Budget Blueprint

Five priorities to underpin the recovery

Blueprint Institute

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About Blueprint Institute

Every great vision starts with a blueprint. We help move ideas to action.

Blueprint Institute exists to inspire reform by presenting bold ideas, honest conversations and evidence-based research. We offer fresh thinking so as to help leaders take a step back from the day-to-day to see the bigger picture. We design blueprints for practical action as a step towards creating a more resilient and prosperous Australia.

Blueprint Institute was established in the era of COVID-19, in which Australians have witnessed how tired ideologies have been eclipsed by a sense of urgency, pragmatism and bipartisanship. The challenges our nation faces go beyond partisan politics. We have a once-in-a-generation opportunity to rethink and recast Australia to be more balanced, prosperous, resilient, and sustainable.

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

Our Blueprint series

This paper is part of a series of Blueprints published to help policymakers shore up the Australian economy for the post-COVID-19 future. Forthcoming Blueprints will discuss new, exciting policy opportunities for the National Cabinet to consider — ranging from ideas for regional economic development, energy and climate policy, funding for technology and innovation, and educational reform. Forthcoming research will present new ways to relieve small businesses from the burdensome regulation that threatens to stifle this country's economic recovery.

About the authors

Harry Guinness
CEO and Co-Founder

Harry has 10 years experience across public, private and non-profit sectors, and is a passionate advocate of liberalism, citizen engagement in democracy and evidence-based policy. Over four years Harry worked as a key adviser to Australia's Foreign Minister and the Deputy Leader of the Liberal Party, the Hon. Julie Bishop. He oversaw key areas of foreign policy including foreign aid, technology for development, public-private partnership and climate change. Harry holds Bachelor Degrees in Economics and Politics from the Australian National University and an MPhil in International Development from the University of Oxford.

Steven Hamilton, PhD
Chief Economist

Steven is an Assistant Professor of Economics at The George Washington University in Washington, DC. Steven authored a major small business support policy proposal in the US for the Brookings Institution, and has provided extensive commentary in the US and Australia on wage and small business supports during the COVID-19 crisis. Steven has published opinion pieces in the Washington Post, the Australian Financial Review, and The Age, among others, and has provided economic commentary to the New York Times, the LA Times, Time Magazine, Newsweek, The Atlantic, Slate, The Hill, the Sydney Morning Herald, and The Australian, among others. Steven is a former economist at the Australian Treasury, where he worked on the federal budget and the Garnaut Climate Change Review Update. Steven holds a PhD and MA in economics from the University of Michigan, and a Bachelor of Economics with First Class Honours and Bachelor of Business Management from the University of Queensland.

Daniel D'Hotman
Senior Researcher

Daniel is a Rhodes Scholar and medical doctor currently completing his PhD on the political and ethical implications of using AI in mental health at the University of Oxford. With a strong interest in business and innovation, Daniel was awarded one of two undergraduate scholarships in the Asia-Pacific by the Boston Consulting Group, undertaking health systems and private equity projects in Sweden. Daniel has published a variety of academic papers, with one of these articles selected amongst the 'Best in Philosophy' collection for 2019 by Oxford University Press. His work in the media has been featured in The Spectator, The Sydney Morning Herald, The Sun Herald, Herald Sun, Brisbane Times, The Critic, The Mandarin, Government News, and The Conversation.

Josh Steinert
Researcher

Josh recently graduated from the University of Oxford with a degree in Politics, Philosophy and Economics (PPE), where he specialised in Politics of the Middle East and Political Theory. He is planning to return to university to complete postgraduate studies in economics at University College London.

Summary

Australia is at a critical juncture. The COVID-19 crisis has cut short three decades of uninterrupted economic growth. We must support the economy while demand remains weak, but we must also give targeted support to the most vulnerable. The combination of welcome discretionary actions and automatic stabilisers have ballooned net debt, and this pressure will only increase in coming years as our needs in areas like health, disability support, and aged care grow. To pay down this debt, we will need a much more efficient tax base and much faster growth. This will require wide-reaching reforms that were necessary before the crisis, and are now more critical than ever before. We must achieve this growth in an environmentally sustainable way, and investments in clean energy can themselves help power the next boom.

Continued fiscal support

The Government should maintain substantial fiscal support until recovery is assured. In our first recession in almost three decades, we need to set aside any usual concerns about public debt for the good of the nation. Providing too little support or withdrawing it too quickly would threaten our fledgling recovery. But we should prioritise support that has the best bang-for-buck, avoids perverse incentives, and adapts to changing circumstances.

- **Household cash stimulus ($1k per adult earning less than $100k, $500 for each dependent, and a further $750 for government payment recipients).**
- **Lower personal income tax rates (bringing forward planned personal tax cuts).**
- **Revenue-contingent loans for small and medium businesses.**
- **Immediate capital expensing and hiring incentives for small and medium businesses.**
- **Expedite investments in Infrastructure Australia's updated Priority List.**

Medium-term fiscal discipline

As our economy recovers, we should gradually withdraw fiscal support, and allow economic resources to find their most productive home. Over time, we should pay more attention to the distortions from fiscal supports and the taxes necessary to fund them. A ratcheting up of net debt over time poses big risks. Our existing fiscal and tax settings are ill equipped to repay a net debt approaching $1 trillion. The need to raise substantial additional revenue in the future demands a much more efficient tax system.

