

# National Reform Summit

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## STATEMENT FROM THE NATIONAL REFORM SUMMIT

Australia is a wealthy country that can have an even more prosperous future shared by everyone.

We believe in sustainable economic growth and the creation of high-quality jobs, with shared prosperity that improves the quality of life for all.

Groups representing Australian business, community and workers came together today to agree actions that will help to realise our shared vision.

These groups are committed to a comprehensive program of economic and social reform.

We agree that active strategies are required of governments, businesses, unions, civil society organisations and individuals to adapt the economy to the creation of the jobs for the future. This will involve reforms to boost Australia's competitiveness, including investment in skills, research and development and infrastructure.

The task of reform is to grow the economy, create jobs and lift living standards. Together economic and social reform will:

- Enable governments and businesses to invest in the long term prosperity of the nation;
- Protect the social safety net;
- Protect Australia in the face of economic shocks; and
- Ensure sufficient funding for quality services including health and education.

Such reform needs to occur against a backdrop of major changes to the global and domestic economic and geopolitical environment.

- Rapid economic growth in developing economies that is shifting the centre of economic power and the nature of international trade.
- Most developed countries are experiencing rapid demographic transformation, at home our ageing population will place increasing pressure on some government services.

- Technology and digitization are having a profound impact on business models and how we work
- **Unconstrained climate change would have serious environmental, economic and social impacts on Australia.**

We believe that reform is now urgent. While, Australia has enjoyed almost a quarter century of economic growth and weathered the global financial crisis better than other comparable countries, the nation's economic and social position is slipping:

- Unemployment, particularly youth and long-term unemployment, is too high.
- The terms of trade have declined from their peak and productivity growth is too low to fill the gap in national income.
- Australia's economic growth is below trend and our competitiveness is slipping.
- National measures of literacy and numeracy are slipping relative to other developed economies.
- Levels of poverty are unacceptable.

Groups represented at the summit want Australia to take action now so that these challenges are met earlier rather than later – before problems become crises. We believe with action now we can reverse these trends and secure:

- Rising productivity that is shared throughout the community;
- Continued access to world-standard healthcare and education;
- Maintenance of an effective social safety net;
- Further progress on closing the gap in outcomes for Aboriginal and Torres Strait Islander people;
- Improved access to quality child care, youth services, aged care and disability services;
- Improved access to affordable and appropriate housing; and
- Protection of our natural environment.

The groups at the National Reform Summit recognise the important role they play in helping to achieve this vision.

We agree that too much of the current debate is consumed by special interest lobbying and single-issue politics at the expense of the broader community interest.

All major political parties need to take action, and reach a bipartisan view on the major challenges we face as a nation. There needs to be a clear, long-term plan, implemented with purpose over the next decade to meet these challenges to help guide the community through the necessary adjustment.

The groups we represent also have a special responsibility to advocate and support economic and social reform.

By coming together we aim to agree on the problems that need to be solved to achieve inclusive economic growth.

For the purposes of the National Reform Summit, four areas of reform have been chosen: lifting productivity growth and workforce participation; tax reform; fiscal policy for a growing economy; and sustainable retirement incomes.

While these policy areas do not cover the field of economic and social reform, they are essential for a strong economy and a fair society.

# 1. Lifting productivity growth and workforce participation

## Goals

Our goals are to:

- Lift productivity growth to rates comparable with those of the 1990s;
- Increase workforce participation and provide quality, well-paid jobs; and
- Share the gains from productivity throughout the community.

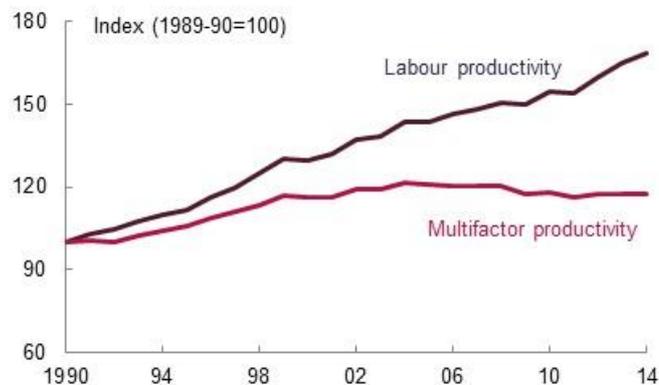
## Challenges

### Productivity

Australia has a strong record of undertaking reforms and investing wisely in its people to lift productivity. Over the last 40 years productivity growth has been responsible for more than 80 per cent of the improvement in measured living standards.

