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Productivity Commission Review of Australia's Productivity Performance

March 2022

Australian
Chamber of Commerce
and Industry

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Executive Summary

Australia's productivity performance has been waning over the past two decades, with labour productivity growth hovering around 1% and multifactor productivity barely growing at all. Australia is only a middle ranking economy in terms of productivity — behind most comparable countries, including the United States, United Kingdom, Germany and France — placing Australia at a clear competitive disadvantage.

The reasons why Australia's productivity growth has been declining are much debated, yet there are a few factors, both individually and in combination, that are contributing to this. These include:

- Inefficiencies in tax and regulatory systems limiting business dynamism and competition
- Weak capital investment, both by business and public infrastructure investment, limiting capital deepening and the technological advancement that comes with it
- Low investment in R&D and the difficulty in commercialising research and innovation
- Slow uptake of digital technology
- Skill and labour shortages that become particularly tight during periods of strong economic growth and recently compounded by 2 years of closed international borders.

We need to get back on a path of strong productivity growth to sustain a high level of economic activity over the long term. Australia needs to increase productivity at a rate that is much better than the past 20 years. We need to remove impediments and incentivise individuals and businesses to be innovative and make productivity enhancing investments. We need reforms that give structure, flexibility and support an entrepreneurial business culture that is dynamic, resilient and competitive.

We recognise the key to rebuilding the Australian economy following the COVID pandemic and put it on a sustainable footing of the future is to increase the size and productivity capacity of the Australian economy. Throughout the COVID-19 pandemic, ACCI's focus has been policy and support measures to drive Australia's productivity performance.

In October 2021, ACCI released the *A Better Australia* strategy, presenting our vision for a smarter, fairer, bigger, more sustainable and more resilient Australia. Our focus is on major reforms to boost productivity and raise the living standards of Australians over the long-term.

There are also a range of shorter-term actions and initiatives that we can take now to enhance productivity and accelerate economic activity. These were set out in ACCI's pre-Budget submissions over recent years. These short-term measures complement our longer-term objective, enabling us to make some progress while we wait for the windows of opportunity to initiate and prosecute some of the more comprehensive and complex areas of reform identified in *A Better Australia*.

This submission provides the following recommendations to lift Australia's productivity and deliver sustainable economic growth that raises the living standards of all Australians:

Recommendation 1: Tax Reform

Tax reform is fundamental to raising Australia's productivity performance and achieving strong, inclusive, job-creating economic growth that will lift our future living standards. Australian businesses need the tax system to deliver the right mix of incentives that will make them globally competitive, stimulate investment in research and development, and support them in becoming more efficient and productive.

- Begin the process of comprehensive tax reform, including the GST, by placing tax reform as a standing item for discussion on the Council of Federal Financial Relations (CFFR) agenda.
- Extend the 25% small business corporate tax rate to cover all businesses.
- Take a leadership role, working with the state and territory governments through the CFFR, to reduce the burden of payroll tax on business.

Recommendation 2: Regulatory Reform

The regulatory system must be designed to make it easy for businesses to establish, operate and grow in a dynamic, technology driven economy. At all levels of Government (Federal, state and local), the primary focus must be on fit-for-purpose regulation that is simple and outcome-focused rather than complicated and prescriptive.

- Prioritise and adequately resource the development, design and implementation of a user-centric approach to regulation across the whole of Government.
- Work with states and territories to simplify and streamline the approvals process for major projects and avoid duplication in the regulatory process.
- Review the cost recovery arrangements for regulatory agencies, with a view to requiring greater accountability in the cost recovery process and ensuring incentives are in place to drive efficient regulation.

Recommendation 3: Business Investment

Business investment is a major driver of productivity growth, as it typically brings new technologies and innovation, which boosts productivity through higher skills development and lower labour demand to produce more output with less input. Without strong businesses investment, Australia's productivity growth risks remaining low over the long term.

- Stimulate investment through an extension of the Temporary Full Expensing measure beyond 2023.
- Introduce a broad-based investment allowance of 20% of the value of an asset purchased for all business investments in plant, equipment and machinery.
- Provide a SME loan guarantee for longer-term investments that support business growth and show clear productivity improvements.

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Recommendation 4: Infrastructure Investment

Infrastructure investment is widely regarded as an efficient form of economic stimulus as it has a large output multiplier relative to other fiscal policy measures. It has the potential to lift future productivity growth and meet the needs of Australians for greater connectivity and quality of life. It has rightly been prioritised as a key driver of the post-COVID economic recovery.

- Federal, states, territories and local government work more effectively together to more efficiently and effectively deliver infrastructure investment.
- Greater focus on regional infrastructure as an enabler of decentralisation.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.
- Lower the hurdle rate on public infrastructure investment to encourage investment in a broader range of infrastructure, particularly those with long-term social benefits.

Recommendation 5: Technology and innovation

Innovation is the major determinant of enhanced productivity and competitive advantage at both the business and nation level. Innovation underpins the growth and dynamism of all economies. Governments need greater focus on creating an environment where new ideas are generated and translated into new products, services and processes, to support innovative businesses in Australia. A systematic and coordinated approach to supporting and advancing innovation is essential if we are to achieve ongoing improvements in living standards and quality of life.

- Broaden the patent box to all industry sectors, not just medical and biotechnology and enhance this support with low interest loans and other financial assistance to assist businesses to commercialise R&D and innovation in Australia
- Increase funding for CSIRO, CRCs/RDCs and universities to provide greater incentive for industry to collaborate and partner with government R&D organisations/institutions.

Recommendation 6: Digitalisation

Investment in software, information technology, digital literacy and innovation act as enablers of productivity across multiple sectors, particularly newer firms and SMEs. Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to grow and create jobs, as well as improve the work-life balance of their employees.

- Establish a body to provide information and advice on digital opportunities to small business.
- Work with industry to develop cybersecurity awareness and resources to protect small business from cybercrime.

Recommendation 7: Labour and Skills

Australia needs a labour force that gives businesses access to the skills they need to innovate and the flexibility to improve the way they operate. Over the coming years, accessing the necessary skills is likely to be challenging for businesses due to pressure on the labour force through an ageing population and declining fertility rates, and growing demand for skills to satisfy the needs of highly skilled growth industries such as advanced manufacturing, defence and health.

To overcome Australia's skills and labour shortages requires a holistic workforce approach – bringing together policy solutions that address skills development, participation and migration. This workforce approach needs to be underpinned by ongoing strategic workforce planning that identifies current and future skill needs as well as shortfalls in education and training outputs and funding.

- Commit to long term consistent and real funding increases for VET which delivers an increase in the number of VET funded students across all qualifications, AQF levels and industry sectors to satisfy not just skill shortages, but skill needs.
- Locking in long-term investment in apprenticeships by:
  - continuing a wage subsidy at a new level of 30% for 12 months for trade apprenticeships and 6 months for 1-year traineeships,
  - Continuing a subsidy for 2nd year trade apprenticeships of 15%
- All Diploma and Advanced Diplomas should be eligible for VET Student Loans and their funding caps should be reviewed.
- Provide adequate funding for the employment services system to enable improvements that will better connect long term unemployed to job opportunities
- Replace PaTH with concurrent structure training and experience and extended it to other cohorts on the *jobactive* caseload, i.e. people with disability and mature age.
- Reintegrate the public funded service for people with disability back into the core employment system and support employers to recruit and retain people with disability.
- Allow pensioners to keep more of their age pension when they earn income by raising the fortnightly income threshold and increasing the Work Bonus.
- Make childcare more accessible and affordable, with more options to assist parents to return to the workforce sooner.
- Increase the permanent migration intake, including a significant increase in the cap for skilled migration to replenish the skills lost during the pandemic.
- Ensure access to all skilled occupations for employers nominating workers under the employer sponsored temporary and permanent skilled streams.

The Chamber of Commerce and Industry Queensland (CCIQ) supports the recommendations put forward by ACCI in this submission.

