Blueprint Institute

Re-imagining Productivity

Budget Blueprint 2023

A Blueprint Institute short paper

Contents

This series

This piece of research is the second of our short papers. These papers are not as long, nor as in depth as our full blueprints. Blueprint short papers aim to spur public debate and introduce sometimes controversial, but necessary, concepts and reform ideas into the public policy decision-making process. These concepts and reform ideas draw from our deep expertise and our networks across business, government, academia, and politics.

About Blueprint Institute

Every great achievement starts with a blueprint.

Blueprint Institute is an independent public policy think tank 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. We design blueprints for practical action to move in the right direction.

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

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Attribution

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Executive summary

As a think tank that subscribes to classical liberalism, Blueprint naturally embraces meritocracy. We believe that success should be a function of hard work, talent, and free and open market-based competition.

But if we are being honest, it has been a generation since Australia was a true meritocracy. As the gap between rich and poor widens, multi-generational disadvantage becomes entrenched. This corrodes the very foundations of liberal democracy, and threatens the capacity of government to provide equality of opportunity.

Equality of opportunity is one of the foundations of classical liberalism. Indeed, without it, expressions of public policy that claim it as a philosophical base are ontologically bankrupt. A paradigm shift in how we conceive macroeconomic policy is needed. To be clear, we are not arguing for equality of outcomes. Whilst attractive to those subscribing to more collectivist intellectual traditions, the reality is that true meritocracy and equality of outcomes are mutually exclusive. Rather, this Blueprint short paper proposes a number of reform ideas that seek to 'level the starting grid'—arguing that there is a direct link between equality of opportunity and productivity.

It should be obvious that there is a minimum standard of living and access to resources needed to have a fair opportunity to achieve success. Too many in mainstream parties of government have become numb to the existence of a permanent underclass in Australia. Drunk on populist rhetoric from ideologically confused commentators, they rationalise that the socio-economic status of this underclass equates to a lack of competence and skill. Real liberals should reject this narrative.

We argue that the system we currently live under can instead better be characterised as a 'naive meritocracy.' Naive meritocracies rely on the false assumption that extremely unequal wealth distributions primarily reflect differences in innate talent. In a naive meritocracy, extreme inequality is a fair and optimal outcome that merely demonstrates the existence of an elite class who perform and excel at orders of magnitude greater than the average person.

Simple mathematics demonstrates just how flawed this logic is. We have no intention of maligning those at the top of the wealth distribution curve. Many titans of industry are no doubt extremely talented and driven. One could plausibly argue they reside at the far-tail of the IQ normal distribution, more intelligent than 99% of people. Perhaps they are also several times more hard-working than the regular person. But it is beyond reason to argue that any combination of normally distributed qualities like talent and industriousness can result in someone being billions of times more productive than the average worker.

Naive meritocracies sustain and propagate themselves through a type of circular reasoning—if accrued wealth is the best evidence of talent and productivity, then surely the wealthiest should be allocated more resources and opportunities in order to enable greater economic and productivity growth. This reasoning belies a philosophical incoherence in policy making that exacerbates inequality of opportunity since, following this logic, there is little society can or should do to improve accessibility to opportunity.

All sides of politics have conceded for years that Australia's long-term slowdown in productivity growth is a serious problem. Improving our standard of living and maintaining our status as a wealthy country ultimately depends on reversing that trend—a trend that has persisted since well before the pandemic.

This Blueprint short paper is by no means meant to be a comprehensive list of detailed economic policies. As part of our 'Short Paper' series, it is instead meant to stimulate debate by putting forth often subversive ideas and recommendations that encourage thought leadership amongst decision makers. We thus present a liberal perspective of Australia's productivity slowdown that recognises productivity growth is dependent also on equality of opportunity.

Summary of recommendations

Social policy reform

1. Raise social security payments for working-age Australians. The government should prioritise a significant increase to JobSeeker and its related working age payments and raise them to 90% of the Age Pension.

2. Construct more social housing in more affluent areas. In response to Australia's escalating housing affordability crisis, the federal government has announced an increased investment in the construction of social housing. Evidence suggests that children who grow up in communities that have high levels of cross-class interaction have a much better chance of upward economic mobility. This makes a compelling case for constructing social housing in more affluent areas.

NDIS reform

3. Bolster regulatory oversight to prevent fraud. Sufficient regulatory oversight needs to be extended to prevent fraudulent claims made on behalf of providers.

