



# **Orange Book 2022: Policy priorities for the federal government**

February 2022

# Orange Book

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**1 Prioritising a government's agenda**

**2 Economic policy**

**3 Housing**

**4 Energy and climate change**

**5 Transport**

**6 Health**

**7 Aged care**

**8 School education**

**9 Retirement incomes**

**10 Budget policy**

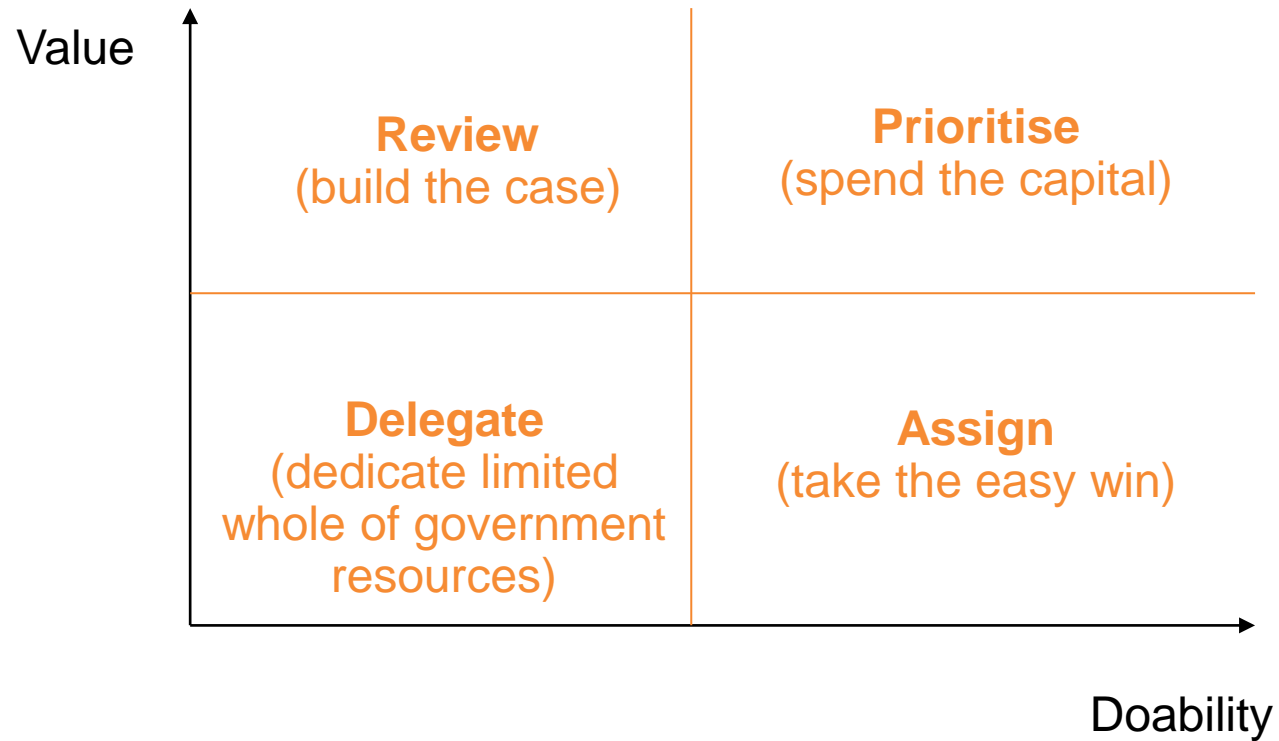
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## What is the Orange Book?

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- Grattan Institute's 'Orange Book' sets out our policy recommendations for the incoming Federal government.
- All are based on detailed research and analysis published by Grattan Institute since it was founded 13 years ago.
- The Orange Book focuses on reforms to policy to boost incomes, improve health and education, create better transport links, make housing more affordable, generate meaningful progress on climate change, and strengthen our political institutions.
- Policies are a mix of those that would save money, require additional spending, boost revenues and improve efficiency of the tax mix.
- It excludes foreign affairs and trade, defence and security, law and order, industrial relations, higher education, communications, agriculture, Indigenous affairs, and the environment (outside of climate change). These areas are important but are not part of Grattan Institute's current work program.
- While governments have been rightly focussed on dealing with the health, economic and social fall out from the pandemic, now is the time to focus policy energy and political capital on a program of economic, social policy and institutional reforms.