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1 Introduction

ACCI welcomes the opportunity to contribute to the review of Australia's productivity performance and provide recommendations that will assist governments to make productivity enhancing reforms.

The economy's ability to sustain a solid uplift in productivity growth is critical to maintaining Australia's high living standards into the future. Productivity can only be improved through the more efficient use of labour, capital and other inputs used in the supply of goods and services. How these factors combine to lift productivity and contribute to increasing per capita income depends on whether businesses have the incentives to innovate and adopt best practices, and whether improvements to our country's terms of trade can be captured.

Throughout the COVID-19 crisis, ACCI's focus has been on policy and support measures to drive improvement in Australia's productivity performance. We recognise the key to rebuilding the Australian economy and putting it on a sustainable footing of the future is to increase the size and productivity capacity of the Australian economy. If we are to maintain living standards to which we aspire in the future, then there needs to be a concerted effort to have in place the conditions for sustainable, strong, job creating growth.

In October 2021, ACCI released the *A Better Australia* strategy, presenting our vision for a smarter, fairer, bigger, more sustainable and more resilient Australia. Our ambition is to raise the living standards of Australians through reforms that boost productivity and deliver sustainable economic growth.

While the *A Better Australia* strategy has a longer-term (30 year) focus, ACCI's pre-Budget submissions over the past few years have concentrated on shorter-term actions to enhance productivity (either through investment and other fiscal measures or improving the regulatory environment) and accelerate economic activity towards achieving a strong business-led recovery from the COVID-19 pandemic. These short-term measures complement our longer-term objective, enabling us to make some progress while we wait for the windows of opportunity to initiate and prosecute some of these more comprehensive and complex areas of reform.

The following presents the key measures identified in our *A Better Australia* strategy and our pre-Budget submissions.

2 Australia's Productivity Performance

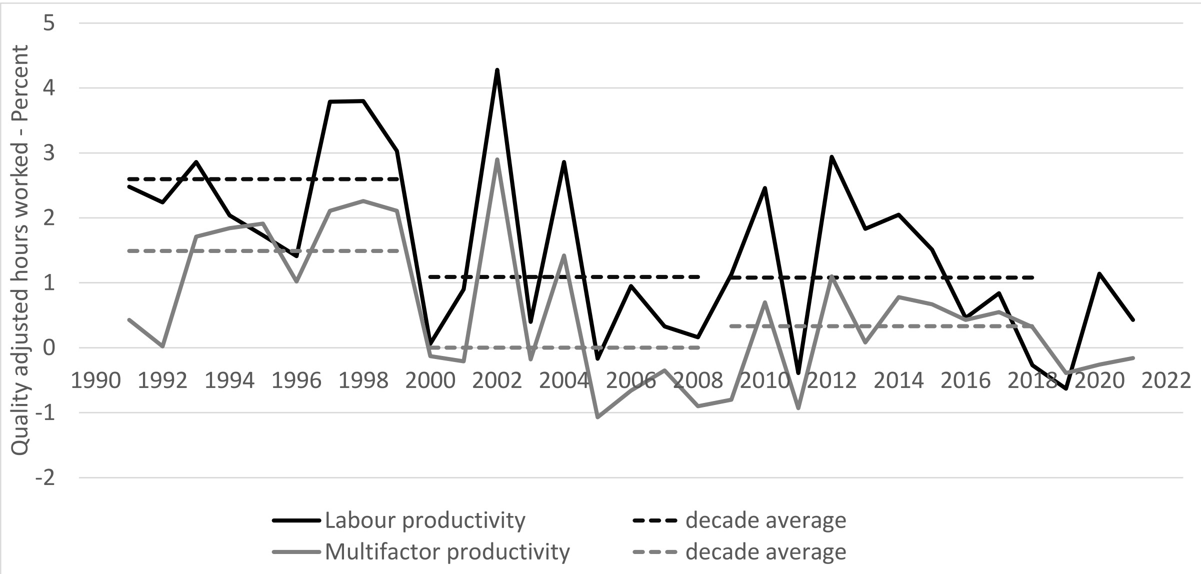
2.1 Past productivity performance

Labour productivity has been the most important source of economic growth in Australia over the past three decades, contributing over 80% of growth in real Gross National Income (GNI) per person. This has been achieved mainly through capital deepening, with investment in new capital supporting increased output from lower labour inputs.

While labour productivity averaged 1.5% per year on a quality adjusted hours worked basis over the past 30 years, this long-term average was inflated by the major economic reforms of the 1980s and 1990s. Labour productivity growth averaged 2.6% per year in the decade 1989-90 to 1999-2000. More recently, it has been much weaker, with the average rate between 2000-01 to 2018-19 (to exclude the COVID-recession) of 1.2% per year. However, this average conceals the recent weakening trend, as labour productivity was on a steadily decreasing trend between 2011-12 and 2018-19 falling from 3% to -0.6%.

Similarly, Australia's multifactor productivity averaged 0.6% per year on a quality adjusted hours worked basis over the past 30 years. While multifactor productivity averaged 1.5% in the decade to 1999-2000, it subsequently fell to zero in the decade to 2009-10 before a modest increase to 0.33% between 2010-11 and 2018-19.

Chart 1. Market Sector Productivity Growth – quality adjusted hours worked basis



Source: ABS 5260.055 Estimates of Industry Multifactor Productivity, 2020-21 financial year.

Low productivity contributed to weak economic growth in the years leading up to the COVID pandemic, with GDP growth in the decade 2010-19 averaging 2.6%, compared to an average of 3.3% over the proceeding 3 decades.

2.2 Productivity challenges as a result of the COVID-19 pandemic

Over the past two years, productivity measures have become inconsistent and unreliable as a result of the disruption caused by the COVID lockdowns.

The lockdowns resulted in a large share of business capital unused or under-used. This influenced labour productivity, overstating the capital deepening component. Labour productivity jumped to 1.8% in 2019-20, before settling back to 1.1% in 2020-21, artificial boosted by a reallocation of labour toward higher productive industries as less productive industries experienced larger falls in hours worked. This contrasts with the declining trend in labour productivity over the past business cycle (2011-12 to 2018-19), described above.

While multifactor productivity (MFP) growth had been relatively stable (albeit anaemic — below 1%) over the business cycle prior to the pandemic, it contracted 0.6% in 2018-19 and remained in negative territory in 2019-20 and 2020-21. This was a reflection of the weak business investment and the COVID lockdowns affecting the efficient use of capital by businesses.

This impact of the COVID disruptions on productivity growth is likely to be temporary. However, it will take some time for businesses to recover, regain confidence and make the substantial investment to achieve the capital deepening necessary to raise productivity growth over the long-term.

