

### **Liberating Australian talents**

While progress has been made more needs to be done to improve individual opportunities and to effectively address skills shortages. There needs to be a renewed focus on harnessing and extending the skills available to the Australian economy.

Ai Group has advocated the re-orientation of both the training system and funding mechanisms to meet the needs of business and industry to up-skill and re-skill existing workers. It is imperative that the national training system be strengthened. Industry must lead this strengthening. In addition, improved commonwealth-state relations in focusing upon and delivering a new wave of reform will be necessary.

A major challenge facing Australia is to increase, in tandem, employment participation and education attainment levels. A significant increase in the national education and training effort will be required. This increased effort will need to become available to individuals throughout their working lives while particular attention should be placed on improving the training opportunities for people transitioning from welfare-to-work.

There is an on-going imperative to significantly lift the skill and educational attainment levels of the Australian population. Indeed, OECD data suggests that for every one year increase in the average level of education, a nation's GDP will increase by between 3 and 6 per cent. While progress has been made in recent times with the average level of education in Australia generally rising, Australia is only ranked 18<sup>th</sup> out of thirty developed countries when comparing the proportion of GDP spent on education (5.8%). Clearly other developed countries are moving ahead of Australia. This is evidenced by the deterioration from Australia's previous ranking of 8<sup>th</sup> out of 30.

In times of economic growth and prosperity, it is unacceptable that close to one in five young adults have not completed Year 12 or a Certificate III vocational qualification. Rates of school completion in Australia have barely shifted over the past 15 years while our OECD competitors continue to move ahead. And while commencement rates for apprenticeships and traineeships are relatively high, completion rates are relatively low.

By 2011 Australia should aim to have 85% of young people leaving school completing Year 12 or achieving a Certificate III level qualification, increasing to 90% by 2015; more than 90% of teenagers (15-19 year olds) participating in full-time study, or work, or a combination of study and work; and more than 85% of young adults (20-24 year olds) participating in full-time study, or full-time work or a combination.

### *Immigration*

As a complement to a renewed effort in training, Australia needs a flexible and accessible skilled migration scheme which recognises that short and medium-term workforce needs cannot be met only by training new entrants to the workforce and by up-skilling and re-skilling existing workers.

New regulations around the 457 visa program that have been made in response to a small number of cases where the system has been abused are limiting the accessibility of this useful program for increasing numbers of employers. While Australia's workforce standards should not be eroded, the new 457 visa regulations issued in recent months need to be assessed and refined to ensure a better balance between compliance and ensuring the program remains workable and accessible to employers.

## **More jobs: better jobs**

Over the past 15 years, both major political parties have played a major role in building a more flexible workplace relations system. It is essential that this flexibility not be wound back but be built upon to underwrite further improvements in productivity and real wages. These further improvements can and should be secured without eroding the fairness of our workplace relations.

In the light of the High Court's historic *WorkChoices* decision, the State Governments should refer their remaining industrial relations powers to the Commonwealth. This would allow a completely unitary workplace relations system to be put place and reduce the costs and complexities of maintaining separate state industrial relations systems.

As a complement to the national workplace relations system, further progress can be made through removing differences between the various Occupational Health and Safety; Workers Compensation and Equal Employment Opportunity regimes. In these areas there is an array of intertwined and inconsistent state and federal laws which impede business efficiency and increases costs.

## **Making the Federation work better**

Australia's federal structure should be a source of strength. Instead, the benefits of diversity and innovation that it can generate are all-too-frequently overshadowed by confused responsibilities, inadequate accountabilities and approaches to intergovernmental finances that are obscure and counterproductive.

Ai Group advocates a rolling overhaul of Australia's intergovernmental relations. This could be undertaken in a manner similar to that which applied to National Competition Policy. This would involve:

- The development of general principles that should apply to the allocation of responsibilities between levels of government; and
- The progressive and systematic application of these principles across a prioritised schedule of government functions.

## **Governments reforming together**

While its emphasis on competition reforms, human capital and regulatory reform is well placed, the National Reform Agenda (NRA) has lost momentum. It requires reigniting and this in turn requires a rethink of elements of the fundamental approach.

The foundations of the NRA should be redesigned in a way that ensures incentives are structured so all levels of government face real enticements to set and reach stretch targets. These incentives need to include a mix of financial and political elements. They should involve payments that align with the benefits of reforms and, particularly in the case of regulatory reform, clear targets and political accountabilities need to be articulated.

## **Constructing capacity**

While we are currently witnessing a wave of investment in infrastructure, there is a clear need to put in place much better approaches to infrastructure planning and coordination and better regulatory arrangements. These apply to our ports, our inland and urban transport networks; our energy sector; to water conservation and supply and to telecommunications.