4. Return to the original principles of the NDIS and limit the scope of eligibility. Ensure that the NDIS is made accessible to the most profoundly disabled, whilst bolstering state based services to care for those with less complex needs who should not be on the NDIS.

5. Increase investment in Tier 2 services. Ensure that all levels of the NDIS, including Tier 2 are adequately equipped to function.

Tax reform

6. Tax the unimproved value of land. Introduce a tax on the unimproved value of land. A recurring tax based on the value of the land would improve the stability of government revenue.

7. Introduce a resource super profits tax and natural-resource based sovereign wealth fund. How we manage natural wealth has a significant influence on productivity. A super profits tax is an efficient way to redistribute the windfall gains of resource companies toward a national ideal of broadening equality of opportunity to citizens. We recommend establishing a natural-resource based sovereign wealth fund to capture resource rents to redistribute to the public good.

8. Wind back deductions for negatively geared investment properties. Wind back the specific negative gearing offset for investment properties. These expenses cost the national purse $3.6 billion per year.

Social policy reform

1. Raising JobSeeker

Recommendation: The government should prioritise an increase to JobSeeker and its related working age payments.

We call on the government to adopt its Economic Inclusion Advisory Committee's recommendations with regard to the current inadequacy of working age payments and raise them to 90% of the Age Pension. Moreover, in order to maintain adequacy over time, indexation of these payments should be altered to incorporate wage growth as the Age Pension currently does.

For simplicity, we will restrict our analysis to JobSeeker payments to a single adult. However, we emphasise that our recommendation extends to all working age payments, including Youth Allowance and Austudy, that, aside for a short stint during the height of the COVID-19 crisis, have barely risen in real terms since the beginning of the millennium.

Any relevant test of these payments—whether measured against household income and poverty measures, the national minimum wage, the Age Pension, or social payment levels in other OECD countries—shows that they are inadequate (see Figure 1).

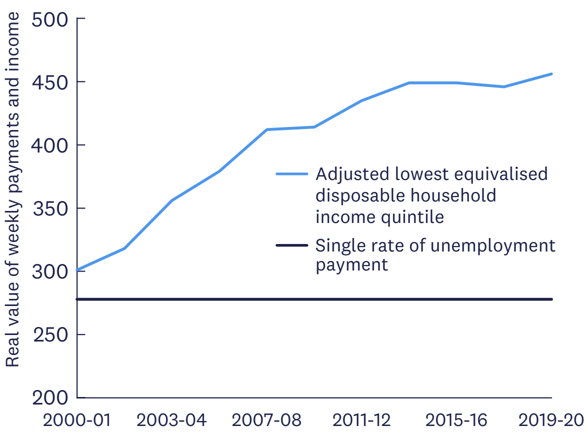

Figure 1 Trends in the real value of JobSeeker Payment against low-income households

Source Australian Bureau of Statistics

Note Real value is in 2019–20 dollars

Raising JobSeeker is the rare issue that unites the business community, social service advocacy groups, and economists. They all recognise that $49 per day—the current JobSeeker rate—is incompatible with a basic standard of living, let alone any notion of equality of opportunity. Indeed, a survey of JobSeeker recipients found that substantial majorities reported skipping meals, an inability to afford medication or medical care, and difficulty bearing the cost of fuel to travel to work or medical appointments.

Opponents of raising JobSeeker base their argument on higher JobSeeker payments being a reduced incentive to finding paid work. This is a valid argument. It is crucial that JobSeeker payments never approach parity with minimum wage. Ultimately, employment must always appear a more attractive alternative to those relying on taxpayer support for basic living expenses.

There is, however, a middle ground. The intent of JobSeeker—to increase workforce participation—cannot be met if the payments to individuals are so low that they must endure crippling poverty. Raising JobSeeker to 90% of the Age pension would still only be just over half of the minimum wage—low enough so as to not disincentivise employment, but high enough that recipients can afford food, housing, and medicine.

A detailed analysis by Borland.,2019 reinforces that the proposal to raise JobSeeker to 90% of the Age Pension has struck the right balance. Specifically, Borland finds the marginal incentives faced by those on increased JobSeeker Supplement payments received throughout the Covid-19 crisis—which are approximately equal to the proposed permanent increase—still encourage paid work. Notably, this holds true whether the recipient is considering a transition from no work to full-time employment or increasing part-time employment by a day.

