Blueprint Institute

Submission to the 2022-23 Federal Budget

Introduction:

In many ways the pandemic rages on; in others it feels like we're slowly returning to normal. But policymakers should ask themselves the question: *Is getting back to normal good enough?*

Our economy was barely growing as the crisis struck. Investment, productivity, and wage growth were all stagnant. And while unprecedented levels of spending were clearly necessary at the time, we now face historically high levels of debt that will require a sustained boost in economic growth to overcome. With a renewed sense of ambition, policy makers should look beyond the immediate health, economic, and fiscal recovery towards long-term prosperity. Rather than merely returning to business as usual, this is our opportunity to engage in genuine policy reform and spark the next economic boom.

The decade we have is up to us. It could be just like the last one—marred by fits and starts of policy reform and a stagnant economy. Or it could be like the last twenties in much of the Western world—an era of rapid economic growth with a distinct cultural edge. Certainly the Federal Government has started the decade with a demonstrated commitment to innovation, digitalisation, and policy reform. Just like we emerged in style from the shadow of World War I and the Spanish Flu pandemic, these twenties can be roaring too.

Summary:

1. Unleashing Innovation

Innovation is key to unlocking the next boom in economic prosperity, and innovation leaders have clearly demonstrated the growth opportunities of counter-cyclical investment.

RESEARCH & DEVELOPMENT | *Establish a reputation as the leading centre for clean energy and biotechnology research and commercialisation in the Asia Pacific.*

DIGITAL TRANSFORMATION | *Invest in a small business digital transformation strategy to equip SMEs and individuals with the skills they need to exploit emerging technology.*

START-UPS | *Increase risk appetite for transformative entrepreneurship and prioritise investment in start-up funding through a consolidated Australian Federal Innovation Agency (AIA)*

2. Inclusive Investment

Alongside the traditional options, Australia's investment approach should be smart, multiplicative, and bring all Australians along for the ride.

ENERGY INFRASTRUCTURE | *Continue to invest in retrofitting public buildings, EV charging infrastructure, and regional Renewable Energy Zones (REZs).*

REGIONAL AND SUBURBAN TRANSPORT | *Fast-track shovel-ready projects in rural transport networks,continue to evaluate fast rail plans to regional centres, and lead decarbonisation efforts through procurement and updating the luxury car tax to ensure fuel efficiency.*

SOCIAL HOUSING | *Invest further in building energy efficient social housing to stimulate construction jobs and empower vulnerable people currently marginalised from the labour force.*

THE ARTS | *Grow investment into the arts and entertainment sectors through competitive grants.*

3. Prioritising People

Productive labour drives economic growth, so investing in human capital is critical.

MIGRATION | *The Federal Government should fast-track the acceptance of fully vaccinated, skilled migrants to contribute to the early education, health care, and construction industries, including in rural Australia.*

TRAINING | *Develop targeted, employer-driven training pathways to upskill displaced workers.*

EARLY LEARNING | *Increase childcare funding and consider Federal-state partnerships to trial universal kindy from age four.*

DFAT FUNDING | *Restore funding and focus to the diplomatic mission of the Department of Foreign Affairs and Trade.*

Recommendations:

1. Unleashing Innovation

Innovation is key to unlocking the next boom in economic prosperity, and innovation leaders have clearly demonstrated the growth opportunities of counter-cyclical investment.

RESEARCH & DEVELOPMENT | *Establish a reputation as the leading centre for clean energy and biotechnology research and commercialisation in the Asia Pacific.*

Australia should become the California of the region by building a reputation as the dominant hub for knowledge creation in the Asia-Pacific. There are a variety of actionable structural reforms that the government should consider to incentivise such investment. Boosting tax incentives would be one simple improvement. But the government must do more to play its part by getting the ball rolling in industries of the future. For example, Australia has one of the lowest rates of "sustainable" spending in the OECD.