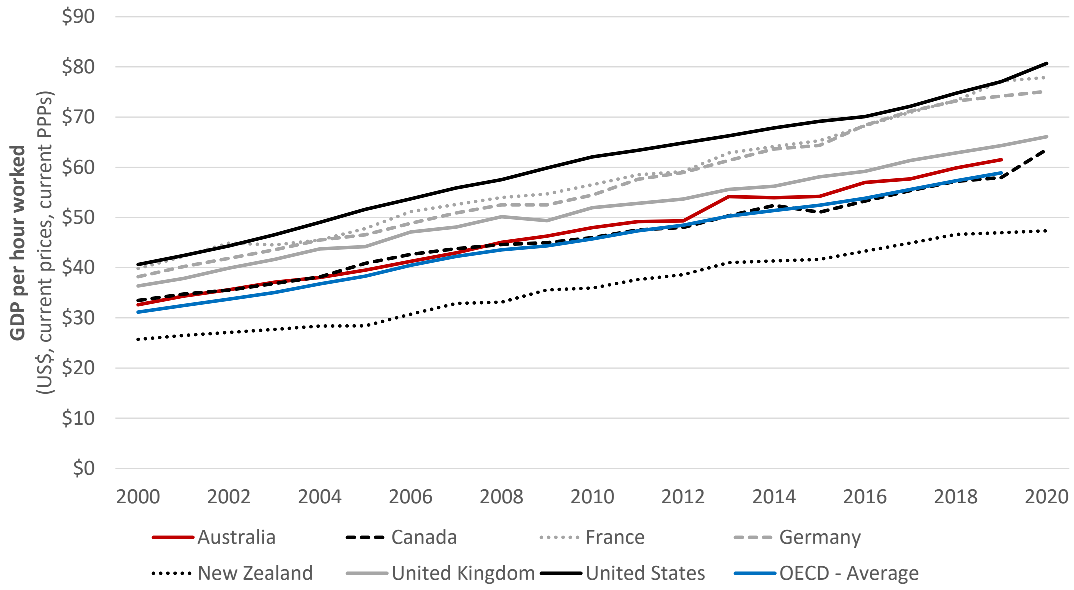
The Intergenerational Report assumes that labour productivity growth will be sustained at an average rate of growth of 1.5% per year, over the next 30 years. Yet, it likely to take several years to return sustainably to this long-term trend level, particularly after the disruption caused by the COVID pandemic, so a higher rate of growth is needed in the outer years. If this cannot be achieved and labour productivity growth is lower, then this will substantially slow economic and employment growth. For example, in an alternative scenario shown in the Intergeneration Report, with average productivity growth of only 1.2% per year — equivalent to the average over the past 20 years – nominal and real GDP would be 9½% lower and wages growth 9¼% less over the next 30 years.

2.3 International comparisons

Internationally comparable indicators of productivity are useful for assessing a country's economic performance and competitiveness. Australia's relatively low productivity growth, particularly in recent times, places it as only a middle ranking country in terms of productivity.

Australia's labour productivity ranks 16th in the OECD, at US$61.50, measured on a GDP per hours worked basis. While this is slightly above the OECD average of US$58.90, Australia ranks behind most comparable nations, including France (US$77.20), the United States (US$77.10), Germany (US$74.20) and the United Kingdom (US$64.30).

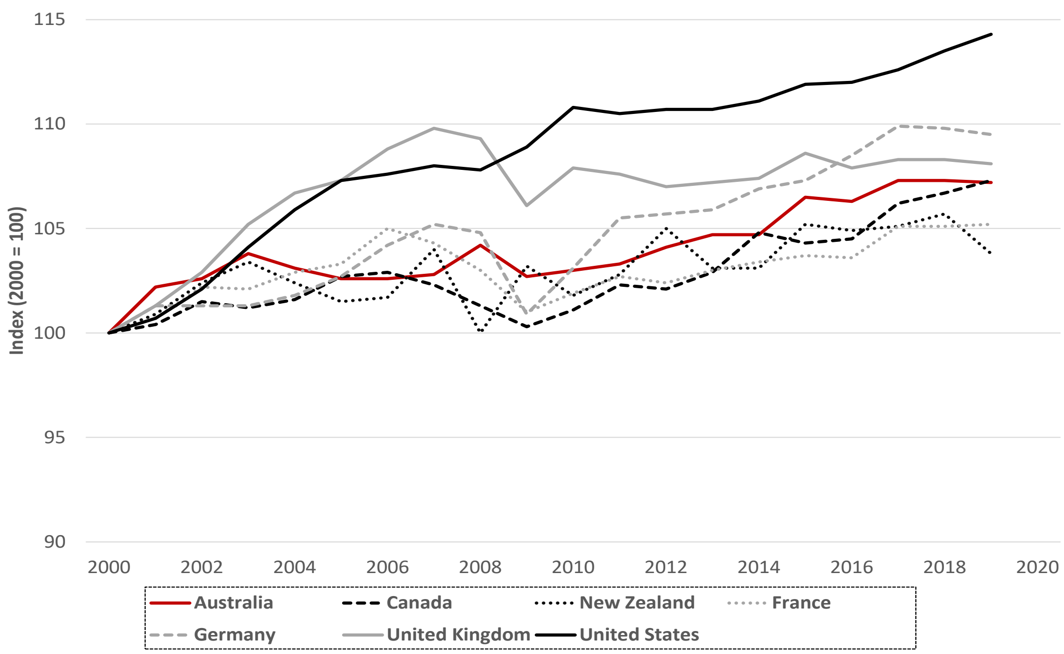
Chart 2. Labour Productivity Growth – selected countries



Source: OECD Stats.

Similarly, Australia's multifactor productivity growth of 7.4% over the past two decades was below the OECD average of 8.8% and lagged the productivity growth of many comparable countries, such as the United States (where multifactor productivity grew by 14%), Germany (10%) and the United Kingdom (8%). While Canada's productivity growth was slower than Australia's prior to the Global Financial Crisis, it has since grown at a faster pace, such that overall growth over the past two decades is similar to Australia.

Chart 3. Multifactor Productivity Growth – selected countries



Source: OECD Stats.

3 Factors influencing Australia's weak productivity growth

The reasons why Australia's productivity growth has been declining are much debated, yet there are a few factors, both individually and in combination, that are contributing to this. These include:

- Inefficiencies in tax and regulatory systems limiting business dynamism and competition
- Weak capital investment, both by business and public infrastructure investment, limiting capital deepening and the technological advancement that comes with it
- Low investment in R&D and the difficulty in commercialising research and innovation
- Slow uptake of digital technology
- Skill and labour shortages that become particularly tight during periods of strong economic growth and recently compounded by 2 years of closed international borders.

3.1 Taxation system

In its current form, Australia's two-tier tax system is replete with inequities resulting from the way labour, land and capital are each taxed, as well as the array of tax expenditures in the form of exemptions, deductions, concessions and deferrals. The system is too reliant on unsustainable and distortionary taxes that are either inherently inefficient or inefficient by design. There are also imbalances between the roles and responsibilities of the Commonwealth and those of state and territory governments, especially regarding raising revenue and spending on public goods and services. These give rise to structural weaknesses in budgets.

While there have been many reviews over the past two decades, providing endless ideas, opinions and recommendations on what needs to be done, for too long the task of meaningful tax reform has been deferred by Governments. Yet, we can no longer afford to kick the can down the road.

Overall, Australian tax system relies too heavily on income taxes and less on consumption/value-added taxes (VAT — i.e. the goods and services tax [GST] in Australia). Income tax provides over 64% of total tax revenue in Australia. This is in sharp contrast with most other OECD countries, with Australia having the second highest reliance on personal income tax (40.6%), third highest on company tax/corporate profits (18.5%) and third highest on payroll tax (4.8%). In contrast to income taxes, Australia ranks 30th in its reliance on VAT/GST, at 26% compared to the OECD average of 32.4%.

Australia's GST rate of 10% is well below the OECD average. Only Japan, South Korea, Switzerland and Canada have lower VAT/GST rates than Australia. In addition to the very low GST rate, Australia has an extensive list of goods (i.e. food and other essential items) and services (i.e. health and education) that are GST-free. Consumption of these excluded goods and services is growing at a much faster rate than that of other goods and services. Australia's GST revenue has fallen from 11% to 9% of GDP in the 20 years since it was introduced, and it is expected to continue to decline in the years ahead. Any serious reform of the tax system requires a review of the GST and consideration of broadening the base, raising the rate or both.

Corporate income taxes inhibit economic growth. Australia's corporate tax rate for medium and large businesses, at 30%, is amongst the highest and least competitive in the developed world. While the lowering of corporate taxes on small businesses (aggregate turnover less than $50 million per annum) to 25% in recent years was welcome, the corporate tax rates are now misaligned. Given many small businesses rely on larger businesses as both suppliers and customers, this disparity in tax rates risks holding back growth of both large and small business.

In addition, state and territory governments impose an additional layer of income tax on business, through payroll taxes. They rely too heavily on payroll taxes for revenue, which makes up between 28% and 40% of a state's/territory's own-source revenue. Yet, payroll tax is extremely inefficient, placing a high administrative burden and imposing excessive compliance costs on business. Payroll tax was shown to have a considerable influence over businesses' employment and wage decisions. A recent ACCI survey finding 90% of respondents would either increase the number of employees or wages if payroll tax was removed.