Australia's productivity performance in recent years has been weaker than it was in the 1990s and early 2000s. Persistently poor multifactor productivity growth is a serious concern and must be the focus of reform.

**Figure: Multifactor productivity 1990-2014**



With an ageing population and no new mining boom, productivity growth will need to do even more of the heavy lifting if material living standards are to rise in the future – particularly for those who are disadvantaged - and further social progress is to be made.

### Participation

Policies to boost Australia's workforce participation will also substantially influence our future prosperity. Lifting workforce participation is essential to tackling long-term disadvantage and will be an essential component of Australia's response to an ageing population.

Australia's overall participation rate has increased over the last 30 years from around 60 per cent to 65 per cent, with participation rates of women increasing by some 15 per cent.

However, workforce participation among those with low skills has declined and participation among people in caring roles – mainly women – is still well below that of the best performers in the OECD. Participation rates for a number of disadvantaged groups in the community remain very low, including young people, people with a disability, mature age and discouraged workers, some migrants from non-English speaking backgrounds and Aboriginal and Torres Strait Islander people. Significant barriers also remain for primary carers to manage paid work and unpaid caring.

More must also be done to improve the outcomes of those who have been searching for work for a long time. Around 70 per cent of all Newstart Allowance recipients (over 500,000 people) have received income support for more than 12 months. Everyone wins if we can bring people currently excluded from the labour market into regular work that is productive and fairly rewarded.

## **Reform principles**

To meet these challenges we agree on the following principles:

- Productivity growth is created by generating additional value through innovation, investment and improved workplace practices, not simply by working longer hours or reducing real wages.
- Efforts to improve productivity must recognise that productivity is driven by innovation and investment and by people within enterprises. Innovation and investment is influenced by:
  - The quality of infrastructure available to enterprises;
  - The knowledge and skills of management and the workforce;
  - Working collaboratively both externally and within enterprises to harness and implement sources of innovation;
  - The incentives provided by the tax system, regulation, and other governance and institutional arrangements; and
  - Competitive market pressures (supported by appropriate regulation).
- Government policy and its approach to regulation should facilitate the adoption of new technologies and practices and not protect old technologies and practices.
- Reform should create the environment where entrepreneurs and small businesses can set up and grow with access to capital, adequate broadband speeds and efficient regulation.
- Measures to improve workforce participation should be targeted and tailored to the circumstances of the individual, providing incentives to participate while ensuring individuals have the capabilities required for the workforce.
- Access to quality childcare and paid parental leave is essential to balancing work and care.

- Access to quality early childhood education, adequate funding of schools in particularly in disadvantaged communities, youth services and effective school-to-work transition programs are essential to removing barriers to workforce participation.
- Workplace relations arrangements should be responsive to the changing nature of work and meet the needs of the modern workforce.
- Measures to improve the workforce outcomes of the most disadvantaged members of society need to recognise the diversity of their circumstances including a lack of jobs where they live, low skills, a lack of recent work experience, disabilities, health problems, potential discrimination and, in some cases, lack of adequate and stable accommodation.

