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INTRODUCTION

Australia is a prosperous country proudly founded on decent living standards and a fair go for all. However, these standards have been under threat in recent years, with inequality between Australians now the highest in 70 years. Unless we adapt and respond to the challenges and opportunities of our time- technological advances, heightened geopolitical uncertainty, climate change and an aging population - our living standards will continue to fall.

Unfortunately this Government has substituted sound bites and slogans about jobs and growth for sound policies. As a result one in seven Australians are officially unemployed or underemployed. Wages have been virtually stagnant for several years and forty percent of working Australians are employed in precarious jobs with little or no financial security. Sustained cuts to public services and lack of investment in critical infrastructure has devastating impacts on all parts of society: it deprives the poor and disadvantaged of the basic help that Australian governments have historically supplied; it worsens the quality of life and equal opportunities for middle Australia; it undermines the private sector and makes it more difficult for our companies to compete internationally; and in a period like now when the economy is operating well below full capacity it reduces both current and our potential economic growth levels.

The Government's austerity measures, and lack of any substantive plan for economic transition after the mining boom, is nothing more than a short-term political strategy to suit the election cycle. Cuts in expenditure now are designed to make room for big promises and pork barrelling in the run up to the next national election. This is no way to run an economy or a country. The people of Australia will see through this approach as political expediency at the expense of sound economic management. The key institutions and players in the global economy have already rejected this short sighted approach. The OECD, the IMF, the World Bank, the USA Council of Economic Advisors, the Bank of England and Nobel prize winning economists have all recognised that such austerity policies are outdated and dangerous to long term and sustainable growth.[1]

It is not too late to put the country above narrow party political objectives and revert to a sound economic strategy. The Government should deliver a Budget which serves the current and longer term needs of Australians by investing in quality private and public sector jobs; high quality education and research; transport, communications and renewable energy infrastructure and research and development that will enhance innovation, the use of new technologies, higher productivity and new export opportunities.

However, public investments of the scale required are not possible with our current tax base. Australia continues to have shares of tax revenue and public spending in GDP which are amongst the lowest in the OECD. This Government has lacked the political courage to tackle unproductive negative gearing and capital gains tax concessions which disproportionately benefit the wealthiest Australians. Rather than closing corporate tax loopholes, the government is proposing $51b worth of tax cuts to corporations. The Governments' own modelling shows this will only deliver modest benefits and even this will take many years to achieve.[2] The failure to implement sensible tax reform is costing the Government billions of dollars in lost revenue. Revenue that is desperately required to fund the type of investments mentioned above. [3]

Income inequality in Australia is now rising faster than most other OECD countries and is a key threat to economic growth and prosperity. The ongoing withdrawal of services and support which are critical to the social wage further squeezes lower and middle income households.

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[1] Jonathan D. Ostry, Prakash Loungani, and Davide Furceri Neoliberalism: Oversold*? Finance & Development*, June 2016, Vol. 53, No. 2 http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm ; The US Government Executive, 2017 *The Economic Report of the President together with the Annual Report of the Council of Economic Advisers*, January https://www.whitehouse.gov/sites/default/files/docs/2017_economic_report_of_president.pdf;
Mark Carney Governor of the Bank of England "The Spectre of Monetarism" Speech, Roscoe Lecture Liverpool John Moores University 5 December 2016 http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech946.pdf , http://www.euronews.com/2016/10/06/obsession-with-austerity-pushing-eu-into-crisis-warns-stiglitz

[2] The Australia Institute, Cutting the Company tax rate: Why Would You?, Dave Richardson, 30 November 2015

[3] The Australia Institute, Cutting the Company tax rate: Why Would You?, Dave Richardson, 30 November 2015

A fairer income distribution and decent living standards will generate higher domestic consumption and provide a boost to local business. Entrepreneurs will respond to higher demand for their products and services by investing in production and taking on more staff. The stimulus effect of a much needed real pay increase for Australian workers will far outweigh the impact of cutting corporate taxes. Given recent global geopolitical developments, and the heightened uncertainty about the future of the global trading system, it makes sense to support these highly geared sources of domestic economic growth. Decent and more secure jobs that pay a fair wage is a key ingredient of a sensible and balanced economic strategy in today's challenging global environment.

SUMMARY OF PROPOSALS

The ACTU urges the government to change course from its failed 'trickle down' approach and produce a Budget that builds, not undermines the key foundation blocks of equality and decent living standards. The government must take a leading role in coordinating all the economic levers it has at its disposal to invest in the jobs, skills, innovation, infrastructure and services necessary to secure our future prosperity. Detailed recommendations are in the relevant chapters, but below is a summary of our broad proposals that the 2017-18 Budget:

1. **Have, as a stated aim, inclusive economic growth, raising living standards and reducing inequality as part of a long term plan for the economy.**
    - Acknowledging the empirical evidence that greater equality and decent living standards increase economic growth as promoted by organisations such as the IMF, OECD and the World Bank.
    - Recognising that consumer demand is a crucial driver of economic and job growth, and that raising the wages and living standards of low and middle income households increases the size of the economic pie for everyone.
    - Acknowledging that corporate tax cuts, paid for by cuts to vital services such as health and education, are not only ineffective in creating jobs or improving economic growth, they squeeze low and middle income families and deplete revenue needed to invest in the skills, education, infrastructure and innovation we need for sustained economic growth.

2. **Acknowledge that inadequate revenue is a far more significant challenge to the long term sustainability of public finances than spending which must be addressed with meaningful tax reform** (including negative gearing, capital gains and resource tax discounts) and ensuring corporations pay their way and contribute their fair share including reversing the $51 billion in corporate tax cuts.

3. **Provide a plan to transition our economy post the mining boom** including a vision for the future of Australia's economy. Relying on failed trickledown economics is not a substitute for proper economic management of the transition. Our Government needs to implement a comprehensive plan to boost investment in infrastructure, provide incentives for research and development, support industries, improve the quality of jobs through better wages and conditions and make our health, education and community services world class.

4. **Address the recent contraction in economic growth** through a comprehensive industry plan which fosters industries and sectors, including the service sector, with strong innovation, export and employment potential that will succeed in global markets and create local jobs. We need greater investment and collaboration between business, research and government to facilitate networking, clustering, commercialisation and export opportunities for identified advanced industries and sectors. The Government should halt and reverses cuts to public support for science, innovation and collaboration and provide an adequate and stable funding framework consistent with long-term research and development.

5. **Recognize the urgent need for public investment in infrastructure on a far greater scale than currently planned** including investing with strategic private sector partners, in major new investments such as housing, schools, hospitals roads, rail transport, a modernized electricity distribution network, modern ports, a first rate National Broadband Network and renewable energy opportunities which will create jobs and provide a foundation for a competitive economy and a strong society. With interest rates at record low levels, especially for government, now is the right time for the Government to invest in the future. It makes economic sense to borrow and lock in these favourable public investment conditions, especially at a time when investment is so sorely needed.

6. **Develop and implement a plan to create well-paid, secure jobs** that lay the foundation for a successful transition to a modern economy. A comprehensive job creation plan supported by high quality higher and vocational education and underpinned by effective employment laws will ensure the jobs of the future are high skill, high quality jobs.

7. **Provide for targeted assistance to industries, workers and regions undergoing significant change to transition to new employment opportunities and spread the benefits of economic growth to all areas of our economy.** The government should plan and coordinate support for hardest hit industries through targeted increased investment in infrastructure, renewable energy and industries of significant potential growth as well as assistance for workers and communities.