3.2 Regulation

The burden of regulation is a key factor constraining Australia's productivity, growth and international competitiveness. Australia ranked stubbornly low in the World Economic Forum's Global Competitiveness Index, at 80th on the burden of government regulation.

There are a broad array of areas where action is needed to make serious progress on reducing regulatory burdens, including antiquated trade regulation found in the Customs Act and Excise Act; infrastructure planning, building and procurement at the state and Federal level; labour market testing and employment services; chemical assessments and controls; medicines and medical device regulation; transport, mobility, supply chains and freight; agricultural supply chains; work health and safety; retail trading hours; leasing arrangements; state liquor laws; and removing duplication of state and Commonwealth environmental regulation.

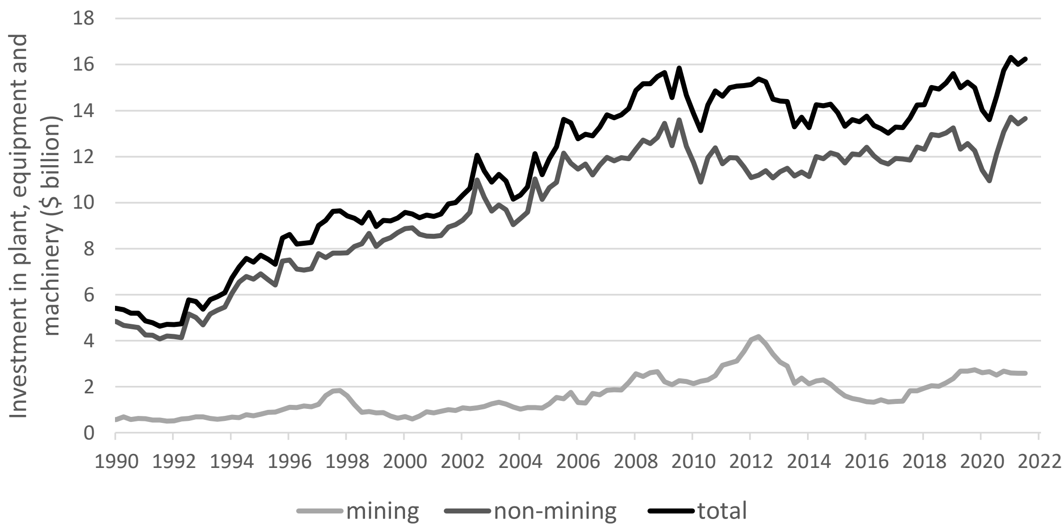
In addition, the unnecessary duplication of regulation administered by the Commonwealth, states and territories is a long-standing issue that needs to be addressed, as it weighs heavily on productivity. For example, in meeting environmental regulations for major projects, national and multinational organisations often spend thousands to millions of dollars, and hundreds of hours, completing complex applications. Cumbersome paperwork followed by lengthy approval times can often lead to commercial disinterest and with it lost economic opportunity and jobs. For example, Google's application to establish a headquarters in Sydney was rejected several times, despite the prospect of enormous economic benefit.

In addition, many regulatory agencies are reliant on full-cost recovery for their regulatory services, which provides little incentive to bring in efficient regulation. Costs for regulatory services are continually rising, along with the complexity and additional regulatory burden. The Government's Cost Recovery Guidelines include three cost recovery principles: efficiency and effectiveness; transparency and accountability; and stakeholder engagement. Policy is clearly failing in these areas, particularly in terms of transparency and accountability. There needs to be greater accountability for cost recovery by regulatory agencies and greater incentive for them to deliver efficient regulation.

3.3 Business Investment

A key factor behind Australia's low productivity growth over the past decade has been low business investment. Non-mining capital investment in new plant, equipment and machinery has been flat since the Global Financial Crisis in 2009, the decade leading up to the pandemic, with annual growth of non-mining investment slowing to an average of less than 0.2% per annum in real terms between 2009-10 and 2018-19. This compares to an average of 4.7% for the decade up to 2008-09 and 6% in the decade to 1989-99.

Chart 4: Private new capital investment in plant, equipment and machinery.



This weak business investment has been exacerbated by the pandemic, with private new capital expenditure falling 7% in 2019-20. There were signs of a turnaround in business investment in the first half of 2021, on the back of improving business confidence, with non-mining investment up 3% in 2020-21. However, this dissipated quickly with weakening business conditions and the uncertainty created by the COVID delta outbreak.

For small and medium enterprises (SMEs), a key challenge has been their inability to borrow for more than 7 years. This creates a substantive risk and prevents them from making larger, longer-term investment in capital that would improve productivity. It contrasts with the situation for larger businesses, with banks more willing to provide credit for larger, longer-term investments, as well as their ability to raise capital both domestically and offshore. This represents a market failure as it limits the ability of many SMEs to achieve their full potential and make a substantial contribution to productivity growth in Australia.

3.4 Infrastructure Investment

Productivity and the living standards of all Australians can be improved by access to effective, efficient infrastructure. However, most Australian cities and regional areas currently do not provide these optimally. For example, a lot of freight moves around the nation via road, when rail or coastal shipping should be viable, potentially cheaper and more efficient, alternates.

Australia under-invested in infrastructure in past decades, such that the existing stock of infrastructure falls well short of meeting current needs. Greater investment in infrastructure across a range of sectors, including transport, communications, energy, water and waste, is needed to increase productivity, reduce congestion and improve the liveability of cities. In addition to the demand for greater investment in new infrastructure, existing infrastructure is aging and there is increasing demand for upgrades, maintenance and replacements. The stress on public infrastructure in our major cities will only intensify as international borders reopen and immigration returns to its pre-COVID path.

While the main pressures are in the capital cities, infrastructure in regional areas is becoming increasingly stretched, as the COVID pandemic has encouraged more people to move to regional areas. There needs to be greater prioritisation on regional infrastructure to attract more people and businesses to regional areas, to take some of the pressure off out major cities. Australia's regions vary in their strengths, vulnerabilities and attractiveness to business investment. Some regional areas are more vulnerable to downside risks while others have been able to attract substantial investment and population growth. The poor quality of infrastructure in many regional areas is a major barrier to attracting people and businesses to those areas.

3.5 Technology and innovation

Research, innovation and technical improvement is fundamental to lifting productivity and driving economic growth. Yet, business expenditure on research and development (R&D) is very low relative to many comparable developed countries and has fallen dramatically in the wake of the COVID-19 crisis.

Gross expenditure on R&D was below 1.8% of GDP in 2019-20. This is well below the OECD average of 2.4% of GDP and other major economies such as Japan (3.2%), Germany (3.0%) and the United States (2.8%). Countries such as New Zealand are raising their investment in R&D, increasing their R&D incentive to 15%. Others, including the USA and UK, have highly diversified innovation ecosystems underwritten by favourable tax and regulatory environments which support the commercialisation of R&D and innovation in these countries and are highly attractive to global firms.

Australia's relatively low overall R&D expenditure and poor performance in commercialisation of research output compared to many other countries is a cause for concern and has been exacerbated by COVID-19.

3.6 Digitisation

International research points to a strong correlation between intangible capital investment in digital technology (information and communications technology - ICT) and an increase in labour productivity and economic growth. However, many Australian industries are lagging in the adoption of digital technology.

Small business, in particular, has been slow to participate in and gain the benefits from the digital transformation. There is a lack of awareness by small business of the productivity and profitability gains that can be achieved through the adoption of digital technology. A survey of small business by CPA Australia in 2021, found that businesses that did not grow, or shrank, were much more likely to have made no investment in technology over the past year relative to those that grew strongly.[1] Small businesses from Asia were far more likely to be using even the most basic technologies such as online sales, new payment technologies and social media than small business in Australia.

3.7 Labour and skills

Labour and skill shortages have been a problem in Australia over many decades, becoming worse during peaks in the economic cycle. The COVID pandemic has exacerbated these shortages with the economic stimulus driving up labour demand and closed international borders stemming the flow of skilled migrants, backpackers and seasonal workers.