The same analysis finds no evidence of a disincentive effect from the JobSeeker supplement on a macroeconomic level. In short, had the supplement substantially reduced incentives to work, one should find a reduced flow from unemployment to employment during the period the payment was in effect. However, the data show no such trend.

Luck V. Talent

Human intelligence and abilities generally follow a normal distribution. For example, IQ is normally distributed around an overall population average of 100. By contrast, wealth generally follows a Pareto, or power law distribution, meaning that the top 20% of the distribution controls around 80% of the wealth (see Figure 2).

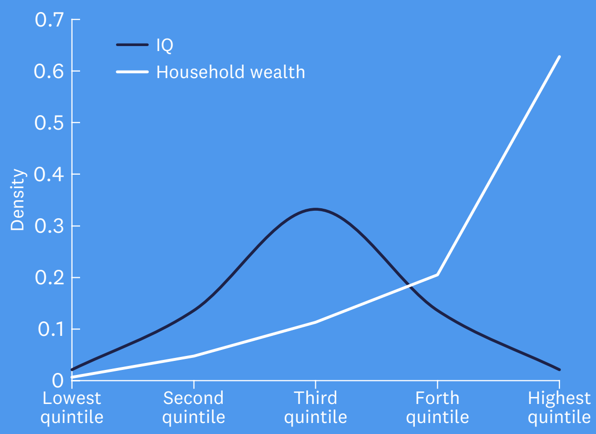

Figure 2 Normal distribution of IQ compared to 2019–20 distribution of Australian household wealth

Source Australian Bureau of Statistics

The power law principle even extends to the tails of the distribution—that is to say, that even within the top 20%, wealth is extremely unevenly distributed, with the top one to three percent controlling the vast majority of the top quintile's wealth.

So what exactly is this mysterious determinant that leads to variations in wealth that are orders of magnitude larger than variation in talent or skill? As deeply unsatisfying as the answer may be, it is simply luck.

We base our argument primarily on a paper by Pluchino et al., 2018. They construct a model populated with agents of varying talent, consistent with a real-life normal distribution of talent. They then assign each agent an equal and small amount of starting capital and an equal chance of experiencing a lucky or unlucky event every six months over a 40-year career.

If an agent is fortunate enough to experience a lucky event, they have a chance, depending on and proportional to their level of talent, to double their capital. On the other hand, if they experience an unlucky event, their capital is halved. These 'rules' are intuitive in the sense that taking advantage of a lucky event and turning it into success takes talent, but anyone can suffer from bad luck.

This is a relatively simple model. Unlike in real life, it incorporates no initial disparities in wealth, social connections, nor inequalities of opportunity. Yet, it produces a surprising result: at the end of the 40-year period, wealth is distributed as unequally as in reality. Moreover, the most successful people—measured by wealth—are never the most talented, rather, they are the most lucky.

Without luck, pure talent alone, even exceptional talent, is likely to result in a spot near the middle of the distribution. In one representative simulation, they find that the final wealth of the most successful agent, who is of average talent, is 128 times greater than that of those more talented than her. Similarly, there is no lack of talented agents relegated to the bottom of the wealth distribution through bad luck alone.

The authors of the study conclude that their results "highlight the risks of the paradigm [they] call 'naive meritocracy,'" which, conflating success with talent, assigns resources to those already successful and underestimates the role of luck in success.

In the context of our paper, we suggest that increasing equality of opportunity among the most disadvantaged in our society by raising working-age payments should not be construed as just another line-item expense to add to an already stretched budget. Rather, it should be seen as an investment in our human capital that could bring us closer to a true meritocracy by revealing untapped talent otherwise trapped by a combination of bad luck and poor access to opportunity.

2. Construct social housing in more affluent areas

Recommendation: Increase investment in social housing, specifically in more affluent areas, to encourage social ties that cross socioeconomic lines.

Since 1980, Australian house prices have increased 215% with few signs of this trend abating. Rising rental and housing costs coupled with wage stagnation has seen the rate of homeownership decline precipitously since 2000, and resulted in a housing crisis that is seeing increased rates of homelessness. With limited supply, competition for affordable housing has become fiercer.

Last year, the Productivity Commission described the current rental market as "the epicentre of the nation's housing affordability problem" and argued for increased investment in social housing to help alleviate supply related pressure. The federal government has announced a $10 billion plan to fund 30,000 new affordable homes under the Housing Australia Future Fund.

