest opportunities to grow the economy and increase the incomes of Australians will come from the global economy. Migration is also a key source of dynamism in the Australian economy. We should not lose sight of this and maintain the longer-term goal of returning the permanent migration program intake to 190,000 per year. Maintaining strong population growth will also be important to growing our way out of debt.

Restoring labour market participation to pre-crisis levels will support Australia's long run growth prospects. The rise in female participation has been key to the rising participation trend. Getting childcare settings right and examining broader incentives to labour market participation will present further policy challenges that will need to be examined.

Uncertainty remains high and we cannot anticipate all the problems that will present themselves to us, or how the rest of the world's actions will affect Australia as they respond to the crisis. The Business Council will continue to work closely with governments on an ongoing basis and through future budget processes to contribute constructive ideas on the road to recovery.