## **Actions**

### **Governments should:**

- Make vocational education and training a national priority by developing a broad tertiary model, valuing TAFE, VET and higher education, and by offering portable qualifications relevant to current and emerging market requirements.
- Address the dramatic slide in apprenticeships through incentives and policy changes at both state and federal level that offer employers and job seekers more opportunities, but particularly for young people looking for their first job after school.
- Develop a better informed education and jobs market, including improved careers advice at schools, to ensure students and job seekers make choices that are more likely to lead to job outcomes.
- Implement a broad agenda to mobilise the innovation system, including:
  - continuing support for the industry growth centres;
  - government support for research and development;
  - better targeting of public funding of research and development to drive Australia's competitiveness; and
  - prioritising the lifting of Australia's STEM performance.
- Ensure all schools are operating at a resources standard that meets the needs of all students on the principle of needs based funding.
- Provide a focus and clear priority on developing policies to lift Australia's performance in literacy, digital literacy and numeracy.
- Develop through federal and state agencies an agreed prioritised list of national infrastructure projects that have undergone rigorous cost benefit analysis.
- Undertake reforms to the planning systems to ensure good projects can commence quickly, without undermining social and environmental needs.
- Improve the efficiency and quality of federal and state regulations without undermining their social and environmental purposes.
- Ensure that people unemployed long term and those disadvantaged in the labour market owing to factors such as age, disabilities and Aboriginal and Torres Strait Islander status receive the specialised job search assistance, training or work experience they need to secure a paid job.

- Improve the adequacy of income support particularly for unemployed single people of working age so that they have the resources they need to live decently and to search for employment.
- Encourage and support participation in paid work by people with caring responsibilities through quality affordable care services.

**We will:**

- Work with government to address the dramatic slide in apprenticeships.
- Work together to ensure all schools are operating at a resources standard that meets the needs of all students.
- Work with curriculum authorities to ensure the school curriculum is relevant to the modern economy so that it can prepare young people to gain and maintain work in a technology-enriched society.
- Work together to consider improvements to workplace relations that will support innovative workplaces of the future and meets the needs of the modern workforce.
- Work through the recommendations of the report of the Competition Policy Review released in March 2015 to identify those we should all support.
- Consider any processes of regulatory reform that improve the efficiency and quality of government regulations without undermining their economic, social and environmental purposes.
- Work with governments to improve the efficiency of planning systems, which are crucial to attracting investment and improving the amenity of our communities.
- Work together and with governments to encourage and support employers to recruit young people, people who are unemployed long term, people with disabilities, older people and Aboriginal and Torres Strait Islander people.
- Work together to encourage and support participation in paid work by people with caring responsibilities by working with employers and workers to improve the flexibility and predictability of work for people juggling paid work and care.

**Additional areas that will be discussed further in response to contributions at the summit**

- Improving how our cities and regional centres are planned and function to ensure people can easily access jobs from where they live.
- The challenge that climate change represents and the opportunities it presents for new industries and jobs.
- The role of competition in lifting productivity.
- Appropriate institutions to drive reform within the federation.
- Lifting the productivity of the energy sector
- Lifting collaboration between universities, research institutions and industry and improving the innovation ecosystem.
- Exploring opportunities to utilise the skills of Australia's young researchers (particularly PhD students) in small and new businesses in order to give businesses access to cutting edge research and the student's important experience in the commercialisation of ideas.

- Using technology to improve access to and efficient delivery of health services.
- Identifying and removing barriers to workforce participation of people who are disadvantaged in the labour market.
- Anticipating and responding to the likely impacts of technology and other forms of disruption on the changing nature of work.
- Acknowledging the importance of job creation, including the role of start-ups and entrepreneurship in lifting participation.
- The need to examine the impact of emerging technology on our future infrastructure needs as well as the opportunities this offers to extend the life of existing infrastructure.
- Exploring how business and community groups can work together to ensure young people have access to practical work experience that helps equip them with the skills needed in the modern workplaces.

## 2. Fiscal policy for a growing economy

### Goals

#### Our goals are to:

- Ensure governments, have the capacity to:
  - Along with business, invest in long-term growth, the creation of decent jobs and skills formation and in social and economic infrastructure;
  - fund quality public services that are efficiently delivered and an effective social safety net; and
  - respond to economic downturns.
- Ensure that over the business cycle, governments have adequate revenue to fulfill these functions and that it is raised in ways that are fair and efficient.
- Restore public budgets to structural balance (that is, in balance over the economic cycle) progressively over a 10-year period.