Just 12% of our COVID-recovery spending can be classified as "sustainable", compared with an OECD average of 18% (Figure 3). The Treasury must lead the way by dramatically ramping up grant funding for projects like green hydrogen research, strengthening state partnerships on infrastructure investments and removing regulatory barriers to investment in renewable energy initiatives. In line with the Electricity Infrastructure Roadmap, a generous level of federal support for clean R&D would attract private capital to Australia and position the country as a leader in research, development, commercialisation and deployment of clean energy technologies. Federal R&D funding was temporarily increased during the pandemic by one off measures but prior to this spending as a proportion of GDP had declined for the last decade. Such a trend should be reversed as we emerge from the pandemic.

Biotechnology too boasts undeniable potential. The Federal Government must build on the good work of the states which have supported initiatives like NSW's Statewide Biobank and MedTech Knowledge Hub to become a world-class leader in novel medical therapies. Partnering with state governments, and private industry to develop new domestic manufacturing capacity for mRNA vaccines and other resources needed to continue to fight the current pandemic would be a good start. The Government should seek to consolidate existing biotechnology clusters around our universities to attract private investment from home and abroad. Such support would boost our domestic manufacturing capabilities in this area.

Federal initiatives like the Medical Research Future Fund and Venture Capital Limited Partnerships could be used to achieve targets like domestic mRNA vaccine production. However, this should be complemented by moves such as liberalising the rigid definition of R&D to unlock more private spending. The current definition, unlike the R&D definition used in other jurisdictions such as the UK, discourages early stage R&D where projects are less certain or resources more sparse.

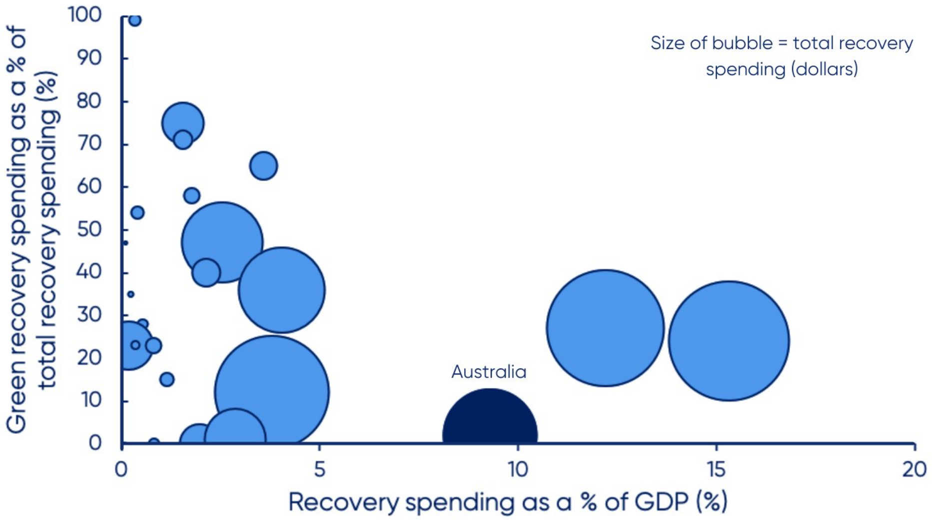

Figure 3: Green investment as a fraction of total recovery spending across OECD countries
Source: Global Recovery Observatory

START-UPS | *Increase risk appetite for transformative entrepreneurship and prioritise investment in start-up funding through a consolidated Australian Innovation Agency (AIA).*

The Federal Government should provide critical support to domestic start-ups and boost productivity by following the model of the Israel Innovation Authority (IIA). Israel is famous for producing more tech start-ups per capita than any other country. In 2021, Israeli start-ups raised USD$25.7 billion (A$36.65 billion) with 34 Israel-based companies now classified as 'unicorns'—valued over one billion USD. By contrast, Australian start-ups raised just USD$1.6 billion (A$2.3 billion) in the record year of 2020, and Australia has only six unicorns to date. Israel's success is no accident, with the IIA funding 1,650 R&D projects in 2019 at a total investment of A$750 million. At five percent of GDP, Israel's R&D spending almost doubles the OECD average, while Australia's investment in recent years has dwindled to well below two percent (Figure 2).