Australia has a relatively low rate of social housing comparative to other advanced economies such as the UK, France, South Korea, and Singapore—since 2013, only two percent of new housing in Australia has been publicly provided.

A recent study by Chetty et al., 2022 utilised an expansive dataset from Facebook that included 21 billion friendships to investigate the role of social capital in improving economic mobility in American society. They concluded that children born to low-income families have a much greater chance of escaping poverty when they grow up in communities with high interaction between low- and high-income families. These cross-class connections, the study found, have a greater influence on economic mobility than "school quality, family structure, job availability or a community's racial composition".

In light of this compelling evidence, we propose that a similar study, taking into account the unique context of Australia's existing housing stock and zoning and planning restrictions, should be a top priority under the government's Housing Australia Future Fund.

As the Housing Australia Future Fund involves leveraging taxpayer funds to build social housing, the design of the scheme should give a significant weighting toward maximising the societal benefits of the investment. If the findings of Chetty et al., 2022, can at all be translated to an Australian context, this implies the government should strongly consider co-locating social housing in affluent areas.

Back to the '70s?

Not all inflationary episodes are created equal. There have been countless column inches comparing the current outbreak of inflation to the sustained bout of inflation in Australia in the 1970s. These comparisons are misleading.

About the only similarity between today's inflation and the 1970s is on the supply side. The '70s saw two oil supply shocks that severely limited the productive capacity of the economy, contributing to price rises. In the past few years, we've also experienced a perfect storm of supply shocks—from COVID-related disruption, to global supply chain breakdowns, to crop-destroying floods—the bad luck has seemed endless.

But on the demand side, the story could not be more different.

The 1970s saw significant and *sustained* inflationary pressure from the demand side. The wage-setting process, particularly in Australia, was centralised and set up to frequently compensate for increases in cost-of-living and broadly allocate wage gains across industries and economic sectors. In fact, even as unemployment spiked in the 1970s, real wages *rose*. This fuelled a classic demand-driven wage-price spiral: workers demand higher wages to compensate for a rise in the cost-of-living; businesses then raise prices to make up for higher labour costs; the cycle repeats.

In today's Australia, nominal, let alone real wage growth, has been sluggish for more than a decade. This is not a temporary happenstance—it is a long-term structural problem. December's quarterly wage data—which some commentators have characterised as a strong result despite a tepid 3.3% increase over the past year—is a sombre reminder that, despite periods of low and high inflation, unemployment, and GDP growth, annual nominal wage growth in Australia has barely budged from a narrow band of 1.4%-2.6% since 2014. Before 2014, three percent was about the floor for annual wage gains.

Mortgage repayments, electricity prices, rent, school fees, food. You name it, it is going up. Everything except for real wages. How exactly is a demand-driven inflationary spiral supposed to sustain itself when consumers are earning less in real terms than they did a decade ago? The market agrees—inflation expectations have not become unmoored.

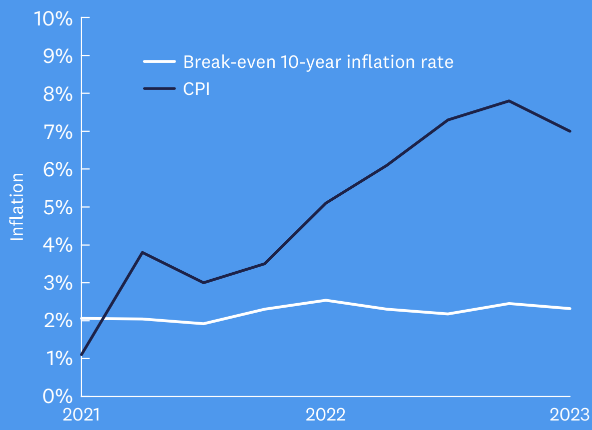

Figure 3 CPI versus break-even 10-year inflation rate as implied by the difference between 10-year nominal bond yield and 10-year inflation indexed bond yield

Source Australian Bureau of Statistics, Reserve Bank of Australia

As Figure 3 shows, despite the short-term inflation spike over the past 18 months, the market predicts average inflation of 2.5% over the next 10 years—precisely the midpoint of the RBA's 2-3% target range.

Nevertheless, there is certainly a rational basis for anxiety in the short-term as inflation—7.8%—continues to outpace wage growth—3.3%.