- **Account separately in the budget papers for the cyclical and structural deficits.**
- **Credibly commit to drawing down net debt faster than by fiscal drag alone.**
- **Increase the cap on tax receipts from its current level of 23.9% of GDP.**
- **Commit to overhauling our tax and transfer system to cope with this greater burden, including all taxes, tax expenditures, and transfers.**

Compassionate social initiatives

During the COVID-19 crisis, we have taken welcome steps to protect vulnerable Australians, but we must do more. Dual economic and health crises are affecting every Australian. But some are suffering more than others. All societies should be judged by how they treat their most vulnerable. The pandemic threatens to entrench existing inequalities while introducing new ones.

- **Implement targeted interventions and retraining to address the pandemic's disproportionate impact on women and young people in the workforce.**
- **Additional funding for support services and strengthen legal protections to combat domestic violence.**
- **Provide permanent Medicare funding for bulk-billed telehealth services (psychologists, psychiatrists, and GPs) for those at risk of mental illness and suicide.**
- **Boost funding for social housing to reduce the impact of homelessness and housing insecurity while supporting economic activity.**

Clean, cheap, and reliable energy

The pressing urgency of COVID-19 should not distract us from the long-term challenges posed by climate change. Many governments have leveraged COVID-19 stimulus to invest in clean energy. With world-leading renewable resources and a strong clean-technology sector, Australia can play a key role in accelerating the world's transition to a low-carbon economy. Removing barriers to investment in renewable energy will put us on a path to achieving an energy system with low emissions at low cost.

- Increase funding to the CEFC's Innovation Fund and decrease the CEFC's required rate of return to increase opportunities for commercialisation of clean technologies.
- Introduce a 'Grid Expansion Fund' to publicly finance critical electricity transmission projects outlined by AEMO in its 2020 Integrated System Plan.
- Reform the 'Regulatory Investment Test—Transmission' to account for carbon emissions.
- Conduct rigorous cost-benefit analyses of investment options in clean technologies where other nations are spending heavily during the crisis (e.g., green hydrogen and steel).

Igniting the next boom

For the past two decades, Australia has seen stagnant productivity and wage growth. Much of our prosperity in that time has been driven by resources and asset price booms. We should not count on these for sustainable growth in the coming years. Following the record-high debt incurred in World War Two, Australia saw rapid growth that helped us pay it down. But getting us back on a similar path today will require the right policy settings. A modern industry policy to support dynamism and aspiration should be front and centre.

- **Redesign JobSeeker, offering more generous support in a smarter way to encourage better worker-firm matches but discourage welfare overreliance.**
- **Reform and better fund the higher-education sector to promote competition and better prepare workers for the jobs of the future.**
- **Commit to supporting research, development, and deployment in science, technology, engineering, and related fields to drive innovation and productivity.**
- **Improve access to capital for young and fast-growing firms, learning from successful international efforts such as the Israel Innovation Fund.**

Budget Blueprint in detail

Continued fiscal support

The COVID-19 crisis has brought to a sudden halt almost three decades of economic growth. Economies across the world have been smashed by the social distancing (both voluntary and government-imposed) necessary to suppress the virus. There is broad agreement among leading economists that these actions were necessary—evidence from the US shows that much of the economic contraction in fact was due to voluntary social distancing ahead of government actions, and countries where the virus was allowed to spread suffered far larger economic contractions (see Figure 1).

Some commentators have pointed to the impacts of lockdowns and other social distancing measures on people's welfare as reasons to lift restrictions. These are clearly valid concerns, but rather than allow the virus to spread, the right approach is for governments to step up to the plate and support people and the broader economy through this difficult but temporary contraction. Blueprint Institute commends the Government on its willingness to offer significant, broad fiscal support, as well as more targeted support for the most vulnerable. But it's clear much more needs to be done.

The Reserve Bank should do all it can to support the economy, including further aggressive quantitative easing measures. But near the zero lower bound, in practice its arsenal will be limited. In this environment, a significant fiscal expansion is the only option to fill the void. As former IMF Chief Economist Olivier Blanchard noted coming out of the Global Financial Crisis (GFC), coordination between monetary and fiscal policy is critical to the recovery—even more so in the current crisis with its larger scale and our more limited monetary firepower. Treasury Secretary Steven Kennedy has made similar statements.

For the 2020-21 fiscal year, at least, we should be unconcerned with the size of the deficit and net debt, and do all we can to increase growth and employment. The Government can borrow today at an interest rate of just 0.8% and not have to repay for a decade. And the more we support the economy now, the faster we will grow in the medium term, helping deflate this debt over time. Now is no time for stinginess. The Treasurer's announcement that the Government may begin cutting spending or raising taxes once unemployment reaches 6% is premature and has the potential to threaten the recovery. But we can and should be prudent with further stimulus, allocating resources to the areas most likely to boost activity, provide additional social benefits, and minimise waste.