# Where should a new government start? A framework for prioritising



# Priorities

	Prioritise	Review	Easy win	Delegate
<b>Economic policy</b>	<ul style="list-style-type: none"> <li>Reduce childcare costs</li> <li>Support land tax/stamp duty swap</li> <li>Income tax reform (reduce rates, wind back tax concessions)</li> <li>Improve composition of skilled visas</li> <li>Increase Jobseeker</li> </ul>	<ul style="list-style-type: none"> <li>Broaden GST and/or raise rate</li> <li>Reform company tax</li> <li>Align tax treatment of savings</li> <li>Independent RBA review</li> </ul>	<ul style="list-style-type: none"> <li>Extend accelerated depreciation</li> <li>Expand paid parental leave</li> </ul>	<ul style="list-style-type: none"> <li>Curb age-based tax breaks</li> <li>Increase super preservation age</li> <li>Improve selection for skilled-worker visas</li> </ul>
<b>Housing</b>	<ul style="list-style-type: none"> <li>Increase Rent Assistance</li> <li>Social Housing Future Fund</li> </ul>	<ul style="list-style-type: none"> <li>Land-use planning laws</li> </ul>	<ul style="list-style-type: none"> <li>National shared equity scheme</li> </ul>	<ul style="list-style-type: none"> <li>Consistent housing data</li> </ul>
<b>Energy and climate change</b>	<ul style="list-style-type: none"> <li>Amend the Safeguard Mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Plan future without gas</li> <li>Integrate renewables into National Electricity Market</li> </ul>	<ul style="list-style-type: none"> <li>Green steel flagship project</li> <li>Industrial Transformation Future Fund</li> </ul>	<ul style="list-style-type: none"> <li>Transmission cost allocation</li> </ul>
<b>Transport</b>	<ul style="list-style-type: none"> <li>Light vehicle emissions ceiling</li> <li>Improve project selection, costing, and coordination</li> </ul>		<ul style="list-style-type: none"> <li>Vehicle pollution and petrol standards</li> <li>Discount rates</li> </ul>	<ul style="list-style-type: none"> <li>Prioritise modest projects</li> <li>Disclosure cost estimates</li> </ul>
<b>Health</b>	<ul style="list-style-type: none"> <li>Remove cap on hospital funding</li> <li>COVID-19 vaccination program</li> <li>Primary health reform</li> </ul>	<ul style="list-style-type: none"> <li>Universal dental care</li> <li>Secondary consultation scheme</li> <li>Bulk-billing specialist private clinics</li> </ul>	<ul style="list-style-type: none"> <li>Report on clinical waiting times</li> <li>Report on adverse events in hospitals</li> </ul>	<ul style="list-style-type: none"> <li>Plan for the future of private care</li> </ul>
<b>Aged care</b>	<ul style="list-style-type: none"> <li>Response to wage determinations</li> </ul>	<ul style="list-style-type: none"> <li>Regional system managers</li> <li>Improve staff training</li> </ul>	<ul style="list-style-type: none"> <li>Supply of home care packages</li> <li>Report on quality/price of providers</li> </ul>	
<b>School education</b>	<ul style="list-style-type: none"> <li>Boost evidence base</li> <li>Improve initial teacher education</li> </ul>	<ul style="list-style-type: none"> <li>Expert teacher career path</li> <li>More time for teaching</li> </ul>	<ul style="list-style-type: none"> <li>Scholarships for high achievers</li> </ul>	<ul style="list-style-type: none"> <li>Marketing teaching</li> </ul>
<b>Retirement incomes</b>	<ul style="list-style-type: none"> <li>Freeze compulsory super</li> <li>Introduce 'best in show'</li> <li>Curb super tax breaks</li> </ul>	<ul style="list-style-type: none"> <li>Improve retirement products</li> <li>Home in pension asset test</li> <li>Default insurance in super</li> </ul>	<ul style="list-style-type: none"> <li>Reform Home Equity Access Scheme</li> <li>Relax pension asset test taper</li> </ul>	
<b>Budget policy</b>	<ul style="list-style-type: none"> <li>Maintain fiscal recovery strategy</li> </ul>	<ul style="list-style-type: none"> <li>Review medium-term targets</li> </ul>		<ul style="list-style-type: none"> <li>National Intergenerational Report</li> </ul>
<b>Integrity</b>	<ul style="list-style-type: none"> <li>Robust integrity commission</li> <li>Cap advertising expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Code of conduct for all MPs</li> </ul>	<ul style="list-style-type: none"> <li>Donations disclosure</li> <li>Publish ministerial diaries</li> <li>Broaden lobbyist register</li> <li>Reinstate Audit Office funding</li> </ul>	<ul style="list-style-type: none"> <li>Reduce politicisation of grants and public appointments</li> </ul>