8. **Have a plan to increase wages** and address record low wage growth, which hurts the back pockets of workers and their families and blows a hole in the budget through low personal income tax receipts. The Budget should look to increase wage and job security, especially for low and middle income earners. Increasing the minimum wage and implementing industrial reforms to improve the rights and protections of working Australians will improve living standards as well as increase consumer demand and job creation.

9. **Address the alarming growth in insecure and precarious work,** which hurts workers and families and hampers domestic consumption and economic growth, by promoting the creation of full-time, secure jobs which promote consumer demand, employment productivity and economic growth.

10. **Invest in skills, education and public services by** rebuilding the public sector and stopping funding cuts to services. Quality schools, TAFEs, universities, apprenticeships, traineeships and lifelong learning and training opportunities are critical to fostering innovation. The Budget should increase higher education funding to the OECD average, commit to a full and immediate reinstatement of TAFE funding cut and rebuild the apprenticeship and traineeship system. Health, aged, disability, child care and community services are critical to the well-being of our people, the foundation blocks of a productive society and are key projected growth areas for the next five years. If we support them now, hundreds of thousands of new jobs can be created.

A BUDGET FOR EQUALITY, DECENT LIVING STANDARDS AND INCLUSIVE ECONOMIC GROWTH

Our economy is in transition post the mining boom. We cannot rely exclusively on our mining and energy resources to generate exports, incomes and jobs any longer. The Government talks about the need for economic transition but has no plan to deliver it.

Corporate tax cuts and austerity are not solutions to a problem that demands practical measures to raise our growth potential and a vision for the future of Australia's economy.

As part of the long term plan for the economy, a stated aim of the budget must be inclusive prosperity to raise living standards and reduce inequality. The empirical evidence on the link between greater equality and increased economic growth has been prolific in recent years. It is clear that redistribution towards the middle and the poor can increase the size of the economic pie for everyone.

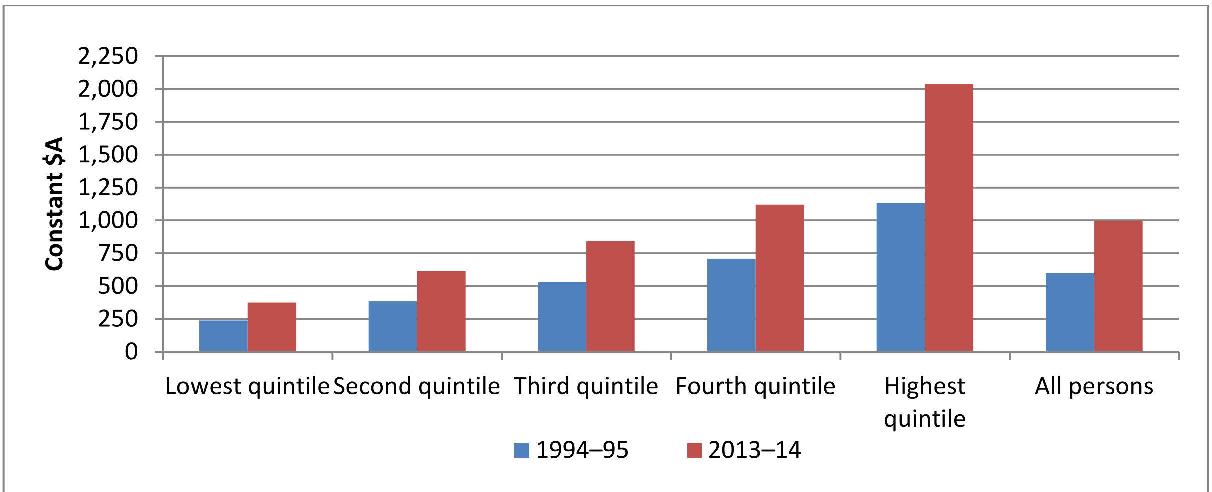
There is no mention of inclusive prosperity or equality in the Australian Treasury's mission statement or in past Budgets by this Government. The government is behind the economic curve in its thinking and urgently needs to catch up. This Budget needs to recast the government's economic thinking, away from its narrow focus on budget deficits towards a program of greater ambition to improve the lives of all Australians.

Australia has seen a widening of Income Inequality

Australia has a more unequal distribution of income than 60% of OECD countries, with income and wealth distributions widening faster than many other OECD countries.[4]

Taxes and transfers have failed to correct the dramatic increase in income of the top household quintile in absolute terms as well as relative to that of all other quintiles over the past two decades, as shown in Figure 1.

Figure 1: Widening income inequality Australia, 1994-95 to 2013-14, equivalized disposable weekly household income, constant dollars

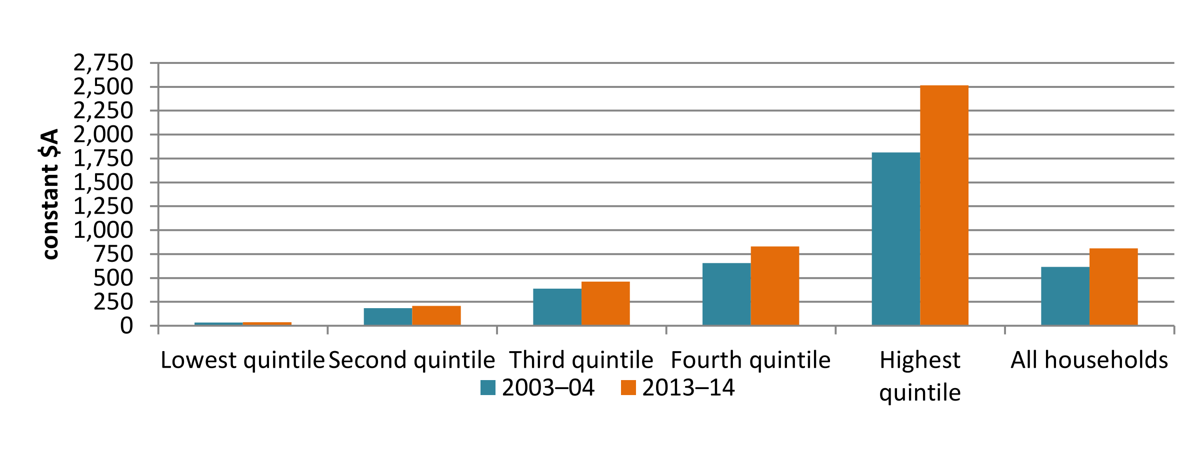


Source: ABS 6523, most recent

Wealth inequality has widened even more markedly than income inequality over the ten years to 2013-14.

[4] https://data.oecd.org/australia.htm gini coefficients, accessed 16 Jan 2017. This includes the gender pay gap which has widened to a 20 year high, with women working full time hours still earning on average 17.7% less than their male counterparts: ABS Cats 6554, 6302

Figure 2: Widening wealth inequality in Australia, 2003-04 to 2013-14, annual household net worth, constant dollars 1000s