To identify possible solutions, we first need to understand how widespread our skills and labour shortages are, what may be future gaps, and then speculate on why these problems arise. If these shortages not addressed now, they will have profound short- and long-term implications for productivity growth and our future standard of living.

There are many factors contributing to the current acute labour and skills shortages including the pandemic and related economic stimulus, as well as labour force participation rates, demographic challenges and mobility limitations, longer term structural issues around skills, experience and training mismatch, diversity and spread of our economy, and seasonal work.

Following the closure of Australia's international borders in March 2020, at the onset of the pandemic, hundreds of thousands of temporary migrants returned to their home countries, immigrant flow reduced to a trickle, and labour movement between states was severely limited. While Australia has recently reopened it borders and migrants are starting to arrive, it will take some time to return to the numbers that were arriving pre-pandemic. Since the borders closed, governments have injected an unprecedented amount of funds and tax incentives to stimulate the economy and preserve jobs during the pandemic. This boost to economic activity, combined with the closed borders, has contributed to a tightening labour market, with employment at a historic high and unemployment and underemployment at 13-year lows. Skills shortages have emerged in many sectors as demand outstrips the ability of our training and education systems to prepare and deliver skilled workers.

For example, Raven's Recruitment Pharmacy Market Report in November 2021 noted significant workforce challenges, with the number of pharmacist positions available and time taken to fill them increasing considerably across all regional, rural and metropolitan areas.[2] Due to the critical role of pharmacists in the COVID-19 response, Minister Hawke announced their inclusion on the Priority Migration Skilled Occupation List (PMSOL) on 27 July 2021.[3]

Other examples can be found in our recently released policy statement on overcoming Australia's skills and labour shortages (see document sent in along with this submission).

[1] CPA, Asia-Pacific Small Business Survey 2020-21 https://www.cpaaustralia.com.au/professional-resources/business-management/small-business/asia-pacific-small-business-survey

[2] Raven's Recruitment (2021), The Pharmacy Salary and Market Report 2021.

[3] Priority Migration Skilled Occupation List (homeaffairs.gov.au)

With the current labour and skills shortages, increasing workforce participation is a clear area where productivity gains can be achieved. Australia's labour force participation rate is at 66.2 per cent, but there is clear scope to increase participation, particularly for those who face specific challenges entering the workforce, such as the long-term unemployed, young and mature age workers, women, and people with disability.

We need to do more to connect the long term unemployed to job vacancies and encouraging individuals who face a range of barriers to become part of the labour force and seek jobs that will suit their abilities. The youth unemployment rate is more than double the overall unemployment rate. Failing to support young Australians now will not just have immediate ramifications in terms of the current skills and labour crisis but will diminish Australia's labour force productivity over the longer-term. While more Australian women are participating in the workforce than in the past, female participation rates are still lagging males by about 8 percentage points, indicating more needs to be done. Workforce participation dips at an age when women start having children. When they return to paid work, they are more likely to work part-time, with Australian women having one of the highest rates of involuntary part-time employment of all OECD countries. The participation rate of people with disability is also lagging that of the general population, estimated to be 30 percentage points lower than people in the same age range without disability, with the rate decreasing with severity of the disability.

In addition, there is an army of mature age workers able to work and with the skills Australia needs but who are currently disincentivised to engage in work due to the age pension income test. The current Work Bonus provides only limited benefit for a pensioner considering a return to the workforce, as it allows them (at best) to work only one day per week (at minimum wage) before their pension is reduced. The settings are confusing, and it is readily believable that pensioners are not willing to take the risk.

Harnessing mature age workers, as well as long term unemployed, youth, women and people with disability, is essential if we are to effectively lift workforce participation rates and substantially raise productivity growth.

A skills and employment mismatch results in many employees in a job that they are overqualified for, with 35% of workers reporting their skills are underutilised. This has flow-on to productivity, with poor job satisfaction leading to a lack of engagement with the workplace. On a national scale, this skills mismatch is a concern for all as it means that education and training is not sufficiently addressing the needs of the labour market, and governments and individuals are not getting an effective return on their investment. We need to better align the skills of our workforce with current and anticipated future labour demand, otherwise we risk not securing the productivity benefit from an investment in skills development. This alignment can also be improved by well informed careers advice.

In addition, labour mobility limitations must be addressed to lift productivity, including greater rural and regional flexibility to create the right incentives for individuals to work in rural and regional locations. The ability for labour to easily move to a location where it is needed (particularly regional areas) is key to connecting employees and employers. The current labour mobility limitations are compounded by movement restrictions associated with COVID. The sheer size of Australia combined with its relatively small population presents its own unique set of challenges.

A job seeker not only has to have the rights skills and experience for a vacancy, but also needs to be both willing and able to move to take up the job opportunity. However, a wide range of external factors beyond the employment opportunity influence willingness, which can be impacted by the desire to stay connected to family or existing lifestyle, and ability to move can be impacted by low availability of housing, loss of access to childcaring, and the cost of moving (including disincentives such as stamp duty on housing). These barriers are difficult enough when considering permanent work shifts, but they are often insurmountable when making decisions about moving to take up seasonal or temporary work, or when personal resources are low, for example, after long periods of unemployment.

All of these issues are taken up in more detail in the attached document on *Overcoming Australia's Labour and Skills Shortages*, released by ACCI in March 2022.

Australian Chamber of Commerce and Industry

4 Priorities for reform

The Australian economy's ability to sustain a solid uplift in productivity growth is critical to maintaining high living standards.

Given the amount of government debt and deficit incurred in responding to the pandemic, Australia's labour productivity growth needs to be much better than the average over the last 30 years, and it needs to grow faster. The economy needs reforms that will boost growth by removing impediments and incentivise individuals and businesses to engage in economic activity and be innovative. We need reforms that will give the structure, flexibility and entrepreneurial culture to create the dynamism, resilience and competitiveness needed for businesses to thrive. We need a labour force that gives businesses access to the skills they need to innovate and the flexibility to improve the way they operate.

If we are to achieve this, major reform is necessary in the areas of taxation, regulation, business investment, infrastructure spending, technology and innovation, digitisation and labour and skills.

4.1 Tax reform

Australian businesses need the tax system to deliver the right mix of incentives that will make them globally competitive, stimulate investment in research and development, and support them in becoming more efficient and productive.

Given the challenge in rebuilding the Australian economy as we emerge from the COVID pandemic, improving Australia's tax and transfer system needs to be a high priority. Tax reform is fundamental to raising Australia's productivity performance and achieving strong, inclusive, job-creating economic growth that will lift our future living standards.

Achieving comprehensive tax reform that supports federal and state budgets over the long term while addressing distributional impacts and promoting economic growth will take time and is hard. That challenge should not prevent both tiers of government committing to the need for tax reform and making a start. The federal, state and territory governments, through the Council of Federal Financial Relations, must begin the task of tax reform that will deliver a structurally stronger, fairer and more efficient tax system. Governments need to agree on and implement systematic policy responses that remove impediments and increase the incentives for individuals and businesses to engage in economic activity, seize opportunities, and be creative and innovative.

Consideration should be given to the respective role of income taxes and consumption taxes in ensuring Australia has the necessary tax base to sustainably support Government spending. This should include examining a broadening of the base of the GST, raising the rate or both. This will enable a rebalancing of the tax system though reduced dependence on income taxes and greater reliance on more efficient consumption taxes, overall increasing the competitiveness of Australian businesses and improving productivity.

To support greater investment by businesses, drive stronger employment growth and make Australian businesses more internationally competitive, consideration should also be given to lowering the corporate tax rate to 25% for all businesses. While still above the OECD average of 23.7%, it will bring us roughly into line with comparable countries such as the US and Canada, providing greater incentive for larger businesses to undertake more investment – to grow and employ more people.