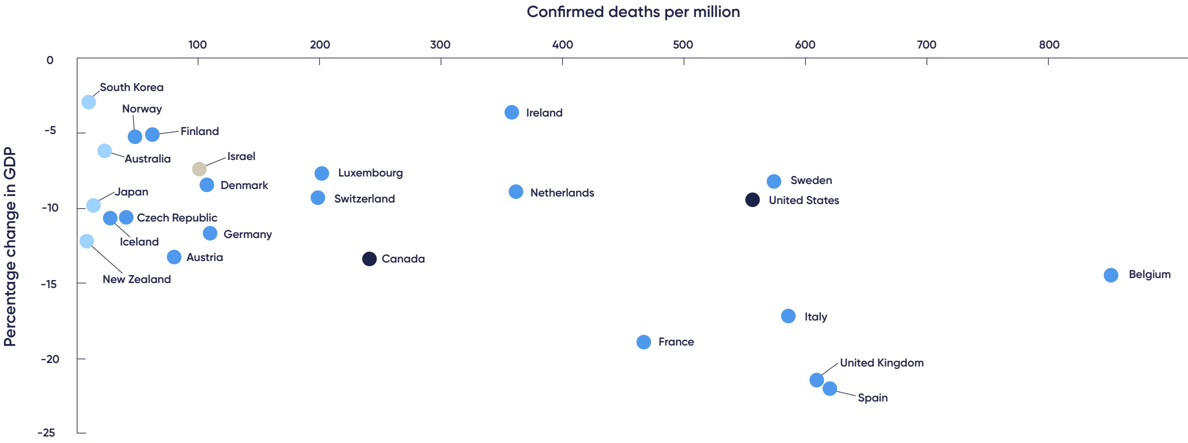


Figure 1 Confirmed deaths due to COVID-19 vs GDP decline
Source OECD 2020; Our World in Data 2020.

Note Data include the top 22 OECD countries by GDP per capita. Observations are coloured by region. Change in GDP reflects the change in GDP between the second quarter of 2019 and the second quarter of 2020.

Direct stimulus

Blueprint Institute proposes the immediate distribution of $1,000 to every adult in the country who in the 2019-20 income year earnt less than $100,000, plus an additional $500 for each dependent. This would cost around $15 billion. The Government should also distribute a further $750 payment (on top of the $1,500 already distributed) to the roughly one-quarter of Australians receiving some form of government assistance. This would cost around $4 billion. These payments, targeted at lower-income households, would significantly stimulate aggregate demand.

The Government should also bring forward its planned personal income tax cuts to 2020-21 to help boost employment in the near term, and drive growth over the next two to three years. Cash stimulus has only an indirect economic effect via the fiscal multiplier—if anything, its direct effect on employment is negative via the income effect. While tax cuts will no doubt have a lower indirect effect, being less salient and spread throughout the year, they have an additional, direct economic effect by raising after-tax wages and thus employment. This will help today, but even more so as the economy recovers. The Parliamentary Budget Office costed this measure at $28 billion over the next three years. All up, this represents $47 billion, or 2.4% of GDP, in much-needed stimulus split between cash payments and tax cuts.

Small business support

Small businesses have borne the financial brunt of social distancing during the crisis. One-off tax relief and the JobKeeper wage subsidy have provided critical support. But JobKeeper is to be reduced from October both in level and eligibility, and it will come to an end entirely at the end of March. Small businesses are in critical need of capital. Blueprint Institute has released a plan to offer revenue-contingent loans to small businesses in concert with subsidised financial health checks. The Government should adopt this plan to facilitate the orderly transition of businesses through the crisis, and to provide support for jobs and investment as the economy recovers. The Government's announced changes to insolvency arrangements will also help, and we welcome them.

There is strong international evidence that accelerated depreciation can have a significant effect on investment, as well as on employment and wages. The Government's extension of the elevated instant asset write-off to the end of the year was welcome. But we should go further. To provide additional support for businesses, and to help drive investment to support workers, Blueprint Institute recommends further extending the instant asset write-off through to at least June 30, 2021, and increasing the asset threshold to $250,000. The Government should also consider going further than accelerated depreciation via an investment allowance (in effect, granting greater than 100% depreciation); one such measure introduced during the GFC was found to have significantly boosted investment.

One shortcoming of JobKeeper is that it ties wage supports only to existing, adversely impacted businesses. Workers only receive a wage subsidy if they stay with an impacted business, rather than move to a growing business in need of extra workers. This was tolerable for a short lockdown. But tying up resources in this way for a prolonged period could hamstring the recovery. One option would be to make JobKeeper portable, but this might be difficult to implement. Alternatively, the Government could introduce a hiring bonus for any SME that hires a new worker and keeps them on the books. Half the subsidy could be paid after the first month of employment, and the other half after the employee reaches the end of probation. Small businesses form the engine room of the economy and drive the majority of innovation. With the job market likely to be depressed for some time, the Government will need to find creative ways to help small businesses kick-start the recovery.

Infrastructure

Infrastructure spending during a recession offers the potential for a double dividend: greater economic growth in the medium to long term via increased productivity, and increased activity and employment in the near term by deploying idle resources. But its effectiveness depends on ensuring those two outcomes—the investments must be both socially worthwhile and shovel ready. Prompted by the crisis, Infrastructure Australia recently released an updated priority list to address exactly this tension, including seven high-priority projects and 21 priority projects. These include Sydney's M12 Motorway, Perth's Morley–Ellenbrook METRONET line, Melbourne's M80 ring road upgrade, and Brisbane's Metro rail network. The Government should allocate significant funding to accelerate these and other priority projects.