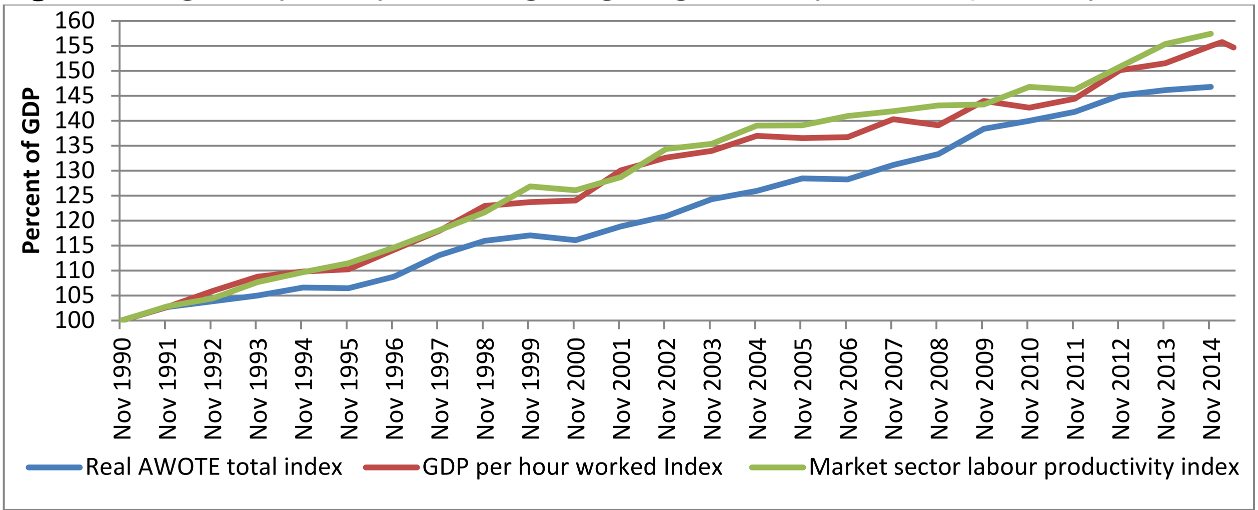


Source: ABS Cat 6523

Despite working longer, harder and more productively, growth in workers' wages has lagged behind labour productivity improvements over decades, fueling income inequality, especially between the majority that rely on wages for income and the minority that receive a significant portion of their income from capital returns.

The benefits of growth in GDP have not been shared with labour in a fair or proportional way. Despite working more productively, the fruits of that labour have gone to profits rather than wages. Average weekly ordinary time earnings (AWOTE) has grown at 1.5% per annum over the last twenty years, less than half the rate of GDP growth of 3.2% per cent. The gap between labour productivity and wages has grown since 2011- with GDP per hour growing over 5% faster than wages in 2014 alone.

Figure 3 **Average weekly ordinary time earnings are growing more slowly than labour productivity, in real terms**



Source: ABS 5204, 6402,

Apart from the issue of fairness, inequality holds back economic growth and tears at the social fabric of society. The budget cuts to critical services and support that form our social wage are squeezing lower and middle income Australians. A budget which promotes the creation of decent wages and living standards would improve the quality of life of Australians at the same time as support strong local consumption, generating significant economic and job growth. Squeezing low and middle income earners who spend the largest proportion of their income is not only unfair, it hampers economic growth in the long term.

The Budget must address the recent contraction in economic growth

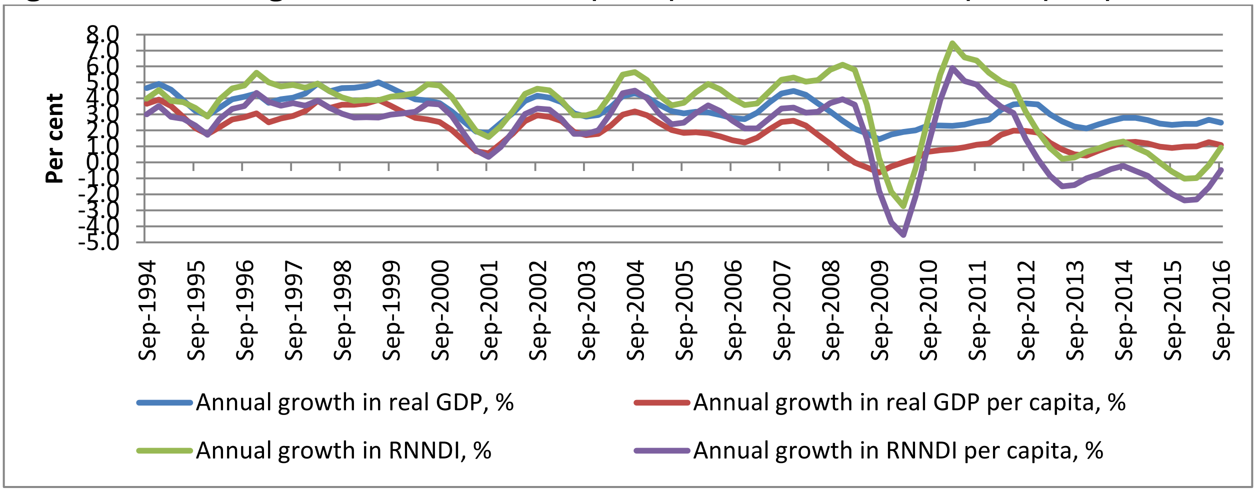
When we look over 2016, the annual increase in real GDP is reasonable at 2.5% (up from 2.3% last year) but these headline figures mask two essential issues. Firstly, when we take into consideration population growth and look per person, the real rate of growth over the year is only 1.1%. Secondly, there was a significant contraction in economic growth in the last quarter of the year.

The budget must address the recent economic uncertainty as manifested in the fall in real GDP of 0.5% for the September 2016 quarter and an even greater quarterly drop in real GDP per capita, of 0.8%. This has been the worst contraction in growth since the Global Financial Crisis (GFC) and only the fourth contraction in 25 years. Yet this time there is no GFC to blame, just incompetent economic management.

The Australian economy shrank by 0.5% in the third quarter of 2016. It remains to be seen if this poor result is repeated in the final quarter of 2016 and we thus fall into recession. Even without a technical recession there can be no doubt that the Australian economy is on a downward slide. Even conservative international organizations, like the International Monetary Fund, have been warning that the growth and income levels we achieved in the last few decades could not be maintained without major public investments in infrastructure, research and development plus training and skills.[1]

Due to the recent contraction, economic growth forecasts have now been revised down in the 2016 MYEFO. Economic growth is expected to come in at two per cent in 2016/17, remain below trend at 2.75 per cent in 2017/18 before picking up to three per cent in 2018/19. It's a deterioration from the May budget, which had GDP at 2.5 per cent in 2016/17 and three per cent in 2017/18.

Figure 4: Annual real growth rates in GDP, GDP per capita, RNNDI and RNNDI per capita, per cent



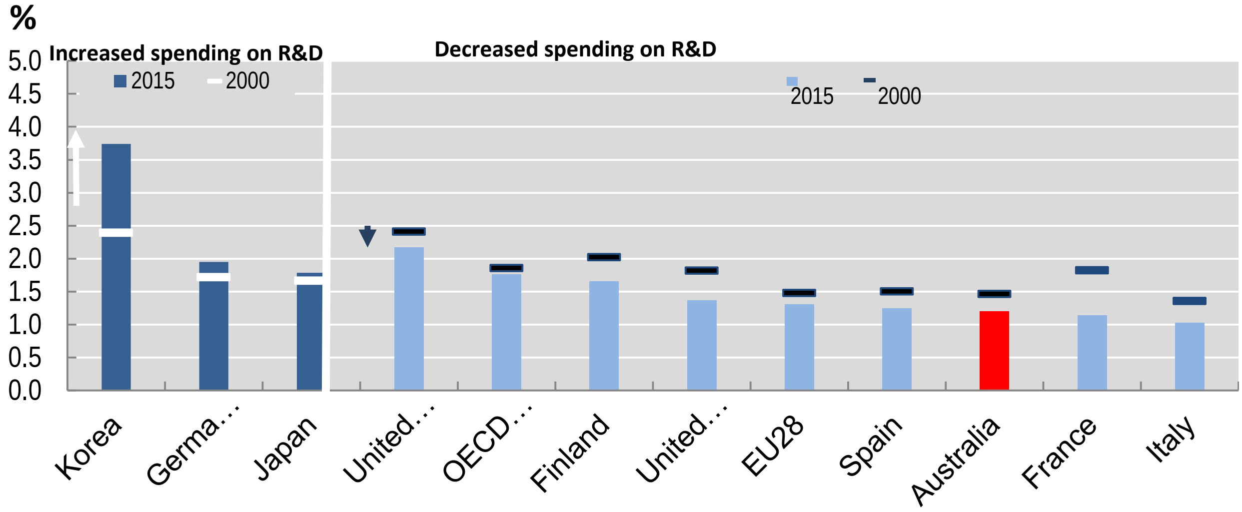
Source: ABS 5206001 and ACTU calculations

We need real industry and innovation policies not jargon

Despite having above average income per capita compared to OECD countries, with a share of research and development (R&D) expenditure at 2.11% in 2013, Australia failed to meet the high income country average of 2.37% of GDP spent on R&D, having been less than the average since 2008.[5] The share of government expenditure assigned to R&D is low relative to other comparable countries and has fallen as shown in Figure 5.

