Australia’s economic reform priorities

Reform priorities for a more competitive and productive Australia

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CPA Australia Ltd (‘CPA Australia’) is one of the world’s largest accounting bodies representing more than 144,000 members of the financial, accounting and business profession in 127 countries.

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About CPA Australia

CPA Australia represents the diverse interests of more than 144,000 finance, accounting and business professionals in 127 countries, of which about 70 per cent reside in Australia. We have a history stretching back to 1886 and have been involved in Asia since the early 1950s, where we now have nine offices and more than 30,000 members. CPA Australia is committed to a creative engagement with governments and their agencies on behalf of members and in the broader public interest to encourage the adoption of economic and social policies that foster improved productivity and competitiveness.
Executive summary

Australia’s reform priorities must primarily focus on supporting the transition of Australia to a knowledge-based economy if the high-paying jobs of the future are to be generated here. We cannot rest on our mining-induced laurels. The conditions underpinning Australia’s strong economic performance over the past decade, in particular China’s almost insatiable appetite for our mining exports, are unlikely to be repeated in the coming decades as the Chinese economy transforms towards a modern services-based economy. And other countries are focusing on developing their knowledge-based industries. Action therefore needs to begin now.

While Australia’s macroeconomic performance looks robust, Australia’s future economic prosperity is not assured. For example, we note that the Department of the Treasury has also warned that forecast nominal economic growth will remain below the historic average over the next two years.1 And while sectors such as mining have thrived, many others are struggling in a tougher global and domestic economic environment. For example, our 2012 Asia-Pacific Small Business Survey2 shows the outlook for Australian small businesses remains downbeat. This is in stark contrast to sentiment among both Indonesian and Malaysian small businesses. This economic imbalance has fuelled some debate, however this has resulted in no real answers as to what is the best way forward.

CPA Australia believes a lack of policy focused on transforming Australia into a knowledge-based economy through productivity growth and increasing Australia’s international competitiveness is helping perpetuate this imbalance, and is hindering long-term economic advancement. Credible policy is essential to ensure Australia’s economy can better take advantage of the significant growth in the region, while ensuring it is less exposed to external shocks.

Our increasing concern about the future state of Australia’s economy, including poor productivity growth and falling international competitiveness, and the lack of political discourse on this have led us to develop a list of reform priorities (below) and commission one of the world’s foremost experts on competitiveness3 to examine this issue in detail. The results of this review will be made public in the near future.

With Australia currently enjoying a reasonably strong economy, high quality public institutions, a capable and skilled workforce, a public service of the highest standard and having its public finances in good order, Australia can begin the reform process from a position of strength.

The economic reform priorities that should help to build a knowledge-based economy are summarised below:

1. **Education and training** – the quality of the Australian workforce is fundamental to transitioning to a knowledge economy. Underpinning the quality of the workforce is Australia’s education and training system. Elements of that system are world-class, but a more comprehensive strategy, linking education and training with the current and future needs of business, is needed.

2. **Innovation** – innovation is critical to helping Australia make the transition to a knowledge economy. The alternative is competing with developing nations that have significantly lower labour and other business costs. It is therefore important that policymakers, educators and key influencers not only improve policy to support innovation but also educate business about the importance and benefits of innovation, and improve linkages between researchers and business.

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1 Australian Financial Review, Friday 15 February 2013
3 Professor Michael Enright, University of Hong Kong
3. **Infrastructure** – Australia’s infrastructure deficit needs to be addressed to support Australia’s transition to a knowledge economy. It is therefore time for the good work that Infrastructure Australia has done to understand and prioritise Australia’s infrastructure needs to be implemented. Implementing ambitious infrastructure programs requires more private sector capital. Therefore, the recommendations of the Infrastructure Finance Working Group, which includes governments placing a higher priority on infrastructure investment, need serious consideration.