Medium-term fiscal discipline

It is far too soon to sound the alarm over what is sure to be a large deficit and rapidly rising net debt. Withholding fiscal stimulus during the recession would prolong the contraction, doing even more harm to the budget in the medium term. Fiscal supports are likely to be needed for some time. But that doesn't mean we shouldn't put our minds to the state of the budget on the other side of the crisis. Indeed, each year in the budget papers, the Government lays out its projections and strategy for the period beyond the forward estimates.

In this budget, we expect to see a credible plan to address the longer-term challenges facing the budget, which existed long before the crisis and have only been exacerbated by it. The primary force that has brought the budget towards balance in recent years is fiscal drag: the increased tax burden automatically imposed on wage earners even if their wages stagnate in real terms. But that is a growth killer. Under business as usual, we will be saddled with low wage growth, ballooning government spending, and a decrepit tax system—combined, these make it difficult to see a credible path to paying down nearly $1 trillion of net debt.

Today, the Government's ability to finance spending is effectively unlimited. Despite record borrowing, interest rates remain at record lows. But that won't last forever. While today's spending can be locked in for a decade or more at record-low rates, much of it will eventually need to be rolled over at a time when interest rates are higher. Following 15 years of growth, net debt had been paid down as we entered the GFC, before shooting up (see Figure 2). We'd hardly begun paying that debt down before entering this crisis—and we may not have begun paying this debt down before entering the next one. A ratcheting up of net debt over time would pose a risk to financing critical spending during a future crisis. Even if that risk is remote, its consequences would be so dire that we must take it seriously. Past prudence (alongside a good dose of luck) paid dividends in the last two crises—future discipline will be needed to confront the crises that lie ahead.

Budget process

The foundation for good fiscal discipline is a good budget process. The economic forecasts laid out in the budget must be determined independently, free from political influence. Other countries, such as the UK, have moved to formally separate forecasting from the political process; this is a change worth considering in Australia. The Government should explicitly account in the budget for the structural and cyclical deficits—that is, identify the impact on the budget of temporary factors such as automatic stabilisers and discretionary tax and spending decisions during a downturn. The politicisation of debt and deficits has the potential to constrain the Government during a crisis. The Government must reestablish a rigorous and independent Intergenerational Report. The Report was due to be released in June 2020, but has been delayed indefinitely. We cannot allow a short-term crisis to distract us from addressing longer-term structural challenges.

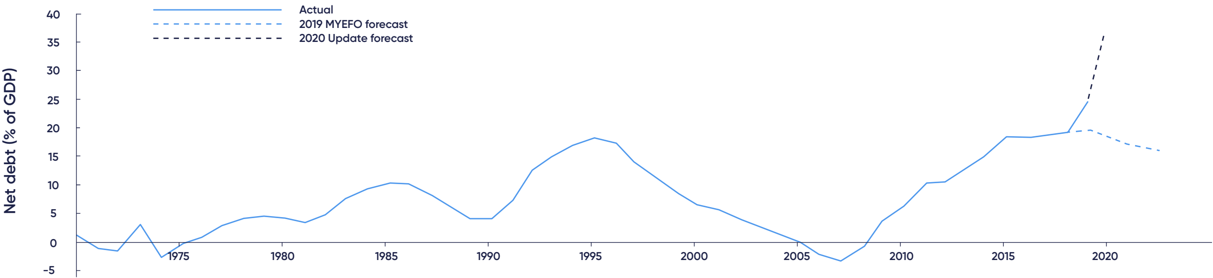


Figure 2 Federal government net debt as a percentage of GDP, 1970–2022
Source Australian Treasury.

The Government should strengthen its medium-term fiscal strategy by committing to draw down net debt faster than by fiscal drag alone. When wages grow in nominal terms, tax receipts grow automatically as a greater share of incomes are taxed at progressively higher rates. But that is a lazy and inefficient means of budget repair. A better fiscal consolidation will require active decisions. Further, the 23.9% of GDP cap on tax receipts, pegged at the level following the GST introduction, is arbitrary. It fails to reflect the necessary increase in government spending that has occurred over time in health, aged care, and disability support, and unduly constrains policymaking. The solution to these inevitable spending pressures isn't to starve the beast—it is to redesign our tax system so additional revenue can be raised more efficiently. The Government must be honest and upfront about our future obligations.

Tax reform

It's been two decades since we reformed our tax system. The one we have today has: a narrow base and rates that are either too high or too low; is hopelessly complex and thus costly to administer and comply with; and encourages rampant tax avoidance and a raft of other undesirable behaviours. The 2010 Henry Tax Review was a sound process producing some good recommendations that could form a commendable tax reform agenda. It has been completely ignored. The only effort since, the 2014 Tax White Paper, was unceremoniously killed. If we're to have any hope of generating the growth we need after the crisis, we need a better tax system. The Government should launch a new tax reform process. Everything must be on the table—all taxes (including the GST), tax expenditures, and transfers.

Compassionate social initiatives

Much of the coverage since the crisis began has focused on its immediately visible effects: cases and deaths due to the virus, and jobs and businesses lost due to the economic fallout. But the crisis has also had a range of less visible, but no less damaging, impacts on vulnerable people. The policy response must extend far beyond funding for health services and stimulus measures to combat the direct economic impacts of the virus. Compassionate social policy is a critical safety net to protect disproportionately affected groups, such as women, young people, and those with mental illness. Certain policy options, like social housing, can also provide economic stimulus.