[5] https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

Figure 5: Budget outlays for R&D as a per cent of total government expenditure, 2000 and 2015[6]



This budget must re-invest in our capacity to develop the research and development, skills and technologies for the future by providing for a comprehensive industry policy which:

a) Develops industry level plans which identify barriers to growth and weaknesses in investment and skill formation that threaten the sustainability of industries and sectors;

b) Halts and reverses cuts to public support for science, innovation and collaboration and provides an adequate and stable funding framework consistent with long-term research and development for a mix of academic and commercial purposes;

c) Funds public education and higher education to a level which promotes scientific and technological skills in science, technology, engineering, arts and mathematics (STEAM);

d) Recognises the role the government can play in growing industry capability through intelligent use of government procurement;

e) Facilitates investment in new production technologies, processes and products;

f) Focuses on the opportunities renewable energy and green jobs can contribute to our economic growth;

g) Supports a high skilled, high quality and secure public sector and community services workforce; and

h) Recognises employees and their unions have an essential role to play in helping to build better and more productive workplaces.

[6] Source: https://www.oecd.org/innovation/lower-public-r-d-spending-and-protectionist-risks-may-pose-a-threat-to-innovation.htm

The urgent need for public investment in infrastructure

Sustained and shared economic growth requires investment in our country's greatest resource – our people. Australia urgently requires increased investment in schools, TAFE, and universities. We also need major new investments in public infrastructure – including roads, rail transport, a modernized electricity distribution network, modern ports, and a first rate National Broadband Network.

Our past failure to fairly tax the resource sector and reinvest in infrastructure and innovation to develop long term industry, a better skilled workforce and quality public services means that we face enormous challenges today. And yet the government is on the verge of making the same mistake again. Maintaining a myopic focus on securing a fiscal surplus is misplaced and misunderstands the financial constraints faced by any sovereign government.

Infrastructure Australia has warned that we face a growing infrastructure deficit, which if allowed to continue, will cost the economy $53 billion per year by 2031. Investment in these areas will generate a trifecta of benefits: it will provide a badly needed immediate boost to domestic economic demand and growth; it will enhance the productive potential of the private sector in the future; and, it will expand opportunities for all Australians to share in our economic success.

Conservative economic institutions like the International Monetary Fund (IMF) have become outspoken supporters of fiscal stimulus in countries where governments have relatively low levels of deficit and debt. They are urging governments like ours to invest in infrastructure and skills.

The ACTU supports sensible and fair economic policy, not one that will rush to surplus, hurting workers, communities and our long term prosperity on the way. Of course the government needs to ensure a sound and manageable level of debt, but any sensible government would understand that long term public investment in infrastructure is a smart investment in our nation's future.

Despite the hyperbole so prevalent in our national economic debate, Australia has a relatively low fiscal deficit and, compared to other countries, a low level of public debt. With interest rates at record low levels, especially for government, now is the right time for the Government to invest in the future. It makes economic sense to borrow and lock in these favourable public investment conditions, especially at a time when investment is so sorely needed.

It makes sound economic sense to borrow now and take full advantage of these favorable public investment conditions. Indeed there is wide consensus among conservative and progressive economic thinkers that this approach is highly desirable. Investment in public infrastructure is strongly supported by the outgoing Governor of the RBA Glen Stevens, as well as IMF Managing Director Christine Lagarde, who recently said: 'where there is fiscal space (like in Australia), record-low interest rates make for an excellent time to boost public investment and upgrade infrastructure'[7]. And it is supported by leading progressive economists, such as Nobel winners Joseph Stiglitz and Paul Krugman.

Increased public investment now in clean energy technologies, public transport, and better communication infrastructure will create jobs in the short run and expand our potential long term growth. This will encourage rather than discourage higher levels of private investment. This is what a sensible economic transition in Australia must be about. This strategy will help create more secure and better paid jobs and reduce our reliance on precarious part time jobs and casual work.

[7] Christine Lagarde 'The policies we need to avoid a low-growth trap' World Economic Forum, 2 September 2016

A BUDGET TO CREATE GOOD JOBS

A real 'jobs and growth' Budget would address unemployment and insecure work on the one hand and promote equity and economic growth on the other.

Reducing unemployment and under-employment

When people cannot find work or as much work as they want, they are unable to contribute to their full potential and our economy cannot operate at or expand its full potential.

The 2016 MYEFO revised unemployment forecasts downward from the Budget at 6.25% to 5.5%. Yet unemployment is still high at around 700,000 or 5.8% of the labour force. [8] This alone should raise concerns about the loss of tax revenue in the event of a higher unemployment rate than forecast. It would also increase the spending on welfare requirements in the budget.

While Australia was not affected as much as other comparable countries in the GFC, the labour market has not recovered as well in terms of unemployment, underemployment and other economic variables. There is a conservatively estimated minimum of around four unemployed people for every job vacancy.[9]

Unemployment exists not because people are not prepared to work; clearly it is because the jobs are not available, particularly in regional areas. The Budget is the policy instrument for job creation and productivity expansion and this is its virtue: it must embrace the task.

The extent of this task is indicated by the rising trend in underemployment (those wanting to work more hours). The underemployment rate has been above the unemployment rate for 14 years and has risen to unprecedented levels since the GFC. The widening gap between the underemployment rate and the unemployment rate over the last two years is also unprecedented as shown in Figure 6. Most recently, 8.3% of the labour force or 1.06 million people are not working full time and wanted additional work at November 2016.[10] A conservative estimate is that one in seven people in the official labour force want to work or want to work more. This alone highlights the urgent need for the budget to address 'jobs and growth'.

Figure 6: Unemployment and underemployment, quarterly, 1986-2016

Source: ABS 6202.

[8] ABS 6202, seasonally adjusted figures. In the ABS official survey, those who did not work for more than an hour in the survey reference week and who are available to work that week and who have 'actively' looked for work in the previous four weeks, are deemed to be unemployed.
[9] ABS 6202, ABS 6354 and ACTU calculations
[10] ABS 6202, Table 22

Addressing insecure and precarious work

Outside the official labour force of working age Australians, there are many who are 'marginally attached': not counted as participating but also wanting to work. At least 1 million Australians are available for work in the next four weeks and/or looking for work.[11] The OECD indicates that Australia has one of the largest percentages of marginally attached workers in the OECD, at 5.0% of the labour force, much greater than the OECD average of 1.7% in 2014.[12] The total number of Australians wanting to work, or work more, is approaching 3 million people, representing 23 per cent of the official labour force. The problems are more acute in outer city regions experiencing industrial decline, in remote communities and for groups who do not have an equal chance in the labour market.