4. **The Asian Century** – the rise of Asian economies present Australia with a unique opportunity, however most Australian businesses are not prepared to take full advantage of this opportunity. While the government’s White Paper on *Australia in the Asian Century* sets out a blueprint to better integrate Australia with Asia, we believe that without significant changes in the mindset of many Australian businesses – supported and encouraged by government policies – the Asian Century may bypass Australia. We also note, however, that it is not without risk to have a policy focus that is solely Asia-oriented.

5. **Red tape** – the dead weight of regulation is a major drag on Australia’s productivity and competitiveness and a disincentive to entrepreneurship being undertaken in Australia. While Australia is a relatively friction-free place to establish a business, the same cannot be said of running a business. All levels of government need to remain focused on reducing unnecessary regulatory burden and subjecting proposed regulation to stringent tests on its necessity, design and impact on competitiveness.

6. **Capital markets** – the efficiency and integrity of Australia’s capital markets are a substantial competitive advantage. We must ensure that the regulation, supervision and transparency of capital markets are consistent with Australia’s aspiration to be a leading financial market. Continuing to improve on Australia’s already high standards of reporting can lead to greater efficiency in the allocation of capital and enhance Australia’s reputation as an investment destination.

7. **Tax reform** – Australia’s current tax system remains a serious impediment to productivity growth and Australia’s international competitiveness. Substantive reform proposals that would remove or reduce such handicaps have not been embraced and must be re-considered. Further, tax reforms and expenditure savings initiatives need to be undertaken to ensure sufficient revenue exists to fund these reforms.

8. **Savings** – there is clear evidence that net savings at the household level have taken a troubling course. Overall, household savings as a percentage of disposable income are at their highest level in 25 years, largely driven by growth in compulsory superannuation. However, household debt has risen at the same level, effectively cancelling out the increased savings. Many Australians are now using, or will need to use, their superannuation to extinguish their debt. This was not the intent of retirement savings policy and needs to be reviewed as part of a broader review of Australia’s national savings agenda.

9. **Workplace relations** – Australia’s workplace relations system appears to be overly confrontational and bureaucratic. Government, business and labour have a collective responsibility to improve Australia’s workplace laws for the benefit of all and to achieve a better balance between the interests of labour and business.

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4 See Infrastructure Australia’s national priority list on the National Infrastructure Construction Schedule at https://www.nics.gov.au/Home/PriorityProjects
5 http://asiancentury.dpmc.gov.au/
Core principles underpinning reform

CPA Australia believes that reforms should be shaped by the following core principles:

- Reforms should form part of a long-term vision for a more prosperous and internationally competitive nation.
- Reforms should support increased productivity and participation.
- Reforms should support Australia’s transition to a knowledge economy.
- Government should exercise responsible economic management through a prudent approach to fiscal management over the economic cycle.
- Government intervention in the operation of markets must be avoided unless there is a significant market failure.
- Regulation must be a last resort. Regulation should only be considered if there is significant evidence of a problem, that other remedies to the problem are ineffective and the new regulation is limited to specifically addressing the problem.
- Social safety nets should be kept to protect and assist those most vulnerable in society.
CPA Australia’s reform priorities

The Australian Government should pursue policies that: support Australia’s transition to a knowledge economy; enable business to lift productivity; and increase Australia’s international competitiveness. To meet these objectives, CPA Australia provides the following list of reform priorities:

1. Education and training

Investing in tomorrow’s workforce
Investing in the quality of tomorrow’s workforce should be central to any strategy around increasing productivity and participation in a knowledge economy and facilitating success in the Asian Century.

The higher education reforms of recent years, notably the introduction of a demand-driven system and the changes to the indexed funding of student places, should be maintained and enhanced. While mindful that tight fiscal conditions rules out the immediate implementation of the Base Funding Review, selective recommendations should be implemented progressively, in particular the recommendation to improve the average level of base funding (recommendation 2) and the recommendation to correct identified fields of study that are currently underfunded (recommendation 4).