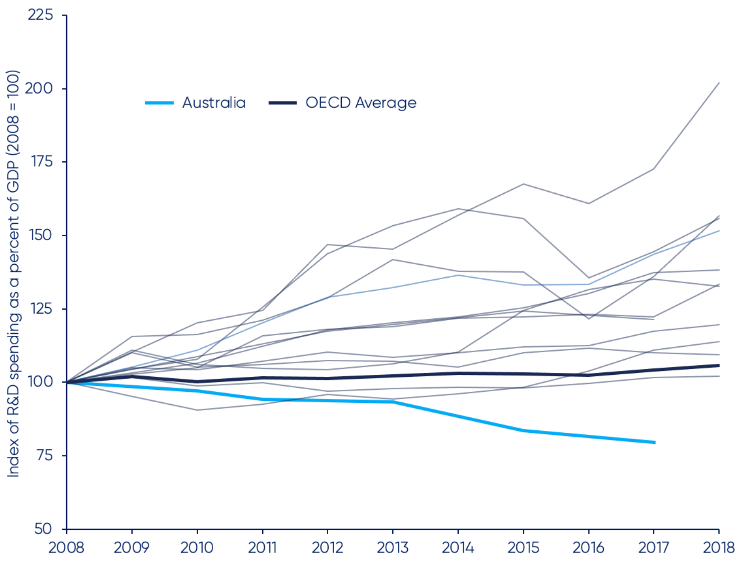

Figure 2: R&D spending across OECD countries, 2008–2018
Source: OECD

The Federal Treasury should leverage its previous cooperation with the IIA to learn from the Israeli model and adopt an equivalent agency to drive domestic, Australian innovation. Combining cooperation with equivalent state-level agencies and initiatives, and increased grant funding would build on the good work already done by state-based programs like the Sydney Startup Hub, The Precinct in Queensland, and the New Industries Fund in Western Australia. Additional measures could include special financial incentives for projects in regional areas. Learning from the IIA, the Federal Government should also consider taking equity in start-ups that it supports. Without serious investment, our best ideas will continue to to move off-shore and find venture capital elsewhere.

DIGITAL TRANSFORMATION | *Invest in a small business digital transformation strategy to equip SMEs and individuals with the skills they need to exploit emerging technology.*

There's no doubt that digitalisation is the way of the future. The pandemic has fast-tracked the digitalisation of a range of commercial and public services. But there's more to be done. Fostering a pervasive culture of rapid digitalisation amongst SMEs in the private sector is critical for Australia to remain competitive. Ramping up the digital competency across all SMEs—including in Australia's regions—through centrally coordinated collaborations, training, service-provision, consulting, and grants will allow Australian businesses to adapt to a changing world. This would build on the foundation of existing plans to boost open data.

Opportunities in increased remote work, more efficient internal processes, and greater market access through global e-commerce would all become accessible. Now is the time to fast-track this progress, helping any remaining businesses to get over the line with online delivery capacities. Domestic industries could even be convened to partner in digitally integrated supply chains. All of this would particularly aid rural businesses as well as accelerating the provision of private telehealth and distance education services.

Critical to the development of an efficient and transparent research sector in service of the public and commercial good is the uninhibited dissemination of ideas. The Federal Government should close loopholes in the ARC Open Access Policy that allow grant recipients to avoid Open Access publishing. Only 40% of research in Australia is Open Access, and research hidden behind paywalls is inherently exclusionary. Support for high quality Open Access publishers and platforms is required to create the right publishing incentives so that researchers are not penalised by their funding sources. These policy settings are highly supportive of the commercialisation of research.

2. Inclusive Investment

Alongside the traditional options, Australia's investment approach should be smart, multiplicative, and bring all Australians along for the ride.

ENERGY INFRASTRUCTURE | *Continue to invest in retrofitting public buildings, EV charging infrastructure, and regional Renewable Energy Zones (REZs).*

There's no doubt that the clean energy transition will be a leading source of growth and opportunity in the coming decades. So it makes sense to get on board today. Retrofitting public buildings for greater energy efficiency would increase demand in clean tech markets, cut emissions, and could generate up to a five-fold return on capital. Projects can be actioned quickly, locally, and with a high long-run economic multiplier. Working in tandem with vocational education providers to build a skill base, the Government could also foster much-needed domestic capability in energy efficient retrofitting for private consumption.