Australia also has the third-highest proportion of part-time workers in the OECD.[13] The number of part-time workers in Australia is now 3.8 million, almost one-third of all employees. The share of part-time workers in total employment reached 31.8 per cent by November 2016, up from just under 25 per cent 20 years ago.[14] Almost all the increase in employment in the year to November 2016 is due to part time employment.[15] Nearly 30 per cent of people working part time, or nearly one in three, would rather be working more hours, if they had the opportunity.[16]

The trend to casualization and the growth in 'contract' employment marks a continuing significant shift in responsibility for leave entitlements and risks away from employers to workers. Many casual employees have been long term employees of a business and many 'independent contractors' are in effect employees: for instance getting all their work from one business which controls all aspects of their work. There were 1.25 million owner-managers of enterprises without employees as at November 2016[17], up 28.5 per cent from 20 years ago, with almost all of the increase accounted for by unincorporated enterprises.[18] This has not been the choice for most of those workers.

Over 2.5 million employees are 'casual'; that is, working without leave entitlements as at November 2016.[19] This is an increase of 209,000 over the previous two years to about 25.5 per cent of the workforce.

Not only are well paid, secure jobs critical to decent living standards they are key to consumer confidence- the largest driver of job creation and sustainable economic growth. The budget can address trends to insecure and casual work which hamper domestic consumption and economic growth by promoting the creation of full-time, secure jobs as well as preserving and expanding the resources of the public service, promoting consumer demand, incomes, employment productivity and economic growth. Clearly improving the wages, rights and protections of working people, particularly those in insecure and non-standard forms of work, must also be a part of the suite of measures to improve living standards and boost jobs and economic growth.

Improving working people's wages and conditions

Workers have been caught in a pincer movement over the last 30 years between the forces of globalization and reforms designed to provide greater labour market flexibility. The latter has included a long term reduction in the numerical strength of unions, the decentralization of the determination of wages and conditions, the rapid expansion of non-standard forms of work and watering down of

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[11] ABS Cat 6226.0 - *Participation, Job Search and Mobility*, Australia, February 2016, first issue, released November 2016

[12] https://stats.oecd.org/Index.aspx?DataSetCode=INVPT_D The OECD defines marginally attached as "persons aged 15 and over, neither employed, nor actively looking for work, but are willing/desire to work and are available for taking a job during the survey reference week. Additionally, when this applies, they have looked for work during the past 12 months."

[13] OECD Employment Outlook 2016, p41, 2015 data

[14] ABS Cat 6202, seasonally adjusted, and ACTU calculations

[15] ABS 6202 Table 1

[16] ABS 6202 Table 22

[17] ABS Cat 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 13, November 2017

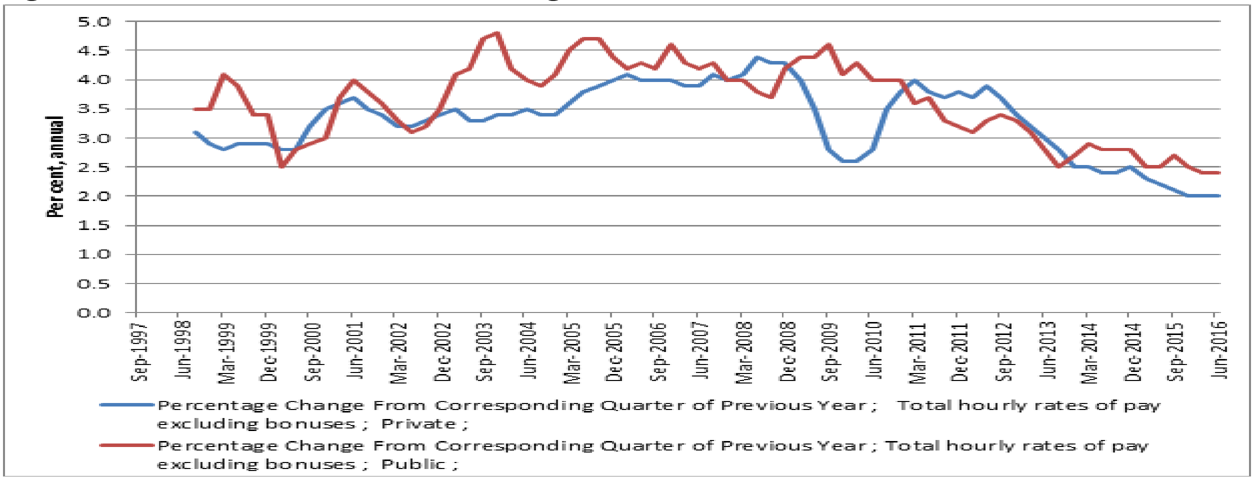
[18] ABS Cat 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 13, ABS 6333

[19] ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 13

employment protection laws. This combination of reforms is toxic. Australian workers have simultaneously faced a massive increase in competition from low paid workers in and from low wage, low living standards countries abroad and, on the home front, the weakening of labour market institutions and laws that once protected them. This simultaneous attack from the outside and the inside is the main long term explanation for the slow-down in wage growth and the dramatic increase in income inequality.

At the same time workers and unions are being demonized and attacked by this government. Policies that help induce record low wage growth do not make for sensible economic policy.

Figure 7: Australia has seen Record Low Wage Growth



It is clear from the mid-Year Economic and Fiscal Outlook (MYEFO) that record low wage growth has blown a hole in budget revenue (as the government receives less in personal income tax revenues when wage growth is low). Yet the government is set to make the same mistakes again as the wage forecasts for the years ahead are overly optimistic. The government forecasts wages growth to pick up strongly in 2018-19 and even expects it to improve this year from the current record low. In 2018-19, the government expects wages to be growing by 3.25% – a rate not seen for five years. This is at the same time as attacking unions, trying to cut penalty rates and having no plan to create more and better jobs. Given the governments agenda to drive down job security and wages it is not clear where the pickup in wage growth will come from unless we have a higher minimum wage, stronger public sector bargaining and other industrial reforms that will drive up wages.

Without a significant policy change aimed at boosting employment and wages the ACTU sees these forecasts as hypocritical and has concerns for the credibility of the revenue forecasts from personal income tax in the coming years.

MYEFO estimates that the fiscal balance worsens by A$4.4 billion this financial year even though the cash balance improves by A$0.6 billion. At least three quarters of the drop in tax revenue is due to lower income tax collection–because wage growth has been at record lows. We need a budget that looks to drive up wages not attack job security and working people.

A plan to create good jobs and transition to the jobs of the future

This government urgently needs to develop and implement a comprehensive jobs plan to create well-paid, secure jobs that lay the foundation for a successful transition to a modern economy.
Such a jobs plan should include:

1. Committing to a solid policy platform for scientific research, renewable energies and new technologies. This is where millions of the jobs of the future will be. We must urgently build up these areas- or we will trail behind the rest of the world.
2. Investing in good quality schools, TAFEs, universities, apprenticeships, traineeships and lifelong learning and training opportunities. We can only foster 'innovation' if we make sure that people have good opportunities to develop their skills.
3. Fostering industries and sectors with strong innovation, export and employment potential that will succeed in global markets and create local jobs. We need greater investment and collaboration between business, research and government to facilitate networking, clustering, commercialisation and exports for identified advanced industries and sectors.
4. Investing, with strategic partners, in critical infrastructure including housing, schools, hospitals, transport, communications technology and renewable energy which creates jobs and provides a foundation for a competitive economy and a strong society.
5. Supporting the growing services sector (including tourism, retail, hospitality, logistics, information technology, finance, caring and community services) where many jobs of the future will be created. We need government policies to encourage investment in best practice technology, systems and service provision, underpinned by effective employment laws to ensure these jobs of the future are high skill, high quality jobs.
6. Rebuilding the public sector and stopping funding cuts to education, health, aged, child care and community services. These services are critical to the well-being of our people, the foundation blocks of a productive society and are the top projected growth areas for the next five years. If we support them now, hundreds of thousands of new jobs can be created.
7. Improving wages and decent, secure jobs. Increases in wage and job security, especially for low and middle income earners, will improve living standards as well as increase consumer demand and job creation.
8. Targeted assistance to regional areas and industries to spread the benefits of economic growth to hardest hit areas. This would include assistance to our car and manufacturing industries, as well as increased investment in clean energy and industries of significant potential growth.