Reviewing labour mobility
Policies need to create incentives and remove disincentives for the reallocation of labour and capital to growing areas of the economy. Such policies could include funding for training programs aimed at developing the skills required by growing industries, particularly knowledge industries.

Improving management capability
The capabilities and experience of Australian management trails that of world leaders in international comparisons on the subject. Policies that encourage Australian management to improve their knowledge of international markets, particularly of Asia, and developments in technology will contribute to increasing competitiveness and productivity of individual businesses, which in turn improves productivity and competitiveness throughout the economy.

CPA Australia’s Asia-Pacific Small Business Survey\(^7\) show that many small businesses would benefit from access to resources and training on improving business performance and business management practices. Potential policy initiatives include providing examples of how successful Australian and foreign companies deal with issues such as prospering in high-cost locations.

2. Innovation

We note the government’s recent announcement regarding changes to the research and development (R&D) tax concessions that was packaged as part of A Plan for Australian Jobs.\(^8\) We are supportive of the initiative to the expanded access to R&D concession to SMEs, however we are concerned about the withdrawal of the measure for very large corporates. This change appears to undermine the aspirational goal detailed in the government’s Australia in the Asian Century White Paper of Australia becoming one of the “top 10” innovators in the global economy.

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\(^6\) Lomax-Smith et al Higher Education Base Funding Review Final Report, October 2011

\(^7\) See CPA Australia’s Asia-Pacific Small Business Survey 2012 CPA Australia, December 2012

cpaaustralia.com.au/smallbusinesssurvey

\(^8\) http://aussiejobs.innovation.gov.au/Pages/default.aspx
The risk is that those 15 to 20 groups in the “more than $20 billion” category may now either shelve more risky R&D where the potential benefit of the incentive may have pushed development, or merely shift the R&D from local facilities to overseas jurisdictions (e.g. Singapore), which offer meaningful R&D support. As recognised in the 2008 Review of the National Innovation System (known as the Cutler review)\(^9\), the benefits of such work is not just the intellectual property it creates, but also the spill-over benefits of such knowledge being disseminated through the broader economy.

### Funding research

CPA Australia believes the recently released National Research Investment Plan\(^10\) and the Plan for Australian Jobs\(^11\) are worthy aspirations. So too is the government’s separately communicated target of doubling the number of universities ranked in the world’s top 100 from five to 10. Specifically, CPA Australia supports the intention to better align the government’s investment in research with business needs.

We are of the opinion, however, that the plans do not go far enough. In order to make a real difference, the government needs to increase its investment in research with higher education providers and the research community. In the higher education sector we have, in recent times, witnessed the opposite, with the freezing, sunsetting or reduction in research support for various initiatives.

### 3. Infrastructure

#### Defining infrastructure priorities

Infrastructure Australia\(^12\) has done considerable work setting out Australia’s infrastructure reform priorities. We support addressing the infrastructure deficit in the non-mining sector and it is incumbent on government to address these priority projects.

Further, in 2010 a CPA Australia member poll indicated that the priority infrastructure project that needed to be addressed was our capital cities public transport systems. Given most of Australia’s GDP is generated in capital cities, there is a strong argument these projects should be a priority for governments.

#### Attracting private capital to infrastructure projects

Attracting more private capital to infrastructure projects is essential to implementing Infrastructure Australia’s priorities. We therefore support the recommendations of the Infrastructure Finance Working Group,\(^13\) including:

- governments having clear infrastructure priorities
- the government placing higher priority on infrastructure investment
- using user-pays principles to help fund projects
- state and territory governments selling suitable public assets and investing the proceeds into new infrastructure projects
- government co-funding

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\(^9\) See Department of Industry, Innovation, Science, Research and Tertiary Education 


\(^12\) [www.infrastructureaustralia.gov.au/](http://www.infrastructureaustralia.gov.au/)

The government should also consider issuing Aussie Infrastructure Bonds (AIBs) to fund a broader range of infrastructure projects, not just the National Broadband Network, and consider allowing state governments to access funds raised from the issuance of AIBs to fund priority infrastructure projects.