The Federal Government has already announced plans to improve access to EV charging infrastructure—one of the most cost-effective strategies available to stimulate the uptake of electric vehicles. But the expansion of the $250 million Future Fuels Fund Further does not do enough to ensure this vital infrastructure is built. Such a fund should be expanded. Further support for Renewable Energy Zones (REZs) could also be considered. For instance, REZs in NSW are expected to benefit regional areas to the tune of $20.7 billion by 2030—providing 5,200 peak construction jobs and 1,700 ongoing jobs. Accelerating these projects through recovery spending, supporting state-level collaboration, and skills development is a no-brainer.

The Federal Government must also ensure its energy infrastructure investments are mindful of the evolving electricity market, so that taxpayer dollars are not wasted on inefficient and shortsighted investments. The Government is enthusiastically committing to public investments in gas infrastructure as an avenue for softening our transition to renewables and guaranteeing affordable and reliable electricity. But it is crucial to acknowledge that there is a cacophony of disagreement and debate amongst experts in this policy space. Some research has argued that replacing coal-fired generators with gas would be more expensive than switching to renewable alternatives.

As a leading supporter of Australia's emerging potential in green hydrogen, the Government is well-placed to appreciate the risks and potential inefficiencies of investing in significant gas infrastructure, if it leaves alternative opportunities on the table. And while gas prices may have spiked over recent months, this does not mean that Australian gas will find a lucrative international export market. There remains limited knowledge and broad disagreement about its role in a decarbonising energy market, and further research is required before taxpayer dollars are committed.

REGIONAL AND SUBURBAN TRANSPORT | *Fast-track shovel-ready projects in rural transport networks, continue to evaluate fast rail plans to regional centres, and lead decarbonisation efforts through procurement and updating the luxury car tax.*

Despite increasing trends in remote work, hybrid models are likely to still require at least some weekly commuting in the long run. Infrastructure investment is a tried and tested lever of economic recovery, with an average short-term fiscal multiplier of 1.53 within two to five years. Immediate maintenance and extension projects should be expedited in accordance with existing plans to mitigate lengthy lead times. Meanwhile, larger commitments to connect regional centres through fast rail should continue to be evaluated and progressed.

The Inland Rail project along the east coast, in particular, is sorely needed to alleviate bottlenecks in the country's rapidly growing freight needs. However, both the Senate and local residents have raised concerns over the spiralling cost and proposed route of the project. It is critical that the Federal Government exercises oversight over the project and encourages the Australian Rail Track Corporation to improve its public consultation process—especially with late-stage or unexpected changes. The concerns of affected local residents must be taken into account in order for the project to maintain public support, deliver on its promise and avoid further costly delays.

The Government should lead by example in the national effort to decarbonise Australia's economy. Government procurement is a powerful tool for decarbonising the economy. It acts as a guarantee of demand and encourages private sector investment and innovation. A good first step would be to substantially reduce the Federal Government's operational carbon footprint by prioritising the procurement of electric vehicles for the public service. Such procurement does not necessarily represent a further spending commitment given the falling cost of electric vehicles. Other national governments, such as Japan, Canada, and New Zealand, and the United States are already committed to replacing their existing vehicle fleets with electric vehicles. Australia should follow suit.

Updating the luxury car tax would also encourage Australian's to purchase lower emissions vehicles. The government's luxury car tax has been in existence for over a decade. But it is outdated and poorly designed. The LCT does not differentiate between those vehicles that the government defines as 'fuel efficient' and ones that are ULTRA-low emissions, electric or otherwise. Indeed, the government's definition of 'fuel efficient' is far too broad.