Female workers and childcare

While existing measures are welcome, the Government should do more to help certain groups. For instance, in response to the crisis, the Government has announced measures intended to boost activity in construction, where 88% of workers are men. In contrast, the Government chose to defund the Early Childhood Education and Care Relief Package, which had been available until July 12. This program had been recognised as highly successful in supporting an industry under threat from the pandemic, and one dominated by female workers who are largely lower paid. If the childcare sector struggles with insolvencies when JobKeeper ends, women will suffer most. The Government should provide further targeted support to this and similarly affected sectors.

Young people

The economic fallout has disproportionately affected young people. According to the National Skills Commission, young people accounted for 45% of the total decline in employment in May, despite comprising just 16% of the population. Youth unemployment in Australia reached 16.3% in July, a level not seen since 1997. The Treasury has studied the negative effects of weak labour market conditions at the point of graduation on an individual's working life and economic standing. A 5% increase in the youth unemployment rate reduces graduate earnings by 8% in the first year of work and 3.5% four years later. Governments should consider targeted policies to improve youth labour force participation and negate the lasting effects of the COVID-19 recession on young people's working lives. Interventions should go beyond unemployment insurance, and could include targeted training, mentorship schemes, or support for specific industries with high youth concentrations.

Domestic violence

A government survey conducted in May reported that over 10% of Australian women had experienced at least one form of emotionally abusive, harassing, or controlling behaviour during the pandemic (see Figure 3). Two thirds of those women said that such abuse had started or escalated since the onset of the pandemic. Google has reported a 75% increase in internet searches related to support for domestic violence in Australia. In response to this trend, the Government introduced a $150 million emergency package to increase support for women and children through existing counselling and support programs, as well as a new public campaign to ensure those affected know where to seek help. Significant additional support is warranted to combat this scourge.

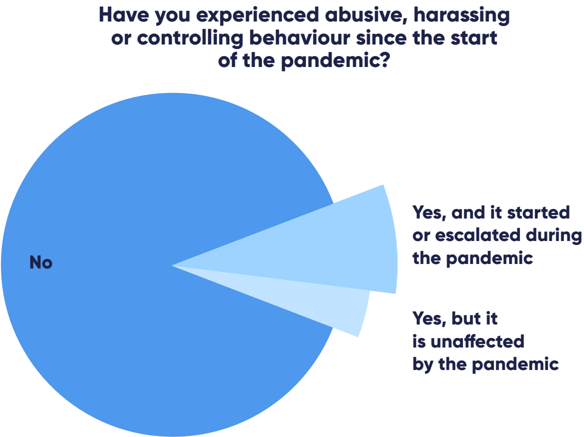


Figure 3 Domestic abuse during the COVID-19 crisis
Source Australian Institute of Criminology.

Mental illness and suicide

Research has shown that unemployment negatively affects mental health. And there is a strong relationship between declines in GDP and suicide rates. In 2009, at the height of the GFC, suicide rates rose by up to 7.5% in some countries. In Australia, the economic shock of the GFC, which caused a relatively minor increase in unemployment from 4.0 to 5.8%, coincided with an increase in suicide rates for unemployed Australians of 22% for men and 12% for women.

COVID-19 is causing a much more severe economic shock than the GFC, raising concerns about its impact on suicide and mental illness, and social distancing is likely to exacerbate these effects. Preliminary studies have revealed a marked decline in the mental health of Australians during the pandemic. 78% reported their mental health had worsened since the outbreak, and over 50% reported elevated levels of depression, anxiety, and stress. Recent analysis suggests the economic cost of increased rates of mental illness due to COVID-19 could exceed $114 billion over the next five years. It was prudent to extend the option for bulk-billed Telehealth appointments to psychologists, GPs, and psychiatrists. But this arrangement is set to expire at the end of March. It should be made permanent to continue to facilitate greater access to mental health services through the recovery and beyond.

Social housing and homelessness

Australia currently has a shortfall of 437,600 social housing units, which is set to rise to 728,700 by 2036. In the long run, better housing has been linked to improved health outcomes, which could reduce government expenditure on other services. Reducing rates of homelessness generates a significant social return on investment: SGS Economics found that for every dollar spent on 'last resort beds', $2.70 in benefits are generated over a 20-year period. Stimulus aimed at expanding the supply of social housing in Australia would also be a welcome boost to the construction sector, which has been hit hard during COVID-19. After the GFC, KPMG found that the $5.6 billion Social Housing Initiative led to the construction of 19,700 new homes and the creation of 14,000 jobs. The Government should consider rolling out an expanded version of this scheme as soon as possible.

Clean, cheap, and reliable energy

The COVID-19 crisis has been an unavoidable distraction from many long-run challenges—chief among them, climate change. But while the virus rages, the earth continues to warm, with business as usual set to yield a devastating increase in global temperatures this century. Rather than an impediment, we should see the pandemic as a catalyst for confronting climate change. We should harness the sense of community developed over the past six months to tackle this other great collective action problem. And we should exploit the fact that many investments in clean energy will pay dividends in greater economic activity. Recent history bears scars of the politicisation of energy policy in Australia, but it doesn't need to be this way. Clean energy can be in all of our interests.