Yet this does not mean that the Government should cease all discretionary spending. More than the quantity of spending, the *quality* of spending matters. The budget recommendations within this short paper are not politically motivated, one-time handouts. Rather, our recommendations are aimed at increasing productivity—they *enable equality of opportunity* and support wealth generation over the medium to long term.

NDIS reform

Successive governments have introduced various initiatives to encourage workforce participation and boost the quality of life of our most vulnerable people. One of the most significant and certainly the largest program of its kind in recent years is the National Disability Insurance Scheme (NDIS).

The NDIS was originally conceived to deliver equality of opportunity to people with disabilities, to provide such individuals a dignified and fulfilling life and equip them with the tools and resources to reach their full economic and social potential, thus also benefitting society as a whole. However, poor fiscal management has seen the scheme blowout in scope and become divorced from its original principles.

Employment rates for older participants have plateaued, and a lack of regulatory oversight towards providers has resulted in a proliferation of fraudulent activity. In short, successive governments have made a mess of the NDIS. In order to ensure the ongoing financial sustainability of the scheme and make certain it has the capacity to meet the complex needs of those with profound disabilities, it must be returned to its original design parameters.

The NDIS is now one of Australia's most expensive social programs, incurring an annual operational cost of $35.8 billion in 2022–23, exceeding the cost of both medicare and aged care. The program is expected to reach $50 billion in 2026 and $89.4 billion in 2032, according to the NDIS' latest annual financial sustainability report.

The federal government has conceded that the NDIS is in desperate need of reform and have announced intentions to place a cap on the growth rate of the scheme from the current 13.8% to 8% by 2026. Whilst this represents a significant attempt to rein in unsustainable spending, such a reduction is still double the original projected growth rate of just 4%.

How did we get here?

In 2011 the Productivity Commission recommended the creation of a national scheme premised on the assumption that short term investments designed to enhance peoples' health and wellbeing would increase workforce participation. In doing so, the Productivity Commission argued that the scheme would pay for itself, with early modelling placing the cost of running the NDIS at $22 billion in 2019.

However, these costs have ballooned with far more people joining the scheme than was predicted. The total number of scheme participants as of December 2022 was 573,342 representing a 14.6% increase from the previous year. Participant numbers are expected to reach 860,000 by 2030, vastly surpassing earlier modelling by the Productivity Commission which projected the number of participants to be 583,000 in 2030.

As the number of participants and associated costs of services has increased, the expected number of participants leaving the scheme has been lower than predicted. Furthermore, the NDIS has not resulted in a significant increase in employment levels for people with a disability.

Whilst employment rates for participants aged 15 to 24 who have been in the program for five years have increased from 10% to 27% above the baseline, these results are not replicated amongst the older age group. The latest quarterly report to disability ministers shows between a one and four percentage point decrease in workforce participation amongst those aged over 25. To ensure the overall sustainability of the NDIS, measures must be taken to stem escalating costs and bolster employment rates.

Consideration should also be given to limiting the scope of eligibility for the NDIS. Indeed, as stated by multiple autism experts—the NDIS in its present form has resulted in clinical behaviour becoming biased towards making certain levels of an autism diagnosis in order to provide families a better chance at receiving the support they need through the NDIS.

3. Bolster regulatory oversight to prevent fraud

Recommendation: Sufficient regulatory oversight needs to be extended to prevent fraudulent claims made on behalf of providers.

The federal government has recently announced a crackdown on unscrupulous practices, amidst claims made by the head of the Australian Criminal Intelligence Commission that up to $6 billion of the scheme's annual budget could be lost to fraud. Criminal intelligence experts have warned that the NDIS has been infiltrated by organised crime and that rent seeking behaviour is rife. Indeed, there is evidence that providers are issuing false invoices or, more frequently, artificially inflating the costs of legitimate invoices. The federal government is currently trying to recover up to $300 million from NDIS service providers as part of a fraud fusion taskforce. It is clear that there has been a lack of sufficient regulatory oversight with regard to providers. There is a need for greater oversight to hold service providers accountable and prevent further cost escalations.

4. Return to the original principles of the NDIS

Recommendation: Ensure that the NDIS is made accessible to the most profoundly disabled, and limit the scope of eligibility–whilst bolstering state-based services to care for those with less complex needs.