While payroll tax is a state and territory tax, achieving reform requires the Commonwealth to play an active leadership role to assist and reward the states and territories in making significant changes. As a first step, the Commonwealth should work with the states and territories to include payroll tax reform on the Council of Federal Financial Relations (CFFR) agenda. Initially, the CFFR should focus on reducing the administrative and compliance burden of payroll taxes on business, particularly through greater digitisation and integration of the state's and territory's payment platforms. Reducing the burden of payroll tax on business is not only an important start to broader tax reform, but is necessary to support business activity, jobs and wages growth that will lift productivity and drive the economic recovery.

Recommendation

- Begin the process of comprehensive tax reform, including the GST, by placing tax reform as a standing item for discussion on the Council of Federal Financial Relations (CFFR) agenda.
- Extend the 25% small business corporate tax rate to cover all businesses.
- Take a leadership role, working with the state and territory governments through the CFFR, to reduce the burden of payroll tax on business.

4.2 Regulatory Reform

The regulatory system must be designed to make it easy for businesses to establish, operate and grow in a dynamic, technology driven economy. At all levels of Government (Federal, state and local), the primary focus must be on fit-for-purpose regulation that is simple and outcome-focused rather than complicated and prescriptive.

Most important is the need to adopt a user-centric approach to the development, design and implementation of regulation. Regulators need to work closely with all affected stakeholders including local, state and federal government policy agencies and regulators, industry bodies, employee and community representatives. A user-centric approach is fundamental to improving the efficiency and effectiveness of regulation, better coordinating regulatory reform across departments and agencies, and better harmonising new and existing regulation.

The benefit of a less prescriptive and more agile approach to regulation was demonstrated by the Government on several occasions in response to the pandemic. But, as the vaccine roll-out showed, Governments need to remain alert and responsive, with the slow pace of policy change to allow pharmacists to administer COVID-19 vaccines causing considerable and unnecessary delays. Ongoing effort is required to maintain this momentum and change regulator culture across Government to ensure regulatory systems are fit-for-purpose — meeting community expectations regarding safeguards while making it easier for business.

The unnecessary duplication of regulation administered by the Commonwealth, states and territories weighs heavily on productivity. State, territory and local governments are principally responsible for planning and land management under the Australian Constitution. Yet, many major projects also require environmental and other regulatory approvals that are administered by the Commonwealth. Simplifying and streamlining major project approval processes, with the Commonwealth working with states and territories to integrate their systems, is essential to avoid unnecessary duplication and reduce approval times of major projects. Through the CFFR, there is the opportunity for the Commonwealth to work with the states and territories to improve the clarity, consistency and certainty of the planning system across Australia, leading to more efficient, competitive and productive outcomes. This should include performance reporting and setting targets for shorter approval times. For example, consideration should be given to short fixed-time (14-day) approvals for low-risk, low-value developments compliant with zoning requirement.

With many regulatory agencies reliant on full-cost recovery, there is little incentive to bring in efficient regulation. There needs to be greater accountability for cost recovery by regulatory agencies and greater incentive for them to deliver efficient regulation. Given the last review of the cost recovery arrangements was undertaken in 2000, it is timely for the Productivity Commission to again review the cost recovery arrangements for regulatory agencies and how they can be incentivised to deliver efficient regulation.

Recommendation

- Prioritise and adequately resource the development, design and implementation of a user-centric approach to regulation across the whole of Government.
- Work with states and territories to simplify and streamline the approvals process for major projects and avoid duplication in the regulatory process.
- Review the cost recovery arrangements for regulatory agencies, with a view to requiring greater accountability in the cost recovery process and ensuring incentives are in place to drive efficient regulation.

4.3 Business Investment

Business investment is a major driver of productivity growth, as it typically brings new technologies and innovation, which boosts productivity through higher skills development and lower labour demand to produce more output with less input. Businesses investment in new capital assets is needed as we emerge from the COVID-crisis over the next decade to lift and sustain productivity growth and raise economic activity. Without this, Australia's productivity growth risks remaining low over the long term.

Business investment jumped 20% in the first half of 2021, driven by temporary changes to taxation arrangements enabling assets to be immediately written-off (fully expensed) in the year of purchase/installation, rather than over an extended period based on depreciation schedules. While this arrangement had been in place for several years for small businesses, to stimulate greater investment the eligibility criteria was relaxed in the October 2020 Budget, removing the cap on the value of the asset purchased and providing access to the arrangement for much larger businesses (turnover up to $5 billion from $500 million previously). This coincided with improving business confidence and significant pent-up demand, as businesses had held off investment in the first three quarters of 2020 due to the uncertainty around future demand.

With the instant asset write-off (full expensing) measure set to expire on 30 June 2023, business investment is likely to falter in the second half of 2023. This will stunt the economic recovery and slow productivity growth at a time when it needs to be building momentum. To sustain investment growth, particularly by small business, over the next decade and beyond, ongoing support is needed. Given the success of the instant asset write-off (full expensing) measure in boosting business investment in the first half of 2021, extending it the beyond the current expiry date and considering making it permanent, is expected to support strong growth in investment in plant and equipment as business confidence strengthens.

While the instant asset write-off (full expensing) measure was successful in stimulating investment, the bulk of this investment is in smaller items of plant and equipment that individually deliver modest productivity gains to a business. Large-scale investments particularly in heavy industrial machinery, and advanced manufacturing equipment and technology is needed to achieve the substantial productivity gains that will boost economic activity over the longer-term. These larger-scale investments require substantial upfront capital that may require several years to realise a return.

In addition to the instant asset write-off (full expensing) measure, an investment allowance of 20% of the value of investment in machinery, plant and equipment would stimulate these larger-scale investments (i.e. above $500,000). Businesses would have greater incentive to make larger, longer-term investments to achieve sizable improvements in productivity. It will also go some way to mitigate the impact of the higher corporate tax rate on larger businesses.

For SMEs, the unwillingness of major banks to provide credit for longer-term (more than 7 years) capital investment represents a significant challenge that is preventing many SMEs from achieving their full potential. A SME loan guarantee for longer-term capital investments would address this market failure, removing a significant barrier for larger-scale investment by SMEs in capital assets that would substantially improve their productivity and support long-term growth.

Recommendation

- Stimulate investment through an extension of the Temporary Full Expensing measure beyond 2023.
- Introduce a broad-based investment allowance of 20% of the value of an asset purchased for all business investments in plant, equipment and machinery.
- Provide a SME loan guarantee for longer-term investments that support business growth and show clear productivity improvements.

4.4 Infrastructure Investment

Infrastructure investment is widely regarded as an efficient form of economic stimulus as it has a large output multiplier relative to other fiscal policy measures. It has the potential to lift future productivity growth and meet the needs of Australians for greater connectivity and quality of life. It has rightly been prioritised as a key driver of the post-COVID economic recovery.

Given infrastructure investment is not solely a Commonwealth responsibility, the Commonwealth must work with state and territory governments to deliver cost effective and efficient infrastructure investments.

Investment in new (and maintenance of existing) infrastructure is vital to enabling greater decentralisation and supporting regional growth. Yet, most infrastructure investment is focused on major projects in capital cities. There needs to be greater prioritisation on regional infrastructure if we are to attract more people and businesses to regional areas. Governments need to look beyond congestion in our capital cities to the quality of regional infrastructure and regional services.

Public infrastructure can capture broad benefits, such as economic, social and environmental, that make it attractive to investors seeking long term investments with specific characteristics. With the large amount of public debt built up during the pandemic impairing Commonwealth and state and territory governments' balance sheets, there is a compelling argument for government to look to alternative means to source private funds to invest in public infrastructure, such as through securitised borrowing in the form of infrastructure bonds, rather than through general purpose borrowing. Infrastructure bonds would facilitate private sector investment, providing opportunities for a range of investor types from individuals to large funds. Investors such as superannuation and pension funds, insurance companies and sovereign wealth funds would find these bonds an attractive vehicle to increase their investment in Australian infrastructure. There is considerable scope to leverage the sector's $2.7 trillion to invest in public infrastructure to support the government's policy priorities for economic growth and increased productivity.