### Challenges

Our income support and services systems have protected us from experiencing severe social and economic inequality.

We have one of the most tightly targeted income support systems in the world demonstrating its efficiency.

While we currently have low public debt levels by international standards, expenditure in a number of key areas is rising rapidly, owing largely to population ageing in areas like pensions and aged care and rising health costs for all.

Weaknesses are emerging in our public revenue base. These have been papered over temporarily by income tax bracket creep at the Commonwealth level and a surge in housing stamp duty revenues in some states, but neither is a sustainable source of public revenue.

Despite a period of strong economic growth a significant group of people in our community is falling behind owing to gaps in the social safety net.

If current policy settings persist, federal and state governments are likely to post substantial deficits for many years to come.

Rising public debt reduces opportunities for public investment in areas such as education, training, research and development, innovation, infrastructure, childcare and preventative health care, which can achieve strong economic and social returns.

## **Reform principles**

### **We agree that:**

- Governments have a key role to play in providing or funding quality public services, a social security safety net and economic and social infrastructure essential for economic growth.
- Fiscal policy can be used to deal with economic downturns but we have divergent views in when and how this should be used.
- Fiscal policy should ensure intergenerational fairness.
- While we disagree on the balance between revenue increases and expenditure savings, the structural budget deficit should be remedied progressively to maintain our fiscal credibility and AAA credit rating while allowing the federal government to deploy fiscal policy to save jobs during global economic downturns.
- All expenditure programs, including direct expenditures and tax concessions, should be subject to rigorous evaluation to ensure efficiency and effectiveness over time.
- Any redesign of major spending programs should be undertaken with a view to improving service quality and equitable access, as well as enhancing efficiency.
- Government income support payments should be appropriately targeted to those who most need them and gaps in the basic social safety net should be closed, such as improving the adequacy of income support for unemployed people and affordable housing for people on the lowest incomes and services to people with a disability.
- People on low incomes or who are otherwise vulnerable should be protected from the impacts of fiscal reform.

## **Actions**

### **Governments should:**

- Continue to ensure access to quality services for the community such as health and education and take action to address the gaps in the social safety-net.
- Rigorously monitor the effectiveness of all expenditure programs, including tax and direct concessions and make findings public.
- Return budgets to structural balance progressively over a decade.
- Achieve real progress in fiscal reform, not paper progress through unrealistic budget assumptions.

### **We will:**

- Work to raise community understanding of the structural fiscal challenge we face as a nation and the need for reform to address it.
- Engage constructively in expenditure review processes with a commitment to rigorous analysis of the effectiveness of all programs, including direct expenditures and tax concessions.
- Support targeting of income support payments where people at risk of poverty are protected.

### **Additional areas that will be discussed further in response to contributions at the summit**

- Major structural reform should be separated from the annual budget process. Several people advanced the idea the government and opposition should release reform statements regularly.
- The need to develop greater precision on how to restore the budget to structural balance and approach program redesign. We want to achieve structural balance to build a buffer to respond to economic downturns and build resilience. Among the options we will discuss include the following:
  - Using the next 2 years to set out a plan for returning to structural balance, followed by an 8 year transition period. This should not preclude initiatives consistent with this statement from being implemented within the initial 2 year planning period.
  - On expenditure, the focus should be on redesign of the major programs (including health) that will improve equity, effectiveness, access, and efficiency of services. This should focus on the effectiveness of spending, making small changes that grow over time, and targeting the highest growing programs per capita going forwards.
  - On revenue, reforms should include a focus on concessions that are no longer fit for purpose.
  - Expenditure and revenue reform must work in tandem..

### **3. Tax reform**

#### **Goals**

##### **Our goals for tax reform are to:**

- Progress a comprehensive reform of the tax system that supports the overall objective of increasing economic growth and shared prosperity.
- Provide adequate revenue to enable governments to fund expenditure on efficient services, an effective social safety net and productive government investment in infrastructure, research and development and innovation.
- Promote growth in investment, productivity, jobs and real wages.
- Raise public revenue fairly in accordance with ability to pay.
- Minimises disincentives to work, save, invest and take risks.
- Ensure integrity such that taxpayers have confidence that opportunities for avoidance and evasion are minimised.
- Is easy to comply with and is sufficiently resourced to enable effective administration.