These changes require much closer cooperation between federal, state, territory and local governments than is currently the case. They also require further facilitation of private sector

investment in infrastructure and they require governments taking longer-term view of national priorities beyond a focus on year-to-year budget balances.

The legacy of a long period of underinvestment in infrastructure should be put behind us and changes made to ensure that in the future, such neglect does not recur.

## **Climate change**

There is no more important task for the Commonwealth Government over the next three years than shaping Australia's long-term response to climate change. At stake is whether Australia develops an approach to climate change that is environmentally effective and responsible and that keeps both adverse impacts on our competitiveness and regulatory burdens to a minimum.

The centre-piece of this response should be a world-leading, market-based approach to greenhouse gas abatement in the form of an Emissions Trading System (ETS).

Australia's ETS needs to be developed in very close consultation with a broad cross-section of the community and we need to ensure it is accompanied by strong and effective measures to secure the competitive position of trade exposed industries. A key part of this is to calibrate the Australian approach to the pace of international developments.

There is considerable goodwill in the business community towards putting in place an effective response to climate change. A very close watch needs to be applied to climate change policy to ensure this goodwill is not diffused by a proliferation of populist measures that frequently do more harm than good.

We should build an effective market-based approach and allow market mechanisms to work effectively to reduce the impacts on Australia's competitiveness. It is vital that the Australian ETS is able to link across national borders to broaden access to offsetting activities.

At the same time we need to better inform and equip households, businesses, community organisations and government agencies for the task of preparing to adapt to global warming and an increased frequency of inclement weather events.

## **Incentives to work, save and invest**

Ai Group has recently released a five-point, five-year plan for taxation reform aimed at improving the climate for investment, saving and workforce participation. The plan (summarised below) includes a reduction in the company tax rate and lowering personal tax burdens. The plan is both balanced and responsible. It is balanced because it delivers benefits to all sections of the community and it is responsible in allowing the timing of its introduction to be phased to avoid adding pressures to inflation, interest rates and aggregate budget outcomes.

## **New Wave Industry Policy for Global Success**

Whereas in earlier decades industry policy had a defensive and protectionist flavour, today industry policy has a new and constructive orientation on encouraging innovation and building capabilities. The new industry policy is not about picking winners or defending particular sectors: rather it is about expanding capacity and creating the environment that will allow winners to pick themselves.

Ai Group proposes a renewed emphasis on encouraging innovation across all sectors (we have proposed a revamp of the R&D Tax Concession for example); we support the extension of programs such as the Export Market Development Grant (EMDG) scheme aimed at assisting the development of export skills and export markets; and we support programs that open new

opportunities for businesses by making advice available for businesses that seek to improve their operations and their management.

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### **Ai Group' Five Point Five Year Tax Plan**

Ai Group's tax reform plan targets key hotspots and is aimed at improving the intentional competitiveness of our business tax system; stimulating workforce participation and incentives for saving and investment; making our indirect tax arrangements better and boosting the rewards for investment by individuals in their own skills.

The plan is flexible to ensure the timing of its implementation can be fine-tuned to avoid adding to inflation and interest rate pressures and to fit in with budgetary circumstances.

#### **1. Business Tax**

- Lower the company tax rate to 25% (currently 30%);
- Remove long-standing obstacles to offshore investment by Australian companies.

#### **2. Indirect Taxes and Intergovernmental Finances**

- The states still levy some of the most inefficient taxes including taxes on insurance premiums, on the purchase of commercial property and on payrolls. The removal or reduction of these taxes should be achieved as part of a more wide-ranging overhaul of federal/state financial arrangements.

#### **3. Personal Income Tax Proposals**

- Raise the threshold at which the 30% rate begins from its present level of \$30,000 to a new level of \$40,000;
- Raise the threshold at which the 40% rate begins from \$80,000 (from 1 July 2008) to \$100,000;
- Consider removing the 45% rate for the top 1 percent of taxpayers and having a top rate of 40%.

#### **4. Taxation of Superannuation**

- Ai Group proposes the refunding the 15% contributions tax into lower-income individuals' superannuation accounts as a measure to lift raise post-retirement incomes for large numbers of people and thereby save on future age pension payments. A threshold income of \$40,000 could apply with higher thresholds set for people aged over 50 years.

An alternative approach that may be administratively simpler could involve the Government making direct contributions to low-income superannuation accounts to offset the impacts of the contributions tax.

#### **5. Incentives for Re-Training and Up-Skilling**

- At present deductibility for individuals' self-education expenditure is very limited. Eligibility for deductibility should be extended to a wider range of self-education expenses so that individuals' expenditure on re-skilling and up-skilling could be claimed as a tax deduction.

The full plan is available at [http://pdf.aigroup.asn.au/economics/tax\\_reform\\_sept07.pdf](http://pdf.aigroup.asn.au/economics/tax_reform_sept07.pdf)