The government should also consider providing a 40 or 50 per cent discount on income earned from investment in infrastructure projects to attract more private capital to the same.

4. The Asian Century

Investigating the introduction of compulsory Chinese language studies in all Australian schools

CPA Australia acknowledges the important role the government’s Australia in the Asian Century White Paper has in providing a roadmap for potential reform in an extensive range of areas. We also note the government’s intent to make learning a key Asian language an option for all students. This is a progressive step towards building the competencies necessary for Australia to capture the benefits from the Asian Century. However, because of the importance of ensuring Australia’s future workforce is equipped to embrace the opportunities presented by the Asian Century, we encourage the government to consider taking the even bolder step of making the study of the Chinese language compulsory in all Australian primary and secondary schools.

Integrating the study of Asian history, cultures, politics, religions and philosophies into the curriculum of all primary and secondary school students

CPA Australia supports the identification of “Asia and Australia’s engagement with Asia” as a cross-curriculum priority in the national curriculum. Developing an understanding of Asian societies, cultures, politics, religious beliefs and philosophies is essential to providing the future workforce with the skills to engage with the region.

Increasing Asian literacy among Australian university students

The government should fund additional annual in-Asia study opportunities for at least 10,000 Australian tertiary students at universities in Asia as part of their Australian degree. CPA Australia proposes that the government also establish a funding pool, which will grant monies to higher education providers who submit innovative Asia-engagement plans designed to enhance the Asian literacy of their students.

Improving the broader communities understanding of Asia

The government should fund the establishment and ongoing operation of a free-to-air television channel that is dedicated to programming from Asia. This should expose more Australians to Asian news, politics, entertainment, cultures and societies.

Maintaining the pipeline of skilled migrants

Facilitating the two-way flow of skilled individuals between Australia and Asia is essential for building bridges with Asia and growing the Asian competencies of the workforce and business. With the introduction of SkillSelect, the Australian Government now has a sophisticated and flexible policy lever to ensure that skilled migrants to Australia add greatest value. The government should review the interface between the Skilled Occupation List (SOL) and SkillSelect.
5. Red tape

**Improving the quality of new regulation**
The government should investigate improving the regulatory design process so that if new regulation is deemed necessary, the cumulative impact of the proposed regulation on those being regulated, and its impact on the international competitiveness of those being regulated, is fully considered.

**Reducing regulatory burden**
The regulatory burden on business should be assessed on an ongoing basis and an explicit commitment should be made to reduce that burden. Such a commitment should be incorporated into the key performance indicators of government agencies and departments and their chief executives. Increasing the personal accountability of senior public servants on reducing regulatory burden may help lead to a change in mindset of the public service towards regulation.

**Reviewing the COAG regulatory reform agenda**
The next COAG deregulation agenda should focus on those areas that can demonstrate they can deliver the biggest improvements in productivity and international competitiveness.

**Benchmarking performance of deregulation agenda**
The government should, when benchmarking Australia’s deregulatory performance against other jurisdictions, put greater weight into benchmarking Australia’s deregulatory performance against non-OECD economies from the Asian region.

6. Capital markets

**Considering expanding standard business reporting**
The government should undertake a cost/benefit analysis on making standard business reporting compulsory for listed entities and all ASIC lodgers. Such analysis should consider how best standard business reporting should be mandated, such as whether it be in addition to existing reporting requirements, replace existing reporting requirements or leave it up to the reporter to determine how best to meet the requirement.

7. Tax reform

**Reducing personal tax rate**
To provide a positive stimulus to the economy, encourage increased workforce participation, encourage mobile professionals to either stay in or relocate to Australia and increase productivity, the top individual income tax rate should be reduced to 42 per cent in the short-term with consideration being given to a further reduction to 40 per cent at a later date subject to prevailing budgetary conditions.