#### **Challenges**

The end of the mining boom and low growth in wages has exposed structural weaknesses in the revenue base. Doing nothing, or tinkering with piecemeal reforms, is not an option.

The first response to these pressures on public revenue bases should be to improve economic growth and job creation.

The current system includes numerous highly inefficient transaction-based taxes that impose an unnecessary drag on the economy.

Innovation and opportunities for product and service development are critical to attracting investment. It is important that the corporate tax system is competitive in order to attract the productive investment urgently needed to boost innovation that lifts productivity and income growth. At the same time corporations must meet their tax obligations.

The integrity of and trust in the tax system are crucial. While Australia's level of voluntary tax compliance is high by world standards, reforms should preserve and enhance tax integrity. Challenges to company tax systems around the world from globalisation, increased digitisation and intangibles investment are ideally addressed at the multilateral level.

Governments cannot rely indefinitely on income tax bracket creep – which disproportionately affects workers on low and middle incomes – to strengthen public revenue.

Our system of federal and state taxation is inefficient and overly complex and contributes to a major fiscal imbalance across the federation. State and territory governments finance many essential community services but lack efficient, stable and secure revenue sources. Uniform bases for taxes, fees and charges across states would also assist businesses in operating across state borders.

## **Reform principles**

### **We agree that:**

- Governments and stakeholders must remain open to looking at the tax system as a whole, and to considering all options that could deliver the optimal system for Australia competing in the modern global economy.
- Any reform package must ensure that the majority of households, particularly low income households, are no worse off.
- Consideration needs to be given to the impact on workforce participation incentives of the interaction of personal income tax rates and income transfer taper rates, which particularly affect women on lower incomes.
- Different sources of individual investment income should be taxed as consistently as possible, such as capital gains and related deductions.
- A competitive corporate tax system is one of many elements of the broader commercial environment that is essential to attracting investment and growing the economy.
- Where company tax arrangements do not keep pace with community norms, governments need to respond with appropriate regulation which is carefully considered to achieve a balance between tax integrity and unduly deterring investment, reducing competitiveness or creating unnecessarily complex tax arrangements.
- Greater reliance on land tax as a relatively efficient tax base should be considered.
- Inefficient taxes such as stamp duties on insurance and conveyancing should be replaced with more efficient, uniform taxes as part of a broader reform that at least maintains equity across the system.
- The best starting point for the current tax review is to design a robust, fair and efficient tax system. Revenue distribution arrangements across the Federation should then follow.

## **Actions**

### **Governments should:**

- Approach tax reform based on our agreed principles in an open, inclusive and transparent way that does not rule out options for reasons of political expediency.

### **We will:**

- Work together to identify the key areas of agreement and difference among our own constituencies – to see whether there is a pathway to reform that can attract broad support.

- Seek to progress a comprehensive reform of the tax system that supports the overall objective of increasing economic growth and shared prosperity through:
  - consideration of major recent reviews of Australia's tax and transfer system ;
  - Advocacy that the government, with the support of political parties and other stakeholders, implement an appropriate process to progress comprehensive tax reform;
  - Working with political parties and other stakeholders on developing a credible, decade-long plan for reform; and
  - Working with the Commonwealth and state and territory governments on the development of state tax reform proposals.

**Additional areas that will be discussed further in response to contributions at the summit**

- The need to subject tax reform to rigorous quantitative analysis of the efficiency and distributional impacts
- The need for greater access to and transparency of tax modelling assumptions
- Tax reform should focus on the tax system as a whole.

## **4. Sustainable retirement incomes policy**

### **Goals**

A fundamental goal of the retirement income system is to ensure an adequate income in old age.