In order to qualify for a higher threshold for LCT, an Australian consumer merely has to purchase a vehicle with an average, or worse than average, fuel efficiency. Such an oversight is completely unpalatable as we begin the necessary transition of our transport system. The LCT should be completely overhauled to encourage the purchase of truly low-emissions and electric vehicles. Fully electric vehicles should be exempt from LCT altogether. Moreover, the fuel efficiency measure limit at which a vehicle is eligible for the higher 'fuel-efficient' threshold should be decreased to 6.4 litres per 100 kilometers for the current year. This should then be decreased in line with the federal chamber of automotive industries own standards by 2030, to 4.3 litres per 100 kilometers. This will increase the uptake of low-emissions and ultra-low-emissions vehicles.

SOCIAL HOUSING | *Invest further in building energy efficient social housing to stimulate construction jobs and to empower vulnerable people currently marginalised from the labour force, and investigate the piloting of rent-to-buy schemes that could alleviate housing affordability challenges for Australians.*

Social housing is another economically responsible investment focus. In 2019, Australia had a shortfall of 437,600 social housing units, which was projected to rise to 728,600 by 2036. In the long run, improved housing has been linked to improved health, justice, and educational outcomes, and reduced government expenditure for other services. This is particularly true as we emerge from the pandemic. Reducing rates of homelessness generates a significant social return on investment—for every dollar spent on 'last resort beds', A$2.70 in benefits are generated over a 20-year period.

Stimulus and red-tape reduction efforts aimed at expanding the Australian supply of energy efficient social housing—and access to it—would be a welcome boost to the construction sector, which was hit hard during COVID-19. After the Global Financial Crisis, 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 Federal Government should support the efforts of state governments, such as VIC and NSW, who recently committed $5.2 billion and $812 million respectively to such initiatives.

Rent-to-buy schemes should be investigated as a potential mechanism to allow economically disadvantaged people a path to homeownership. A rent-to-buy scheme—supported by policy, not taxes—would let renters lease an apartment at a subsidised rate for 10 years with the option to buy that apartment at the end of the lease for a price agreed upon at year one. This could expand the ranks of homeowners and help alleviate housing affordability pressures. Blueprint Institute will publish detailed research investigating housing affordability later this year.

THE ARTS | *Grow investment into the arts and entertainment sectors through competitive grants.*

The arts sector contributes $14.7 billion to GDP. From an economic standpoint, investment in the arts checks out. Due to its higher labour intensity, the sector employs 4.3 people for every million dollars of turnover, compared with 1.2 people in building construction. it's also inclusive, with over half of these jobs going to women, compared with less than 20% in construction. This kind of cultural investment also enriches the broader social fabric of Australia through a variety of positive channels.

The arts sector suffered major setbacks during the pandemic. Meaningful industry support will be crucial for the arts to bounce back. The pandemic provides a unique social stimulus that could unleash a wave of creativity. The Federal Government should seize this opportunity by establishing a $3 billion Arts Future Fund. With net returns of the fund being reinvested to ensure ongoing support for the arts, it could stimulate our nation's creativity in an economically beneficial manner.

3. Prioritising People

Productive labour drives economic growth, so investing in human capital is a critical pillar for recovery.

MIGRATION | *The Federal Government should fast-track the acceptance of fully vaccinated, skilled migrants to contribute to the early education, health care, and construction industries, including in rural Australia.*

Given a historically low unemployment rate of 4.2% and a near-record-high participation rate of 66.1%, there is little slack remaining in Australia's labour market to address the nation's pronounced skills shortage. Nationally, over a quarter of small businesses reported that they could not find suitable staff, and job vacancies increased by 19% in the November quarter, up 56% from the same time last year. In 2021, SEEK featured the greatest number of job ads in its 23-year history, while applications per ad were at their lowest since 2012. Key shortages where strong demand is forecasted include pre-primary teachers, and countless specialisations related to construction, engineering, health, and the care economy.

These shortages hamper labour market efficiency and small business growth. Furthermore, Treasury's capacity to effectively invest in its priorities—for example, expanding infrastructure, coping with an ageing population beyond the public health crisis, and keeping pace with increasing demand for early learning and childcare—is likely to be inhibited by the need to compete with the private sector for a limited pool of skilled labour.