Applying an economy-wide carbon price would be the most efficient response to climate change, but this seems unlikely in Australia. There is also little momentum behind second-best, system-wide alternatives such as the National Energy Guarantee. But we must do something. The only remaining option is for the Government to provide further direct incentives to decarbonise our energy, transport, agriculture, and industry sectors. This will unfortunately come at a higher cost than via a carbon price, but the case for action remains. Only the Government can solve this problem; in setting the right incentives for private investment, and providing targeted funding for specific projects of high social value.

CEFC Innovation Fund

Australia has a strong history of supporting research, development, deployment, and commercialisation to successfully advance renewable energy technologies. The Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC) have helped to drive down the cost of clean technologies and 'crowd in' private-sector investment. There are important breakthroughs still to be made in other clean technologies like batteries and green hydrogen. These could unlock new export opportunities, decarbonise industry, and enable reliable firmed power to be connected to the grid as more variable solar and wind resources come online. We welcome the recent announcement by the Government to refinance ARENA with $1.62 billion in baseline funding over the next 10 years. This will fast-track research, development, and deployment of clean technologies. During this period, ARENA's independence should be protected, and legislation should allow for funds to be rolled over if required.

Commercialisation funding works hand in hand with R&D; as ARENA funds new clean technologies in the 2020s, promising companies could benefit from the CEFC's support to reach commercial viability. More could be done to provide seed, equity, and debt financing to emerging clean-technology companies. The Government could provide additional funding to the Innovation Fund, the CEFC's venture-capital arm, which currently has $200 million available for equity investments. This 'pull-through' mechanism would complement the Government's Technology Investment Roadmap. Any additional funding could be paired with a reduction in the mandated rate of return (e.g., to a weighted average of the five-year long-term Government bond rate plus 2–3%, from plus 4–5% currently), and providing greater flexibility for the CEFC to pursue high-risk/high-return investments.

Publicly finance transmission

Solar and wind are now the cheapest form of new electricity generation, yet our transmission infrastructure isn't set up for them. Governments routinely play an enabling role in shaping Australia's energy system through investment in public infrastructure to support energy transport and transmission, such as ports, pipelines, and power lines. The Government has made commitments to support transmission, such as recent legislation authorising the $1 billion Grid Reliability Fund (GRF). Announced in October 2019, the GRF will be administered by the CEFC

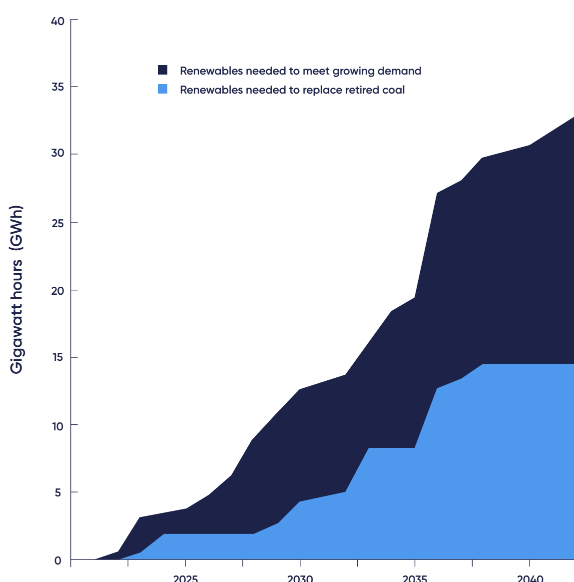
as part of the Underwriting New Generation Investment (UNGI) program. An additional $1 billion to the CEFC is a small step in the right direction to ensuring reliable, low-cost, and secure electricity for Australian consumers and businesses. But the GRF doesn't go far enough.

Transmission is an enabler of renewable energy—without it, significant new investments in renewable generation simply won't happen. A Grid Expansion Fund should be introduced alongside the GRF to fund those projects outlined as critical by AEMOs 2020 ISP. In addition to enabling the production of more renewable energy, this would generate jobs at a time of high unemployment, both on the transmission lines themselves and on the renewable energy projects they're connected to.

Account for carbon emissions in regulatory tests

Every transmission project must pass a Regulatory Investment Test—Transmission (RIT-T), intended to select "the [most] credible option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity". The RIT-T was designed with the best of intentions: to protect consumers from high energy prices. But by design it fails to take into account carbon emissions. The lack of a price on carbon means transmission assets that would be beneficial to decarbonisation are not being brought online. But decarbonisation must happen: large quantities of coal-fired generation are scheduled to go offline, and this capacity will need to be replaced. Over 63% of Australia's coal generation will reach the end of its technical life and likely retire by 2040. This amounts to 15GW, around a quarter of the National Electricity Market's (NEM) capacity in 2020 (see Figure 4). To replace this generation and meet additional demand from a growing population, AEMO predicts we'll require at least 26GW (and potentially up to 50GW) of variable renewable generation to be online by 2040—more than 40% of the NEM's current capacity.

The current regulatory requirement is an impediment to replacing this capacity and to broader decarbonisation efforts. Slow regulatory approvals through the RIT-T are holding back necessary and inevitable investment in new transmission, creating uncertainty for investors and raising reliability concerns. An expedited review of the RIT-T should be conducted by AEMO, AER, AEMC, and ESB. A new test, which explicitly accounts for carbon emissions, should be introduced as soon as possible.