### **Challenges**

Despite the strengths of Australia's retirement income system, there are deep challenges that have the potential to compromise its effectiveness and sustainability. Issues raised in previous inquiries that have not yet been addressed include:

- The absence of a clear overarching objective for the retirement income system that can support a consistent set of policies across the different parts of the system;
- The associated inefficiency, complexity, perceived inequity in tax arrangements and concessions and frequency of changes in the system that undermines public confidence;
- The difficulties faced by people with interrupted careers, casual and part-time employees, low income earners and indigenous people in accessing superannuation, and the associated gender differences in retirement outcomes;
- The increasing cost of the system to government
- The superannuation framework requires individuals to confront a complex set of financial decisions at and after retirement.
- The concept of retirement needs to be rethought in the modern age, which will have implications for the retirement income system.

Superannuation tax concessions are a recognised and accepted feature of the system as they provide some compensation for the preservation of mandated savings and encourage personal superannuation contributions. However there is widespread concern that the way these concessions are delivered is inconsistent with the purpose of the retirement income system.

Notwithstanding these challenges, the fundamental architecture of our system is in good shape, built on a strong accumulation system with the long term potential to deliver decent retirement income streams, underpinned by a pension system to support those Australians whose circumstances and lifetime income was not high enough to allow them to support themselves in retirement.

### **Reform principles**

Further reform should be pursued in the following way:

- A holistic approach is essential rather than the piecemeal changes and proposed changes that have marked the political debate to date;
- Reform should improve the effectiveness of the retirement income system in delivering adequate and secure incomes throughout retirement;

- Reform should consider changes in both superannuation tax arrangements and age pension arrangements, with particular attention to their interaction, to improve fairness, efficiency, adequacy and sustainability;
- Reform should encourage self-reliance through the superannuation and private savings pillars of our retirement savings system to reduce the reliance on the age pension and support the ability of older Australians to remain in the workforce while recognising not all are able to secure paid employment and many contribute through unpaid activities;
- Reform must be phased in gradually, allowing people to plan their retirement with confidence and taking into account that it will still be some time before most older Australians fully benefit from the superannuation system.

Developing a sustainable retirement incomes system requires balancing the following considerations:

**Safety net and other social policy:**

- Improving the safety net to those with unavoidably high housing costs and those below age pension age who are unable to secure paid employment.
- Better targeting social security payments in a way that retains incentives to work and save and does not distort the manner in which assets are held or used.
- Supporting the ability of older Australians to remain in the workforce while recognizing some are unable to secure paid work while others contribute substantially to society through unpaid work.
- Facilitating transition to retirement while encouraging people to maintain sufficient savings for their retirement incomes.

**Superannuation:**

- Setting the level of mandated contributions so that, together with the tax concessions, any age pension entitlement and any other government contributions, they deliver adequate retirement incomes for Australians while not imposing excessive costs elsewhere.
- Any review should ensure the design of tax concession is consistent with the objectives of the retirement income system.
- Balancing the need for flexibility in the way people use their superannuation savings with ensuring they are used for genuine retirement income purposes.
- Balancing flexibility with sufficient structure to mitigate market and longevity risks to retirement incomes and living standards.

**Actions**

**Government should:**

- Seek bipartisan support for a set of clear objectives for the retirement income system to guide future policy development and ensure the coherence of the whole system is achieved and maintained.

- Commission an independent and holistic review of the retirement income system, consistent with the aforementioned principles. The terms of reference for the review should cover the considerations outlined above.

**We will:**

- Collaborate among the signatories and other business and community groups to improve the evidence base and better understand alternative perspectives on the issues.
- Develop a package of reforms that provides an appropriate balance in delivering adequate and sustainable retirement incomes for all Australians.
- Engage with the community about the need for change and the rationale for the proposed direction for reform.

**Additional areas that will be discussed further in response to contributions at the summit**

- Examine the drivers of inadequate superannuation outcomes of women, people with interrupted careers, casual and part-time employees and low income earners. And examine feasible reform options to respond to these drivers.
- Defining the purpose of superannuation and enshrining it in legislation.