Canada—which competes with Australia for skilled migrants—is increasing its immigration quotas over the next three years in order to accelerate their economic recovery. The Federal Government must do the same. Australia has a long history of successful skilled migration programs resulting in positive economic outcomes. Most key shortages are already represented on the Federal Government's recently expanded Priority Migration Skilled Occupation List (PMSOL). But qualified teachers (particularly maths teachers), early childhood educators, counsellors, and disability specialists are notable absentees with strong demand and supply shortages, across both metro and regional areas. These occupations should be urgently included.

The Federal Government must also consider streamlined employment options, supported by relocation packages, to encourage interstate migration to fill these roles. By continuing an existing focus on regional migration, the government can also aid rural areas which are disproportionately disadvantaged by skills shortages in services like healthcare.

As for migrant workers already working in Australia, the Federal Government should make a concerted effort to remove barriers that prevent them from remaining, in part by streamlining visa extension applications. These migrant workers have already been trained in the skills and processes that their business requires. It is also much more efficient for a business to reemploy workers than to conduct a fresh recruitment drive. This logic has previously been used to justify the JobKeeper program—it should be expanded to all skilled foreign visa holders.

Where important skill shortages remain, the Government should consider introducing specific targets for skilled migration, with plans put in place to meet these targets. Part of these plans should include a reexamination of visa costs. Attracting more engineers, medical service providers, and other highly skilled workers to Australia is likely to yield rich economic benefits.

Current employer-nominated skilled visa applications are subject to flat-rate fees which exceed $4,000 for the business in question. The rationale for these fees should be reexamined to ensure that small as well as large businesses can recruit skilled migrants. The Government could, for example, consider creating a tiered system for visa applications in which small businesses are offered a lower application fee than large businesses. This would provide a fair playing field for all Australian business and aid the development of the small business sector.

TRAINING | *Develop targeted, employer-driven training pathways to upskill displaced workers.*

Skills shortages can also be met through various labour market programs. And in a rapidly changing global economy, trends like automation and the renewable energy transition will continue to be exceptionally disruptive. Now is the time to develop effective training and retraining programs to smooth labour mobility for workers and the economy.

The Federal Government should work continue to push through reforms in the Vocational Education and Training sector to design financial incentives which promote sectors facing skills shortages. For example, extending current income-contingent loan schemes with differential interest rates. Such programs should also maximise collaboration with private industry and utilise new digital tools to ensure the best worker-job matches possible.

EARLY LEARNING | *Increase childcare funding and consider Federal-state partnerships to trial universal kindy from age four.*

Stunted childhood development and lagging educational results are high-probability and high-impact risks from this pandemic. With a bolstered childcare and early learning workforce in place, the Government would be equipped for a forward-facing response which targets the most formative years first. The Federal Government, in conjunction with the states, must consider how to make childcare affordable and accessible to households of all incomes. An immediate start is improving funding while the economy recovers, coupled with improved coordination between the Federal Government and the states.

A more ambitious, medium-term approach could trialling universal kindy from age four. Currently, at age three, just 15% of Australian children are in pre-primary education, compared to an OECD average of 69%. Children who receive quality early childhood education or care are less likely to have behavioural and learning difficulties, registering higher academic achievements by age 16. These effects have significant economic ramifications. British children who attend preschool earn at least A$54,000 more over their lifetime than those who do not. Early childhood education spending has one of the highest rates of return of any potential public investment, with every dollar invested returning two dollars to the economy. Quality Universal early childhood education would be a big step towards nurturing the next economic boom.

DFAT FUNDING | Return *funding and focus to the diplomatic mission of the Department of Foreign Affairs and Trade.*

The persistent underfunding of DFAT's diplomatic missions are a dangerous national liability considering today's shifting geopolitical landscape. Despite numerous reports by both Parliament and researchers warning of the likely consequences, Australia's diplomatic network remains disproportionately small relative to comparable countries. With an increasingly assertive China in Australia's backyard and growing tensions in Europe between the United States and Russia, this year's Budget would be an apt time to rectify the situation and ensure that Australia's interests are adequately expressed and represented on the world stage.

WEBSITE

blueprintinstitute.org.au

EMAIL

admin@blueprintinstitute.org.au