Lack of government plan which coordinates these initiatives strategically to support those industries, workers and communities particularly affected by technological advances, a changing labour market and climate policies has exacerbated the loss of well-paid, secure jobs and frustrated opportunities to transition to high quality jobs of the future.

This Budget must include a plan for targeting the support measures outlined above to those industries, workers and communities and regions. The ACTU recommends the establishment of a federal body tasked with identifying those industries, workers and communities and regions in need of targeted support and coordinating and implementing strong and effective growth strategies to facilitate a fair and just transition to a changing economy and labour market.

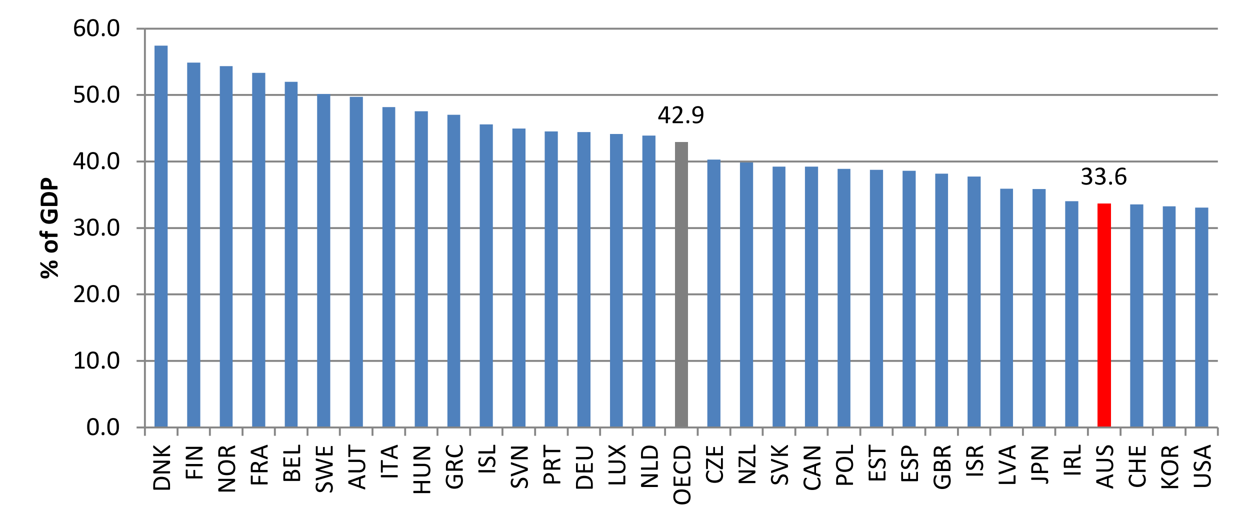
As part of this targeted support for industries, workers, and regions investment in clean energy in has significant potential. Through investment and sound government policy, we can transform the Australian economy into one where clean energy innovation drives the creation of new, secure jobs in the renewable energy and energy efficiency sectors. This would create new jobs in research and design, manufacturing, construction, maintenance, servicing, operations, providing high quality employment opportunities for workers who need to transition from declining industries or sectors.

THE REVENUE CRISIS

Rather than the often pronounced spending problem, the long term challenges to sustainability of public finances are clearly the result of a revenue problem. Government revenue as a share of GDP has been steadily declining over the past decades.

Australia's total tax revenue as a percentage of GDP at 33.6% is well below the OECD average of 42.9%[20] and is the fourth lowest share of total tax in GDP of all the OECD countries.[21]

Figure 8: International comparison of total tax as a per cent of GDP, OECD countries



Source: OECD, http://stats.oecd.org/, tax revenue statistics, 2014

The tax system is regressive

Not only do we collect less tax than the majority of other OECD countries, our system is increasingly inequitable, with those with high incomes paying a smaller and smaller share of taxes over time while receiving a bigger and bigger share of income.[22] The top marginal income tax rate has decreased from 67% fifty years ago[23] to 45%.[24]

The lack of progressivity in the tax system is demonstrated by the decline in the share of middle and lower income households in disposable household income over the last ten years and the increase in the share of the top fifth. [25]

Australia has tax concessions which are not available to the same extent in most other high income countries. Measures specific to Australia include those pertaining to capital gains, negative gearing, superannuation and trusts. These are used disproportionately by high income earners to further reduce their taxable income. Seventy-five individuals in 2011-12 who received more than $1 million in income in 2011-12 paid virtually no income tax at all. These individuals were able to declare an average taxable income of just $1.09.[26]

Rather than cut vital services, the government should act to close these loopholes to ensure a sustainable revenue base for a budget that supports a strong community and economic growth.

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[20] in 2014, most recent

[21] The USA in particular has funded expenditure from budget deficits.

[22] Profit share of income has increased from 24% to 37% over the 50 years to 2014 (The Australia Institute, 2014, Income and Wealth Inequality in Australia p12).

[23] The Australia Institute, 2014 Income and Wealth Inequality in Australia, p14.

[24] (https://www.ato.gov.au/Rates/Individual-income-tax-for-prior-years/#).

[25] ABS 6523

[26] ATO (2014a) *Individual tax: Selected items, by total income and taxable income, 2011–12 income year* Source: ATO (2014a) TAI 2015 Closing the Tax loopholes: A Buffett rule for Australia, p5.

Negative gearing

Negative gearing concessions cost government revenue more than $3.7 billion each year. Negative gearing is highly regressive, with fifty per cent of negative gearing tax breaks going to the top 20% of households and only 6% to the lowest fifth.[27] Negative gearing has contributed to higher housing prices and put house ownership increasingly out of reach for large sections of the population. It has also served to skew investment towards property and away from other productive activities.

Capital gains

Capital Gains Tax (CGT) discounts which apply in Australia are much more generous than in most other high income countries and are estimated to cost government revenue between $4.0 - $5.7 billion per annum. CGT tax breaks are extremely regressive, benefiting mostly high income earners with almost three quarters of CGT breaks going to the top 10% of high income households[28].

Corporations should pay their fair share of tax

The budget should incorporate tax revenue figures which are built around domestic and multinational businesses paying their way and contributing their fair share. Business groups have consistently called for the corporate tax rate to be cut. But neither the statutory rate (30%) nor the *actual* rate corporations pay (23%)[29] is high internationally, for comparable countries.[30]

Moreover, the current tax system allows many corporations to pay little or no tax. According to the Australian Tax Office (ATO) one in five of Australian owned private companies with over $100 million in revenue paid NO tax in 2015.[31] Of the top 200 ASX listed companies, 57% use subsidiaries in tax havens to avoid paying tax in Australia and nearly one third have an average effective tax rate of 10% or less.