**Reducing the company tax rate**
To improve the international competitiveness of the business tax system, facilitate further capital inflows into Australia and to enhance productivity, CPA Australia recommends that the company tax rate should be reduced in stages to 25 per cent as soon as practicable.
Considering state tax reform
To help enhance Australia’s overall productivity, and given the absence of any other plausible option, CPA Australia encourages the government to consider raising the rate of GST and/or broadening the GST base to help facilitate the replacement of existing inefficient state taxes.¹⁴

Revisiting the Henry tax review
The Henry Tax Review identified a blueprint for the reform of Australia’s tax system. And while it has been a catalyst for a number of changes in the tax system, more needs to be done to address the tax system’s overall international competitiveness. The remaining measures need to be revisited, and developed further.

8. Savings

Retirement savings
Superannuation is a long-term savings vehicle that needs a long-term vision and direction. However, successive governments have viewed Australia’s superannuation savings as a ‘honey pot’ to dip into when required. Constant rule changes and revenue grabs have undermined public confidence in the system and threaten Australia’s long-term savings. Furthermore, CPA Australia’s research report Household savings and retirement: Where has all my super gone? showed that many Australians are using superannuation to extinguish household debt rather than fund retirement. The economic implications of this outcome are profound, given the current cost to the revenue of providing tax concessional treatment to superannuation contributions is arguably about $32 billion per annum.

Based on recent Treasury estimates we understand this cost could rise to $150 billion over the next four years. Against this background, CPA Australia proposes Australia needs a national savings policy review. Such a review would be broader than, but include, a review of our compulsory retirement savings model. The review would also need to revisit the recommendations made by the Henry Tax Review about taxing savings.

The review will also need to consider the implications of controversial issues such as:

- the relevance of the three pillars model
- incentives to invest both within and outside of compulsory superannuation
- whether access to super lumps sums on retirement should be subject to capping
- how to encourage income streams in retirement
- the economic implications of a progressive tax scale for contributions
- the economic implications of a progressive tax scale for fund income
- possible grandfathering measures for those in the system
- appropriate transitional rules where necessary

Importantly, the review needs to identify a goal and vision for our national savings and provide direction for this goal to be achieved. We propose that such a review should be undertaken by the Productivity Commission.

Notwithstanding the recommendation for a national savings policy review above, consideration should be given to implementing policies in the short term that increase confidence in the superannuation system as

¹⁴ For modelling of the impacts of raising and broadening the rate of GST, see Economic Analysis of the Impact of using GST to reform taxes; prepared for CPA Australia by KPMG Econtech cpaaustralia.com.au/economicanalysis, September 2011
a voluntary savings vehicle and ensuring all Australians have the opportunity and encouragement to 
adequately save for retirement.

Possible policies to achieve this outcome include:

- increasing the flexibility of the contribution caps by restoring concessional contributions to their 
  original levels and introducing a lifetime or rolling concessional contribution limit
- abolishing the upper age limit for all superannuation contributions
- restoring the superannuation co-contribution payment to its previous level
- extending the deductibility of superannuation contributions by abolishing the 10 per cent rule for the 
  deductibility of superannuation contributions
- abolishing the minimum Superannuation Guarantee threshold
- ensuring equitable tax treatment of superannuation death benefits

9. Workplace relations

Reforming industrial relations law
Forthcoming research by CPA Australia on Australia’s competitiveness indicates that reforming 
Australia’s workplace relations system to achieve a better balance between business and labour should 
be a reform priority if we are to have a more competitive and productive nation.

Increasing workforce participation
With an ageing population, the government should continue to focus on policies that encourage greater 
workforce participation, particularly from females with young children and older workers. Such policies 
could include encouraging more businesses to take on such workers and encouraging such workers back 
into the workforce, for example, by creating more flexible work arrangements.