The hurdle rate for public infrastructure investment is typically set at 7% real, a rate that has been in place since 1989. While this may be appropriate for short-lived investments (under 30 years), there are questions over whether it is appropriate for large-scale multi-generational investments. Artificially high discount rates cause perverse outcomes for longer-term investments, as the latter year benefits (and costs) are discounted to near zero. High discount rates can produce potentially unproductive and perverse outcomes, favouring investments with short-term benefits while failing to address long-term structural problems or enable long-term productivity benefits to be achieved. For example, high discount rates skew in favour of road over rail, increasing heavy vehicle traffic and driving urban sprawl. Selecting an alternative discount rate that allows future benefit streams of multi-generational projects to be more appropriately reflected in the economic appraisal, would deliver a more balanced assessment by enabling latter years to be equitably reflected in the analysis.

Recommendation

- Federal, states, territories and local government work more effectively together to more efficiently and effectively deliver infrastructure investment.
- Greater focus on regional infrastructure as an enabler of decentralisation.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.
- Lower the hurdle rate on public infrastructure investment to encourage investment in a broader range of infrastructure, particularly those with high long-term social benefits.

4.5 Technology and innovation

Innovation applies new ideas to products, processes, services, organisation, management or marketing. Innovation underpins the growth and dynamism of all economies. Businesses now invest as much in knowledge-based assets that drive innovation, such as software, databases, research and development (R&D), firm-specific skills and organisational capital, as they do in physical capital, such as machinery, equipment or buildings.

Innovation is more than breakthrough technology achieved through R&D, displacing old industries and skills. It also involves existing industries evolving over time, adopting new technologies and skills or adapting to changing markets and circumstances.

Innovation is the major determinant of enhanced productivity and competitive advantage at both the business and nation level. The OECD estimates that innovation accounts for 50% of long-term productivity and economic growth in advanced industrial countries.

Governments need greater focus on creating an environment where new ideas are generated and translated into new products, services and processes, to support innovative businesses in Australia. A systematic and coordinated approach to supporting and advancing innovation is essential if we are to achieve ongoing improvements in living standards and quality of life.

To facilitate greater investment in collaborative research and innovation between businesses and between business and government, consideration should be given to increasing funding for CSIRO, Cooperative Research Centres (CRCs), Research and Development Corporations (RDCs) and universities. As research at these institutions typically involves dollar-for-dollar contribution from business and government, it will generate greater investment by businesses in collaborative research with these and other research institutions. It will also assist institutional research to better focus on the needs of industry, thereby ensuring a greatest return is gained from the research dollar.

Greater support is also needed to assist business to commercialise their R&D and innovation in Australia. Businesses achieving major breakthroughs from their R&D or simply with innovative new ideas often face the ‘commercialisation chasm’, where companies are unable to access funding to commercialise R&D and innovation in Australia. These companies are either unable to take advantage of their innovation or are forced to move overseas to realise the full potential of their inventions and innovation.

The patent box reforms announced in last year’s Budget are a step in the right direction, lowering the tax rate on profits businesses derive from eligible intellectual property. Yet, the ‘eligible intellectual property’ is narrowly defined to new patents in medical and biotechnology sectors. To better support the commercialisation of innovation, it should be broadened to patents in all industry sectors, particularly manufacturing, energy and ICT where significant opportunities are emerging. In addition to the lower tax rate provided by the patent box, direct support is needed, through low interest loans or other financial support, to assist businesses to start-up and scale-up, enabling them to capitalise R&D and commercialise innovation in Australia.

Recommendation:

- Increase funding for CSIRO, CRCs/RDCs and universities to provide greater incentive for industry to collaborate and partner with government R&D organisations/institutions.
- Broaden the patent box to all industry sectors, not just medical and biotechnology and enhance this support with low interest loans and other financial assistance to assist businesses to commercialise R&D and innovation in Australia

4.6 Digitisation

Investment in software, information technology, digital literacy and innovation act as enablers of productivity across multiple sectors, particularly newer firms and SMEs. Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to grow and create jobs, as well as improve the work-life balance of their employees.

COVID-19 has accelerated the uptake of information technology in our economy, with the new technology adoption rate that would normally occur over several years happening in several months. It is important to maintain this momentum so that Australian businesses, particularly SMEs, can continue to grow and raise their productivity.

A report by the Small Business Digital Taskforce recommended the best way to accelerate the rate of small business technology use was through a trusted adviser program to assist business access the right tools, information and skills. It was recommended a body be established as a central nodal point for information and advice on digital opportunities for small business.[4]

In addition to improving digital literacy and awareness for small business operators, there is a need for financial support to encourage the uptake of digital technology by small business. A digital technology investment incentive would stimulate uptake and provide broader benefits throughout the economy by boosting small business productivity.

Cybercrime costs the economy more than $1 billion annually and it disproportionately impacts SMEs. It is becoming increasingly important for SMEs in particular to look to the adoption and successful implementation of digital technologies within a trusted ecosystem, secured by design that is both robust and resilient. Cybersecurity has never been more important. The increased uptake of digital technology needs to be complemented with further investment in protecting business and national security assets from the risk of cyber-attacks.

Recommendation:

- Establish a body to provide information and advice on digital opportunities to small business.
- Work with industry to develop cybersecurity awareness and resources to protect small business from cybercrime

[4] Small Business Taskforce: Report to Government - https://www.industry.gov.au/data-and-publications/small-business-digital-taskforce-report-to-government

4.7 Labour and Skills

Australia needs a labour force that gives businesses access to the skills they need to innovate and the flexibility to improve the way they operate. Over the coming years, accessing the necessary skills is likely to be challenging for businesses due to pressure on the labour force through an ageing population and declining fertility rates, and growing demand for skills to satisfy the needs of highly skilled growth industries such as advanced manufacturing, defence and health.

To overcome Australia's skills and labour shortages requires a holistic workforce approach – bringing together policy solutions that address skills development, participation and migration. This workforce approach needs to be underpinned by ongoing strategic workforce planning that identifies current and future skill needs as well as shortfalls in education and training outputs and funding.

As an example of the structural issues around the skills, experience and training mismatch, in relation to the administration of vaccines, therapeutic substitution, continued dispensing, prescribing and laboratory testing, Australia lags behind countries with equivalent economies and health systems such as Canada, the UK, Ireland, the USA and New Zealand. These roles require a medical practitioner in Australia, but are being undertaken by pharmacists in other countries. Pharmacists are more accessible to patients, with shorter wait time. Reducing regulation to enable pharmacists to practice the full scope of their practice would take significant pressure off the Australian health system at a time it is under great strain due to the COVID pandemic.[5]

4.7.1 Skills

The Vocational Education and Training (VET) system plays a critical role in skills development across Australia, but a lack of consistent funding by all Australian governments has seen the number of funded students decline over the past decade (Although, we acknowledge the significant increase in short term investment by the Federal government during the pandemic). VET is highly valued by employers due to its emphasis on practical job skills required in modern workplaces, and for many occupations a VET qualification is compulsory. VET needs to be industry-driven and responsive to changes in industry's needs. It has long since expanded beyond the public perception of "trades" and is providing successful transition pathways from school to work and for those looking to change careers or upskill.

A longer term, strategic platform for apprenticeships and traineeships is needed to sustainably increase uptakes in Australia. While we recognise it is not feasible to retain the current level of the Boosting Apprenticeship Commencements (BAC) program subsidy across the board, it is important that the BAC continue in a modified form. Ongoing funding for the BAC at a level that delivers a positive business case for taking on an apprentice or trainee, will provide certainty for employers and allow them to plan for the future so they can replenish skill levels and confidently employ apprentices.

Similarly, consideration should also be given to continuing the Completing Apprenticeship Commencements (CAC) which complements the BAC program. This should be only for second-

[5] Grattan Institute submission No 21 to the Victorian Legislative Council, Letting pharmacists do more, June 2014

year trade apprenticeships, where the productive value is often still below the cost of employment, but with a higher wage subsidy of 15% for that second 12 months.