If just the ASX 200 companies paid the full rate of company tax, it is estimated that the budget would gain $8.4 billion per year.[32] Over the past 10 years, the government has lost $80billion through companies' complex tax-minimisation arrangements- the same amount as it has said it will cut from health and education over the next 10 years.[33]

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[27] The Australia Institute, Matt Grudnoff 2015 Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, April

[28] The Australia Institute,Top Gears p. 5

[29] Adapted from Table 1, Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA).

[30] ACTU Submission to the Government's consultation on Tax White Paper 1 June 2015 p10 Table 1, and Table 1 in Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA

[31] (http://www.smh.com.au/federal-politics/political-news/one-in-five-large-private-companies-paid-no-tax-last-year-ato-20150923-gjsut6.html, http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/ca0cfcaf-ed36-4f85-a5f8-; Testimony of Michael Cranston, Deputy Commissioner of ATO Hearing of Senate Economics Legislation Committee Inquiry into Tax and Super Amendment (to exempt Australian private companies with over $100 million in income from publication of tax paid). p17).81953dccc1c6/toc_pdf/Economics%20Legislation%20Committee_2015_09_22_3822_Official.pdf;fileType=application%2Fpdf#search=%22 committees/commsen/ca0cfcaf-ed36-4f85-a5f8-81953dccc1c6/0003%22

[32] Tax Justice Network, United Voice ,2013 ,Who Pays for Our Common Wealth? Tax Practices of the ASX 200)

[33] 2014-15 Budget Papers

NOW IS NOT THE TIME TO DELIVER CORPORATE TAX CUTS

Lower corporate taxes will not lead to more jobs

Despite constant calls from business groups to lower corporate tax rates, there is NO credible evidence that corporate tax cuts are effective in creating more jobs or boosting economic growth. The job creation argument assumes that companies will channel profits generated by lower corporate tax rates into new capital investment. However, experience overseas corresponds with a recent study in Australia, which has shown that corporate tax cuts would not alter the investment or employment decisions of the top 15 ASX companies.[34] Rather than boosting jobs, corporate tax cuts primarily flow to shareholders, further exacerbating inequality.

Nor is there any evidence corporate tax cuts increase foreign investment, particularly of the sort which increases productive capacity in Australia. Analysis for instance by the US Congressional research Service shows NO credible evidence that international investment decisions are influenced by corporate tax rates.[35] Investment decisions are much more influenced by the quality of infrastructure, the skills of the labour force, links with researchers and innovators, political and legal stability. It is more than a little ironic that improving skills and infrastructure are made harder by a refusal to acknowledge a revenue rather than spending fiscal challenge.

The lowering of company tax rates is a golden handshake to $100 million dollar corporations

The last budget lowered the threshold to access the small and medium company business tax rate (which was lowered to 27.5 per cent from 30 per cent). The changed threshold to qualify as a small business will be a turnover of $10 million to $25 million in 2017-18, $25 million to $50 million 2018-19 and $100 million in 2018-19. This means that in three years' time a business with $100 million dollar turnover qualifies as a small business!

In ten years (2026-27) the government will reduce the 27.5% rate for all businesses to 25 per cent. This is a 5% cut in the rate over ten years and will cost $5.3bn in lost revenue over four years. US Treasury research found that corporate tax cuts do not even generate sufficient growth to pay for themselves, with the Reagan government tax cuts *costing* almost 3% of GDP.

In reality, Australia, like the rest of the OECD is competing against countries with zero or negligible company tax rates.

It is the widespread profit shifting by large multi-national corporations to tax havens such as Panama that has been recognised by the OECD as the major issue.

Inter-country double taxation agreements mean that in many instances corporate tax cuts in Australia will simply flow to other governments. For example, US multinationals operating in Australia with a reduced corporate tax rate of 25% would none the less be required to pay a 10% 'top-up' to the US government which has 35% corporate tax rate, rather than the current 5% top-up paid. In effect, our corporate tax cut is simply a transfer of money earned in Australia to the US Treasury, to pay for US public services rather than desperately needed services here.

Australia can't cut its way to growth

This government has refused to acknowledge our revenue problem. Despite our tax system collecting the fourth lowest revenue as a share of GDP in the OECD, it continues to allow corporations and high wealth individuals to avoid making their fair contribution to the common good. Instead they will mount a fresh push ahead of the May budget for more than $14 billion in spending cuts this year primarily to social welfare and education which will hamper economic growth and hurt working people. These cuts to essential services like health and education will undermine our capacity to build strong communities, a skilled workforce and invest in creating the jobs of the future.

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[34] The Australia institute, Cutting the Company Tax Rate: Why Would You? , Dave Richardson, 30 November 2015
[35] Gravelle JG (2013) Tax havens: International Tax Avoidance and Evasion, CRS Report for Congress No R40623,23

THE IMPORTANCE OF SKILLS AND EDUCATION

Schools Education

Pivotal to the achievement of social inclusion and economic growth is education policy which ameliorates social divides, ensures the best opportunities for all Australians and builds a prosperous economy based on the capability and skills of citizens.

There is a large body of evidence demonstrating the crucial role education plays in economic growth.[36] Modelling by the OECD estimates that improving educational enrolment and attainment in Australia would result in gains to GDP in 2095 130% greater than current GDP, or over $2 trillion.[37]

A focus on quality education for all, regardless of background, is crucial if Australia is to reach its growth potential. [38] That is why reforms like the Gonski education funding model are crucial and must be fully implemented. The additional $6 billion in annual funding (state and commonwealth) required to implement the Gonski school funding model amounts to about 0.4% of Australia's GDP. Investing to achieve universal basic skills could increase GDP by 2.8% per year over the long term.

Higher Education, TAFE, Vocational Education and Training (VET)

The higher education, TAFE and VET sectors support skills and job development, underpin social cohesion by encouraging access and equity, and play a fundamental role in innovation and economic growth through on the job innovation, adaptation to and adoption of new technologies, investment in industry partnerships and research and development.

The Government's higher education agenda of fee deregulation and funding cuts unfairly shifts the cost burden for university education onto the shoulders of students and their families.

Australia's public investment in higher education is still well below that of other industrialised economies and Australian students currently pay amongst the highest fees in the world to attend public universities.

As well as the crucial role universities play in training our future workforce, higher education is the third largest export industry in Australia. Universities constitute the largest component of the sector generating nearly $17 billion annually in export income.

The budget should increase government investment and support for higher education, including:

(a) Increasing higher education funding to the equivalent of 1 per cent of GDP, from the current 0.7 per cent, comparable to other industrialised economies;

(b) Creating institutional linkages between university based research, development and innovation with industry and businesses; and

(c) Providing a stable and sustainable funding model.

High quality, nationally consistent, equitable and affordable vocational education and training (VET) including properly-funded TAFEs is critical to transitioning to the jobs of the future. The skills, national qualifications and further education that TAFEs and the VET system deliver are vital for workers, for the future skill needs of industry and the nation and for a fair society that provides opportunities to all.

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[36] For example, see: Acemoglu, D. *Introduction to Modern Economic Growth*, (2009). Princeton University Press, Princeton

[37] OECD (2014) Trends in Income Inequality and its Impact on economic Growth European Expert Network on Economics of Education (2015) Reducing Inequality in Education and Skills: Implications for Economic Growth.

[38] For example, see: Barro, R. Education and Economic Growth. *Annals of Economics and Finance*, 14-2, (2013).

The reputation of the VET sector has been hit in recent years by chronic under-funding and confidence in the value of a VET qualification has suffered by the opening up of the publicly funded training system to thousands of poorly regulated private training providers. Constant and ongoing revelations about the rorting of the system and the poor education outcomes provided by many private providers have undermined employer and community trust in the system's ability to deliver training outcomes. Yet the response to this has been to largely ignore these issues, with the VET sector receiving only minimal interest and investment from this government. The lack of investment in VET and TAFEs is an example of a broader unwillingness to truly invest in the services and industries that will drive the future Australian economy.