The growth trajectory of the NDIS is unsustainable. Its broadening scope is hampering its capacity to provide support for the most vulnerable people it was originally intended to service. As Bill Shorten said last year, "the NDIS was designed for the most profoundly and severely impaired Australians, not for every person with a disability."

State and Territory governments must shoulder more of the costs of providing disability care. In particular, they must resume responsibility for providing sufficient support for those diagnosed with autism, developmental delay, and psychosocial disability. The reality is that greater numbers of children have entered the scheme than expected due to GP's broadening diagnoses of autism to ensure eligibility for the NDIS. Approximately 44% of NDIS participants are now children, of which 74% receive treatment for autism or developmental delay.

These children constitute a relatively low portion of the overall scheme expenses. However, as noted in a recent NDIS quarterly report "if a large proportion of these children remain in the scheme into adulthood, the additional expenses in the longer term compared with expectations are significant."

Many of these children have entered the scheme under the early intervention provision. However, as noted in a review of the NDIS by Taylor Fry there has been "little obvious evidence of increased supports leading to reductions in needs in subsequent years". Indeed, the anticipated exit rate has been well below the Productivity Commission's original forecast of 12% per annum, based on historic average exit rates within the disability sector. Only 1.04% of NDIS participants exited the scheme in 2021.

States need to ensure that community based organisations that offer disability support are adequately funded so that those with less complex disabilities will receive the support they need without having to turn to the NDIS. Indeed, state governments need to stop cost shifting onto the NDIS services that were not within the original scope of the program. This includes treatment costs for things such as speech and hearing impairments.

According to the aforementioned quarterly report to disability ministers, approximately 10% of five to seven-year-old males are now NDIS participants. This is an alarmingly high number. This corresponds with the average age children start school, which is also when diagnoses of autism are most frequent. Rather than broadening the scope of the NDIS, one must ask whether more needs to be done to ensure that the needs based additionality funds delivered to schools via the National School Funding Agreement are actually being spent on initiatives that assist the learning needs of children with disabilities.

A lack of transparency around how additionality is spent has resulted in rampant misuse of funds—thus leading parents to seek support from the NDIS. The renegotiation of the bilateral school funding agreements between federal and state governments later this year offers a unique opportunity to rectify this duplication of expenditure.

5. Increase investment in Tier 2 services

Recommendation: Ensure that all levels of the NDIS, including Tier 2 are adequately equipped to function.

People with disabilities are not a homogenous cohort. The NDIS is thus designed to cater to the diverse and complex needs of those within it. The NDIS is predicated on a three Tier system. The third Tier, where the vast majority of funds are allocated, is made up of qualifying participants "with significant and long term disabilities or whose outcomes are likely to improve with early intervention." These participants are assigned a budget based on their specific needs. Participants are then able to spend the money in a way that best suits them. This gives a vital sense of autonomy and agency to participants.

Australians who have a disability but do not meet the criteria to access individual funded support make up Tier 2 of the NDIS system. There are approximately 1.8 million people of working age that fall within this category. Tier 2 is primarily a referral based scheme designed to facilitate access to mainstream services and community groups to anyone with a disability, as well as their families and carers. However, a scathing review into the extent of Tier 2 services by the Melbourne Disability Institute proved them to be woefully inadequate. Indeed, the report revealed startling inconsistencies between what the government claims is available and the lived reality of participants.

One of the original designers of the NDIS has described the current state of the scheme as an 'oasis in the desert'—meaning, those who do not qualify for a tailored plan are left with essentially nothing. It has always been the expectation that the majority of NDIS funds would go towards those in Tier 3—however, Tier 2 has been so poorly funded it is unable to meet its intended purpose.

Investing in Tier 2 is crucial to the long term financial stability of the NDIS, as it reduces the likelihood that individuals with disabilities who are on the periphery of the scheme will have their conditions worsen and thus eventually need to access Tier 3.

We recommend a deliberate and concentrated effort be made to provide adequate services through Tier 2 of the NDIS scheme. Moreover, in order to assure the sustainability of the scheme and assess its effectiveness, there needs to be clear and measurable goals across jurisdictions.

Public sector complacency

One of the reasons for Australia's sluggish productivity growth is the expansion of the services sector, which now makes up 80% of production and 90% of employment. Whilst technological advancements can significantly enhance the productivity of the goods sector such as mining and agriculture, such advancements have a much more muted effect on the services sector.