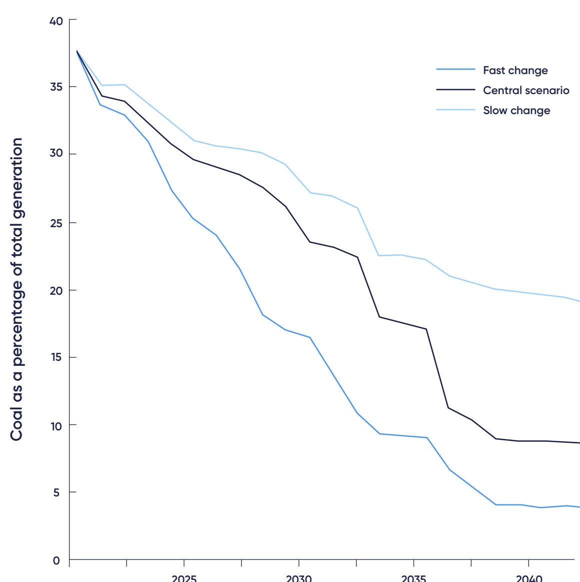


Figure 4 Replacing coal-fired generation with renewable energy, 2020–2042

Source AEMO 2020 Integrated System Plan.

Note In AEMO's modelling, the central scenario is determined by understanding market forces and assuming current federal and state government policy. Thus, without further interference in the market by governments, just under 15 GW of coal generation will retire before 2040. Under the central scenario, 31 GW of renewable generation is required to come online by 2040.

Igniting the next boom

Productivity and wage growth have been stagnant in Australia for almost two decades (see Figure 5), with the country's prosperity propelled by mining and asset booms that won't last forever. On measures of economic complexity, a key indicator of the development of new industries, Australia is tied with Angola. Australia is ranked 22nd by Cornell Business School and INSEAD's Global Innovation Index, 16th in competitiveness by the World Economic Forum, and outside the top 20 nations on multiple indicators of industry and business collaboration. While complex regulation and burdensome taxes raise barriers to firm entry and growth, as well as deter foreign investment, the Government should also look beyond these to the structural incentives to work, train, and start a business in Australia.

Redesign JobSeeker

Winding back the increase to JobSeeker too quickly would dampen activity at precisely the wrong time. A recent Deloitte Access Economics report outlined how the Government's current plan to wind back the coronavirus supplement could cost the economy $31.3 billion and 145,000 jobs over two years. But even as the economy recovers, the payment must continue to more than cover the cost of basic necessities. This isn't only a humanitarian argument, but also an economic one. There is strong evidence that more generous unemployment insurance—both in level and duration—can improve the labour market by generating better worker-firm matches. With a stronger safety net, people can search for a job for longer to find a better fit, serving them, their employer, and the economy.

As it stands, JobSeeker is not fit for purpose. Australia is virtually alone among advanced countries in providing a very low payment of unlimited duration. And the mutual obligation conditions, requiring job seekers to apply for many jobs to continue to receive the payment, impose a burden on businesses. One obvious improvement to the system would be to introduce an initial, much more generous payment equal to a reasonable fraction of the recipient's former wage. Payment would be triggered by an unemployment spell and be time limited, but without mutual obligation. This would be a true form of unemployment insurance that would give people the support they need to find the right job for them. At some point, the benefit would revert to a lower rate, providing a strong incentive for recipients to find work.

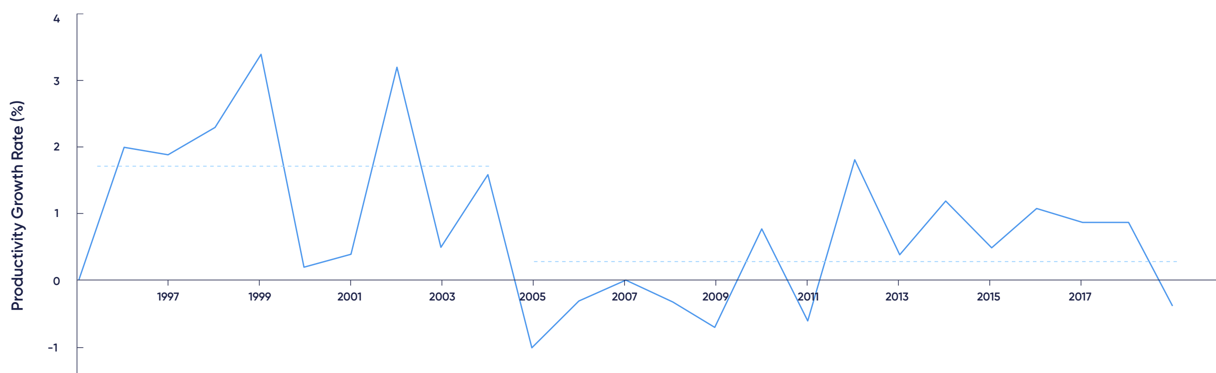


Figure 5 Multifactor productivity growth rate in Australia, 1995–2018

Source Australian Bureau of Statistics.

Note Averages correspond to the 1995–2003 and 2004–2018 periods reflecting the structural break from 2004.

Higher-education reform

In the wake of COVID-19, a million Australians are out of work. In July, the Treasurer reported the unemployment rate would rise to around 9.25% in the December quarter. The unemployment rate fell 0.7% from July to August as parts of the economy came back online. But further gains in employment are likely to be harder to come by. Higher-quality training programs that are fit for modern jobs in a post-COVID-19 economy will help get more Australians back to work. A 2019 review of the VET system found that industry-led skills organisations would be well placed to develop training that meets labour market needs. Nationally consistent information on course structure and transparent data on graduate outcomes will increase competition, improve quality, and empower students to make better choices about their career.