The budget should refocus on the importance and value of skills, including:

a) A full review of funding, including the consequences of contested funding, and the quality of VET;

b) Introduce a 30% cap on the amount of funding allocated contestably;

c) Committing to maintain TAFE funding in real terms, with a full and immediate reinstatement of TAFE funding cuts; and

d) Ongoing support for a co-contribution funding mechanism between government and industry that supports the up-skilling of new and existing workers.

Apprenticeships and traineeships

To meet our future skills needs and provide employment opportunities, a sustained increase in apprenticeship and traineeship completion rates is required across Australian workplaces. This is particularly urgent due to the current unacceptably high rate of youth unemployment in Australia.

Apprenticeship completion rates continue to fall around the 50% mark, meaning one in every two apprentices do not finish. Commencement rates for both apprenticeships and traineeships have been flat or in decline for several years. Yet the government's record on supporting apprenticeships is dismal. Since coming to power, they have:

- Cut more than $1 billion to apprenticeship programs;
- Replaced apprentice *Tools for Your Trade* grants with apprentice debt;
- Rebadged and cut funding to Australian Apprenticeship Centres;
- Abolished the Joint Group Training program;
- Abolished the tripartite Australian Workforce and Productivity Agency; and
- Abolished the Industry Skills Fund.

This budget is an opportunity to reverse these backward steps and provide for improvements to the system including improving apprenticeship and traineeship wages, support services for apprentices and employers and facilitating collaborative tri-partite structures which enhance the linkages between government, business and employees and their unions.

Removing barriers to labour market participation

Expenditure cuts to programs which support labour market participation undermines productivity and economic growth.

The Budget must properly fund aged care, the NDIS and halt its proposed cuts to Paid Parental Leave and Family Tax Benefits, which, along with affordable early childhood education and care are critical to supporting greater workforce participation of highly skilled, educated and experienced women.

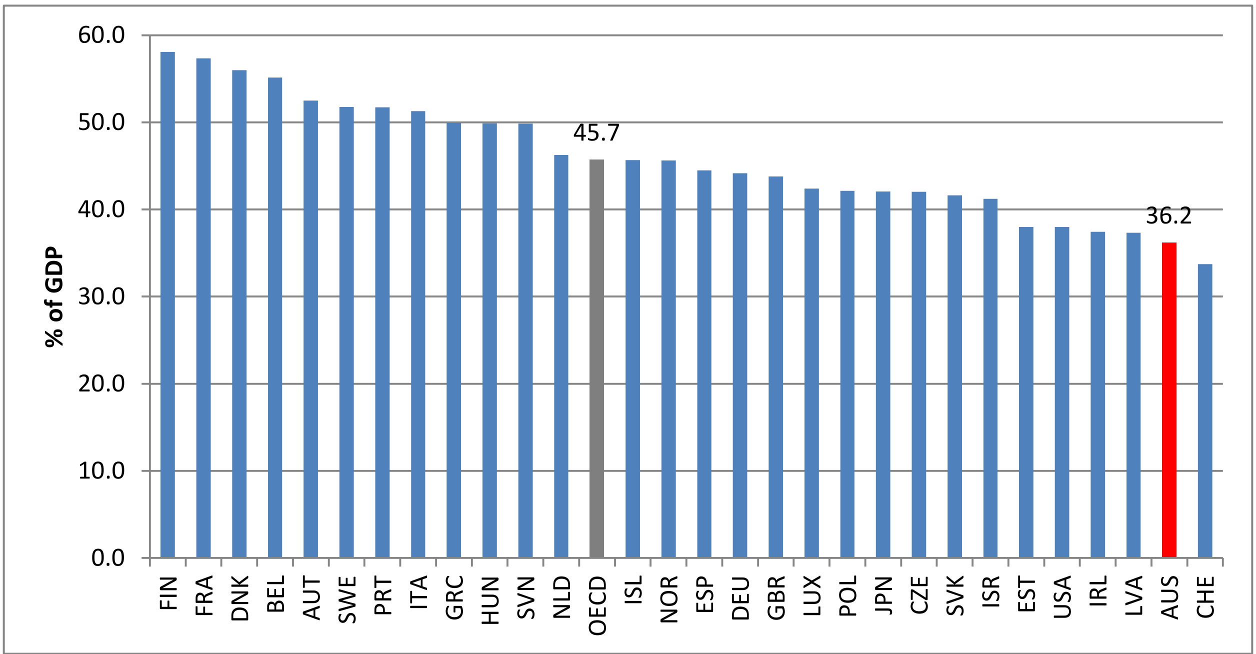
INVESTING IN OUR PUBLIC SERVICES

Improving the quantity and quality of health and education services should be a high priority for social and economic policy in Australia. Not only are these sectors foundations of healthy, happy and productive communities, they are also key drivers of our export performance and potential to generate significant numbers of jobs and economic growth. The demand for education and health services in China, and other parts of Asia, will continue to expand rapidly. Australia can supply these expanding markets if our services are of the highest quality and competitive. It is in these sectors where high quality jobs of the future will be created. We should be investing heavily in these sectors not ripping money out of them.

The budget should recognise that sensible and strategic government spending is key to promoting economic growth and fairness. Bringing the provision of health, education and other infrastructural services up to standards commensurate with comparable countries is vital to support business and a healthy and productive community.

However, Australia has the second lowest government expenditure as a share of GDP of the high income OECD countries, at 36.3% of GDP in 2012, a massive ten percentage points below the OECD average of 46.3%.

Figure 11: International comparison of general government spending as a per cent of GDP, OECD countries



Source: OECD, from http://stats.oecd.org/#, general government spending and for Australia, 2014, most recent comparable

In particular, government expenditure on health as a share of GDP in Australia at 6.2% is below the OECD average of 6.6%, which includes many countries which are much poorer than Australia.[39] Moreover individual Australians spend more out of pocket on health care than those in the other high income countries. While the total government health care spend per capita in Australia is about six per cent less than the high income country average, the out of pocket spending on health per individual Australian is a full third higher than the high income country average.[40] The average out of pocket spend is estimated to be at least A$1000 per year per person in Australia. The current government's planned reforms to health care are designed to shift this cost burden even further to ordinary Australians and away from the public sector. These reforms are neither warranted, nor wise and should be resisted.

[39] http://stats.oecd.org/viewhtml.aspx?datasetcode=SHA&lang=en, 2015 data
[40] 2013, derived from World Bank http://wdi.worldbank.org/table/2.15#

CONCLUSION

In 2017 global economic and political uncertainty will most likely intensify. In these tense and turbulent times Australia needs to rely more on our own communities, businesses and diverse population to provide economic security and good quality jobs. Our Government needs to support local endeavour with action not just empty words. This means a real plan. A plan which boosts investment in infrastructure, provides incentives for research and development, fosters growth sectors, supports export opportunities, improves the quality of jobs through better wages and conditions and makes our health, education and community services world class.

Public investments in these areas should have been implemented much earlier when it was evident the resources boom was not going to last forever and new domestic engines of economic growth were required. The Abbott and Turnbull Governments talked about growth and jobs, but have done absolutely nothing to protect our economy and our people.

Unless there is an urgent reversal of policy a lengthy period of very low growth with deteriorating labour market conditions and falling living standards await in 2017.

The ACTU and its affiliates urge the Turnbull Government to reject the worn out and misguided narrative that we can either have prosperity or fairness and rise to the challenge of delivering both.

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