Within the past few years, there has been a broad trend towards public sector expansion, including in areas such as education, healthcare, and public administration. The Productivity Commission has flagged the potential for the non-market sector to be a drag on productivity. Indeed, there has been virtually no labour productivity growth in the non-market sector this century.

Some of the reasons given for this slump in productivity are the unnecessary duplication of roles, siloed services, and risk-adverse cultural norms in the absence of competition. The Australian public service has been criticised for being slow to embrace digital best practice—and when innovation is employed, it is inconsistent across jurisdictions.

In 2020–21 total government spending amounted to about $880 billion, or about 42% of gross domestic product. Given the extent of government expenditure, even slight reforms designed to enhance productivity and innovation can have huge cost savings or enhance the quality and accessibility of services.

The nature of the non-market sector means that services are largely dependent on government revenue to function, thus any growth in these sectors is logically accompanied by an increase in taxation, thereby resulting in "increasing losses of economic activity," according to the Productivity Commission.

As the public sector has expanded, the idea that expenditure increases should be linked to outcomes has been subverted. The NDIS, mentioned in detail above, is a typical example of a government scheme that has been allowed to grow unfettered by a clear adherence to outcomes and measurable objectives.

This recalcitrant attitude towards performance outcomes is also notable from an industrial relations perspective. Too many public servants across all portfolios are, for all intents and purposes, tenured. Their continued employment is not dependent in any real way on performance, on revenue generation, or on outcomes. Strong public sector union pressure has resulted in a workplace culture that embraces job security at the expense of service delivery, and rejects contemporary performance management programs that would, at a macro scale, empower departmental secretaries to remove poor performers from their roles.

The Thodey Review into the performance of the public service revealed considerable shortcomings in skills and leadership. Importantly, the review noted that "the APS also has no way to measure its capability, nor the amount it invests in leadership and skills development."

Contrary to popular belief, overall workforce mobility in Australia has declined over time. This is concerning as workforce mobility facilities the dispersion of knowledge and innovation. When people move to new jobs, they bring with them skills and expertise. A low degree of workforce mobility is therefore associated with a low degree of knowledge diffusion.

The Thodey review recommended "recruiting more employees from outside the service to broaden experience and perspectives within the APS." This recommendation is likewise made by the Productivity Commission, which proposed removing some of the red tape to more sufficiently enable skilled migration to Australia. Recruiting public sector workers from overseas would allow greater dispersion of innovation, and thus likely enhance productivity.

Tax reform

One of the key reasons we have become productivity laggards is that our tax settings are no longer fit-for-purpose for the modern Australian economy. This is by no means a newly discovered problem. The landmark 2009 Henry Tax Review identified an outdated tax regime that simultaneously disincentivised productive employment through an over reliance on income tax, and incentivised unproductive activity through an inadequate taxation of economic rents.

Our political system has, for over a decade, failed to overcome entrenched special interests, implement the vast majority of the recommendations from the Henry Review, and undertake the politically difficult reform that is needed.

We believe that tax reform should be based around three pillars: productivity, efficiency, and equity. Such reform must create new, sustainable revenue streams, disincentivise rent seeking, and stimulate economic growth.

6. Land tax: taxing the unimproved value of land

Recommendation: Introduce a broad-based annual tax on the unimproved value of land.

Favourable housing policies have firmed into the bedrock of the Australian economy. The big four banks' mortgage loan books have climbed from $364 billion to $1.6 trillion since 2005—from 25% of GDP to 70%. The essence of the 'Great Australian dream' has been hijacked—what was once a simple belief that homeownership would lead to a better life has now been repurposed. Today, we have romanticised homeownership into an all-consuming, one-size-fits-all solution for wealth creation, retirement income, speculative investment, and fulfilment of the pursuit for a stake in the country.

What the modern Australian housing paradigm often neglects is the importance of housing as a good in and of itself. We cannot expect to provide equality of opportunity to own a house if we forever prioritise housing as an investment opportunity rather than a roof to live under. Without reform to address these incentive mismatches, we risk systemically entrenching wealth inequality for generations to come.

Pairing this sentiment with the government's need to raise revenue, we recommend a tax on the unimproved value of land. A recurring annual tax based on the value of the land would improve the stability of government revenue—as it is not subject to fluctuations in the business cycle. Land taxes are effective for both efficiency and equity—land is immobile, a store of wealth, in fixed supply, not a function of individual production, and accrues economic rents. These rents do not spur productivity; rather, they incentivise speculation and unproductive competition for the exclusive property rights that allow one to monopolise these rents.