Universities have been one of the worst-hit sectors during the COVID-19 crisis, with international students barred from entering the country and the sector carved out from the JobKeeper program. Modelling indicates the sector is facing a fall in revenue of $18.1 billion for 2020–24. In 2024, fee revenue will still be 25% lower than in 2018. Given that around half of university R&D expenditure comes from fees, and that around half of all R&D expenditure occurs in universities, this reduction in revenue not only impacts the institutions themselves, but also their ability to contribute productively to the economy.

Much of the blame for this predicament lies at the feet of university administrators, who decided to commit capital and permanent recurrent spending on the basis of a temporary foreign student bubble. And ballooning administrative, advertising, and executive compensation expenditures at Australian universities have raised doubts about just how committed universities are to the public good. We should consider whether the corporatisation of Australian universities—with all of the zero-sum expenditures that go with it—has served the public interest. The Government should commit to a root-and-branch review of the university sector, which should see significant increases in both public and private funding, but only on the basis of tangible outcomes and tight restrictions on how those funds are used.

Support research and commercialisation

Research and development (R&D) has elements of what economists call 'public goods'—there are spillovers onto other firms, with new ideas starting a virtuous cycle spawning yet more new ideas. This means R&D will be underprovided by the market, justifying government support. Australia spends just 1.79% of its GDP on R&D (compared to 2.38% for the OECD on average), and this has steadily declined for more than a decade (see Figure 6). Since March, many countries have committed to increase R&D spending. The EU, for example, has committed to investing an additional €17 billion (AU$27.5 billion) in science agencies through to 2030. And the UK has doubled its R&D expenditure to £22 billion (AU$39 billion) a year. Australia should do more.

Additional funding should improve ties between universities and industry. Here, Australia can take inspiration from Canada's implementation of 'superclusters'. The Canadian Government asked business leaders to collaborate with research institutions and universities to develop 'job-creating superclusters of innovation'. The Canadian Government has pledged over AU$1 billion to develop these superclusters with matched funding from the private sector. They are expected to increase Canada's GDP by more than AU$54 billion over 10 years.

Support young and rapidly growing firms

Innovation and technology will be central pillars of our prosperity in the coming decades. Israel produces more tech startups per capita than any other country. In 2019, Israeli technology companies raised US$9 billion (AU$13.7 billion), and more than 30 Israeli companies were classified as 'unicorns'—startups valued at over US$1 billion. In contrast, Australia has just six unicorns, with AU$7 billion invested in 2019, despite our population being nearly three times greater. In 2019, the Israel Innovation Authority

provided AU$750 million for 1,650 R&D projects, contributing to a national R&D spend of almost 5% of GDP. Grants are repayable at a rate of 3–5% of royalties, allowing companies to grow. In addition to an incubator that provides business advice, the program offers a 4-year grant scheme covering 25% of the salary of each new employee on average, boosting job creation. Australia would do well to be more like Israel.

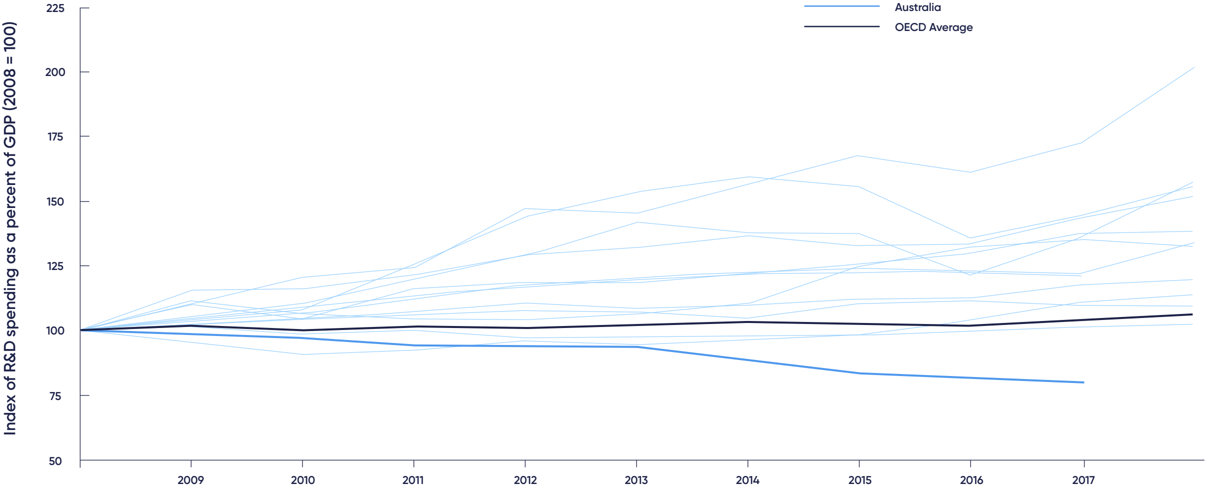


Figure 6 Change in R&D, Australia vs select OECD countries, 2008–2018

Source OECD.

Note Indicated OECD countries with increased R&D include: Austria, Belgium, Czech Republic, Denmark, Germany, Hungary, Israel, Netherlands, Norway, Poland, South Korea, Switzerland, and the United States.

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