In addition to wage subsidies, it is important that base apprenticeship incentives, currently set at $1,500 on commencement and $2,500 on completion, should not be decreased and any assessment of skills in shortage should not impact on the delivery of base incentives.

There is significant discrepancy in the funding models for VET and higher education, with VET Student Loans (VSLs) being very limited in the higher-level qualifications they cover. Currently only 194 of the almost 4,000 Registered Training Organisations are eligible for VET Student Loans, with loan caps applicable to these approved courses. Despite an extensive consultation process around the course lists and caps in 2017, the shortcomings in the program have not been addressed. To address the falling uptake of higher-level VET qualifications, all Diplomas and Advanced Diplomas that are part of Industry Training Packages should be eligible for VSLs, with the loan premium removed permanently and the VSL caps reviewed to reflect efficient delivery costs.

4.7.2 Participation

With the current skills and labour shortages, there has rarely been a better time to put every effort into increasing workforce participation by getting the long-term unemployed back into work, supporting parents to return to work through improved childcare arrangements and better engaging disabled and older workers in the workforce.

For the long-term unemployed, the job outcomes of the employment services system need to better connect the unemployed to job opportunities. This is particularly so for mature age women, a sector with an unacceptably high number of people unemployed for over two years. There needs to be a very detailed understanding formed as to the barriers to employment they are facing, and a targeted approach with industry to secure work in occupations that are suitable to their abilities. The employment services system needs to better engage employers to ensures the services provided serve the needs of both job seekers and employers. It should also utilise the latest technology to provide better matching and links to existing vacancies. To overcome disincentives to work, we need appropriate mutual obligation requirements and to promote work as the best option.

ACCI has been strongly encouraging government to improve the outcomes of the Youth Jobs PaTH program, including by making the training more vocational and more strongly linked to a job or hosted work experience opportunity. The original concept was that a young person on the program undertake vocational training alongside of work experience in a hosted environment. At the end of the hosted period, the options for the employer were to take them on to finish their traineeship, or employ them outside of the apprenticeship system, or that the arrangement concluded so that the jobseeker could take their vocational skill set and experience and look for work elsewhere. The PaTH program needs to be replaced by this model and it should be extended to other cohorts on the *jobactive* caseload, such as people with disability and mature age jobseekers.

Reforms to achieve greater workforce participation for people with disability should be bold and aim for a significant increase in participation rates. It is essential that more employers are aware of, and access, employment services that assist people with disability to find work. The service for people with disability should be reintegrated into the core employment system, to create a more effective single contact service for employers and to maximise the value of the reforms being made to the core employment services. Improvements should also be implemented aimed at supporting employers to recruit and retain people with disability, including targeted guidance about capacity for work, available support, and navigating legal obligations.

There is an army of older workers with the skills Australia needs who would still like to work, but don't participate in the workforce as it reduces their pension. There is currently a pension income test free threshold of $180 per fortnight, plus the Work Bonus of $7,800 per year ($300 per fortnight), allowing a single pensioner to earn an average of $480 a fortnight (or $12,480 per year) before their age pension is reduced (equivalent to only one day per week at minimum wage). To entice aged pensioners back into the workforce, the income free threshold and work bonus should be raised to allow pensioners to keep more of their pension when they earn income.

Despite significant additional investment made in recent years, more still needs to be done to make it easier to access affordable childcare so as to attract a higher participation rate from women and primary carers. The increase could be significant, with 272,000 people across the country last year reporting they were not in the labour force due to caring for children.[6] Higher subsidies are needed to reduce the gap costs, particularly for women at lower income levels. For upper income professionals, subsidies or tax incentives to nannies and in-home care should be considered to broaden the options and make it easier for them to juggle work and family responsibilities. In addition, new visa arrangement for au pairs should be developed, with regulations that are fit for this purpose, to take pressure off working parents by extending beyond caring for children into more general assistance at home.

4.7.3 Migration

The COVID pandemic has effectively halted Australia's migration programme, with significant economic and fiscal consequences. International border closures exacerbated skilled labour shortages across a broad range of sectors in 2020 and 2021. Now that the international borders have reopened, planning needs to begin to restore the migration program to an even stronger post-crisis position. There is a strong argument for the annual migration target to be higher for the next two years at least, so as to replenish the skills lost during the pandemic. For employer sponsored permanent and temporary migration, the applicability component of the short and medium/long term skill shortages lists needs to be removed to enable any migrants holding any skilled occupation to be sponsored by employers. This would also give all temporary skilled migrants a pathway to permanency, adding to the permanent skilled base of the economy.

The above issues and the recommendations outlined below have been outlined more fully in the attached document on *Overcoming Australia's Labour and Skills Shortages*, released by ACCI in March 2022.

[6] Productivity Commission, Report on Government Services 2022.

Recommendations

- Commit to long term consistent and real funding increases for VET which delivers an increase in the number of VET funded students across all qualifications, AQF levels and industry sectors to satisfy not just skill shortages, but skill needs.
- Locking in long-term investment in apprenticeships by:
  - continuing a wage subsidy at a new level of 30% for 12 months for trade apprenticeships and 6 months for 1-year traineeships,
  - Continuing a subsidy for 2nd year trade apprenticeships of 15%
- Provide adequate funding for the employment services system to enable improvements that will better connect long term unemployed to job opportunities
- Replace PaTH with concurrent structure training and experience and extended it to other cohorts on the *jobactive* caseload, i.e. people with disability and mature age.
- Reintegrate the public funded service for people with disability back into the core employment system and support employers to recruit and retain people with disability.
- Allow pensioners to keep more of their age pension when they earn income by raising the fortnightly income threshold and increasing the Work bonus.
- Make childcare more accessible and affordable, with more options to assist parents to return to the workforce sooner.
- Increase the permanent migration intake, including a significant increase in the cap for employer sponsored skilled migration to replenish the skills lost during the pandemic.
- Ensure access to all skilled occupations for employers nominating workers under the employer sponsored temporary and permanent skilled streams.

Conclusion

Over recent years we have become too complacent about our prosperity. While Governments of the 1980's and 1990s were prepared to take the challenge and bring about substantial economic reforms that formed the foundations for the productivity growth that supported our prosperity over the past three decades, we appear to have lost our way.

Successive Australia Governments have been reluctant to take the hard decisions to bring about the necessary reforms, such that our productivity performance has been lagging. As noted above, labour productivity growth was on a declining trend over the previous business cycle (eight years prior to the pandemic), such that it contracted in 2018-19. Similarly, multifactor productivity was very low over this period, also contracting in 2018-19.

Over the coming decades there will be significant challenges to restore productivity growth to long-term average levels, let alone improve on it to achieve the economic growth needed to secure and grow our living standards and national prosperity.

The answer to our productivity challenges lies both in our focus and appetite for reform. We need to review the policy and institutional frameworks to implement change that will ensure we continue to succeed in the future. For Australia to grow, steps need to be taken now to improve Australia's productivity performance, with a focus on reducing the burden of taxation and regulation, driving business and infrastructure investment, engendering innovation in our businesses and developing the skills and capacity of our workers.

The above recommendations offer a number of ideas and opportunities to lift Australia's productivity growth to ensure we maintain our high living standards in the future.

About the Australian Chamber

The Australian Chamber represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

The Australian Chamber strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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- accommodation association
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- AMCA
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- ais
- AACS — Australasian Association of Convenience Stores
- AuSAE
- Australia Arab Chamber of Commerce & Industry
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- ATIC
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- Business Council
- Caravan Industry
- Cement Concrete & Aggregates Australia
- Chemistry Australia
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- LFRA
- Live Performance Australia
- Master Builders Australia
- master plumbers
- MTAA Medical Technology
- Medicines Australia
- NALSPA
- neca
- nesa
- National Fire Industry Association
- NRA — National Retail Association
- Oil Industry Industrial Association
- Outdoor Media Association
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