We are more than familiar with the social costs arising from our love affair with property. Land value increases also have cyclical effects as they disproportionately benefit the already fortunate—and further entrench the 'owners-and-renters' bifurcation of wealth classes.

Tax efficiency refers to raising revenue in a manner that does not distort behaviour. This means we want to minimise marginal excess burden—the cost of the tax on society. Efficient tax reform should have minimal unintentional second order effects. Since the supply of land is constant, immobile, and not a function of labour, there are little disincentive effects with a tax on the unimproved value of land—other than a reduction in speculative investment behaviour. These reasons speak to the popularity of the land tax proposition amongst Australian economists.

In this difficult economic landscape, we argue that economic rents, that are not compensation for individual effort, should be subject to taxation. That speaks to the fabric of a meritocracy—and a redistribution of undeserved rents into initiatives that broaden the opportunity base for the bottom 80% aligns with the vision of the fairer Australia we are advocating for.

7. Resource taxes

Recommendations:

1. **Introduce a resource super profits tax.**
2. **Establish a natural-resource based sovereign wealth fund to capture resource rents to redistribute to the public good.**

Whilst homeownership has become increasingly representative of what Australians' deem as a stake in the country, one thing that every Australian should have a right to is the wealth generated by the extraction and export of our natural resources. In a general sense, as supporters of the free market, Blueprint opposes 'super profit taxes'. If an individual has a great business idea, innovates, monetises it, and generates wealth, said innovation should not be penalised.

However, the natural resources sector is an outlier. The source of revenue in this instance is not intellectual property, professional services, or other forms of 'innovative' labour. It derives from natural assets whose value is determined by international demand. Taxpayers have a fundamental right to enjoy the economic bounties gained from exporting the country's natural assets. How we manage natural wealth has a significant impact on productivity. A tax on the windfall gains of resource companies is a logical and efficient way to raise revenue to fund reform initiatives aimed at increasing equity of opportunity.

The Rudd government first proposed a Resource Super Profits Tax (RSPT), which was to be levied at 40% and apply to all extractive industries. This was replaced by the Minerals Rent Resource Tax (MRRT)—implemented by the Gillard government. Between 2012 and 2014 mining companies were levied on 30% of the 'super profits' accrued on the extraction and use of non-renewable resources. The 'super profits' floor was set to $75 million of annual profits to protect small businesses. The tax was successfully repealed in 2014.

Today, the only remnants of a resource tax is the Petroleum Resource Rent Tax (PRRT), which is levied at 40% of profits accrued from offshore oil and gas projects. But after only raising $800 million in 2021, the PRRT has faced criticism of its effectiveness.

In a global context, we are laggards at taxing the resource rents of the small concentration of hyper profitable resource giants. In Norway, a significant portion of the profits of the oil giant Equinor, is redistributed to a sovereign wealth fund—which has reached $1.8 trillion. The Norwegian government can invest up to 3% of the fund's volume each year on programs that contribute to 'the public good'—approximately $49 billion. A resource-rich nation like Australia should adopt a similar model in which the excess rents are funnelled into a sovereign wealth fund.

8. Wind back deductions for negatively-geared investment properties

Recommendation: Wind back negative gearing tax offset for investment property expenses.

We believe an equitable revenue raising measure would be to wind back the specific negative gearing offset for investment properties. These expenses cost the federal budget $3.6 billion in 2019-20. Again, this is a focus on reigning in deductions on capital income, not income from labour.

Negative gearing has persisted as a political dead horse for the last decade—and while we are cognisant that this is not the most original recommendation, it is certainly overdue. It is the lowest hanging fruit for equitable tax reform.

In the current environment of rising rates, investors will be incentivised to take advantage of tax breaks like negative gearing and CGT discounts. As the cost of borrowing increases, so will the number of investors offsetting rental losses against other earnings, when mortgage repayments exceed rents. Effectively, the deductions subsidise investors in overheated real estate markets, pushing up house prices, increasing the banking system's exposure to housing market volatility, and compromising social welfare.

Persisting with tax breaks that encourage speculative investment activity will continue to worsen wealth inequality. Instead, funnelling the recovered revenue into productivity enhancing measures would build toward an Australia with a revitalised focus on the equitable distribution of opportunity.

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