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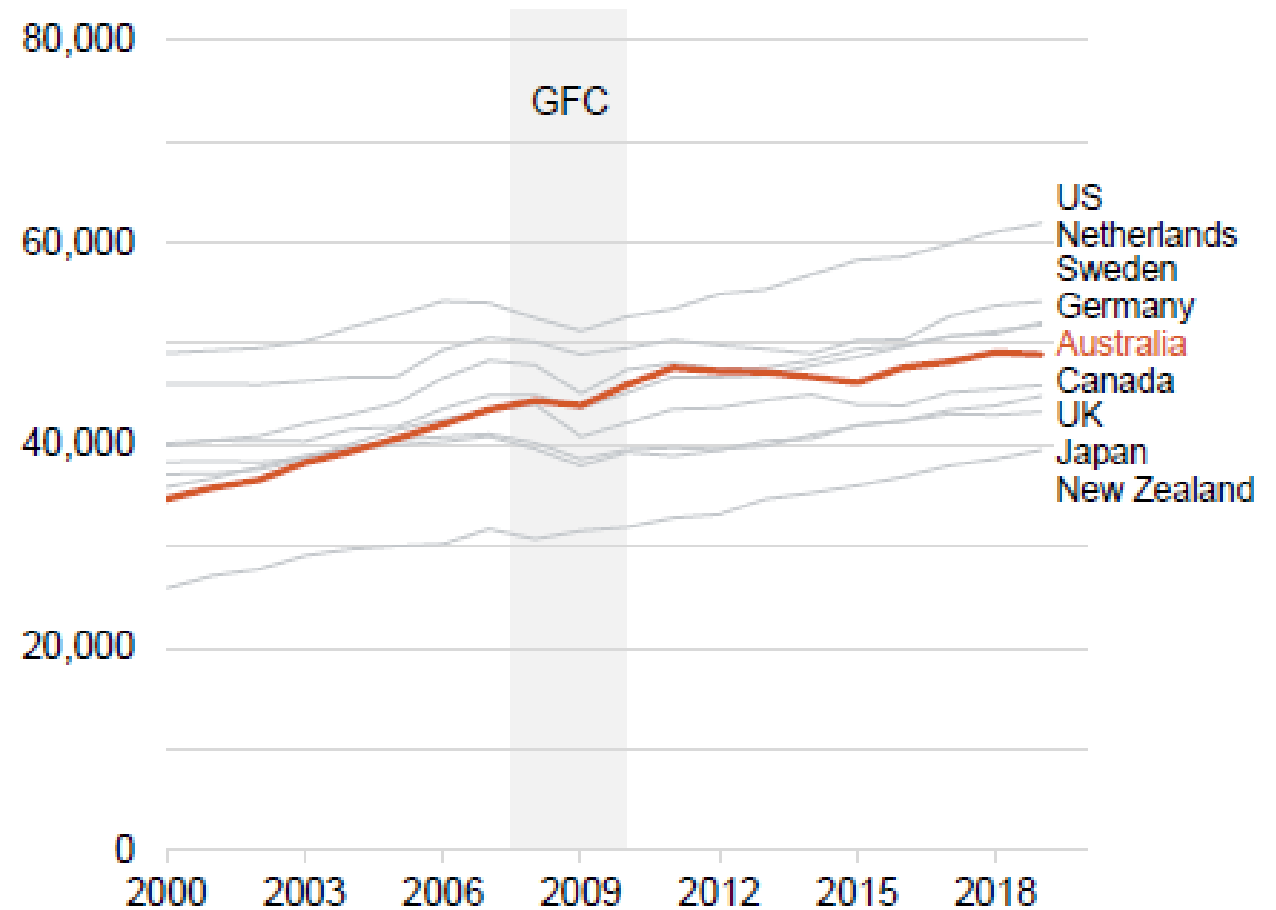
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## Economic Policy – where we are

- Incomes and wages were stagnating before COVID
- Strong macro conditions mean there is a chance to achieve full employment and wages growth in the next year
- Longer-term growth will depend on boosting productivity
- Workforce participation is improving, but there are still policy barriers for some groups participating to their fullest
- As borders re-open it is a good time to reconsider the composition of our migration program
- Income inequality hasn't shifted much but too many Australians live in poverty and wealth inequality is on the rise

### Australian incomes have flat-lined in recent years

Gross national income per capita, 2015 \$US



# Economic Policy – what we should do

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## Macroeconomic policy

- Commission an independent review of the Reserve Bank
- Maintain the current fiscal recovery strategy until the recovery is secured and wages are growing (see *Budget policy*).

## Tax reform

- Broaden the GST base and/or raise the rate (package with income tax cuts and social security increases)
- Lower effective company tax rates via investment allowances or accelerated depreciation on new investment.
- Reform income taxes by packaging the Stage 3 income tax cuts with a redesign of tax concessions that are not meeting their economic aims – the capital gains tax (CGT) discount, negative gearing, and super tax concessions.
- Align the tax treatment across different types of savings by reducing taxes on other savings income such as net rental income and bank deposits.
- Encourage the states to replace stamp duties with general property taxes.
- Wind back age-based tax breaks: limit SAPTO to pensioners, impose the Medicare levy on seniors.



# Economic Policy – what we should do

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## Labour force participation

- Increase the maximum Child Care Subsidy to 95 per cent, and flatten taper to improve work incentives.
- Add six additional weeks paid parental leave, through a 6/12/6+2 structure – six weeks ‘use it or lose it’ for each parent, 12 weeks to share, and an additional two weeks of bonus leave if both parents take at least six weeks.
- Increase the superannuation preservation age from 60 to at least 65.
- Increase the rate of Jobseeker by at least \$75 a week and benchmark the payment to wages.

## Migration

- Shift the composition of Australia’s permanent skilled migration program to better target younger, higher-skilled workers:
  - Abolish the Business Investment and Innovation visa program.
  - Scale back and independently evaluate the Global Talent visa program.
  - Expand number of skilled worker visas allocated via employer sponsorship and the points-test.
- Make permanent employer-sponsored visas available for workers in all occupations, provided they earn at least \$80,000 a year.
- Commission an independent review of permanent points-tested visas.

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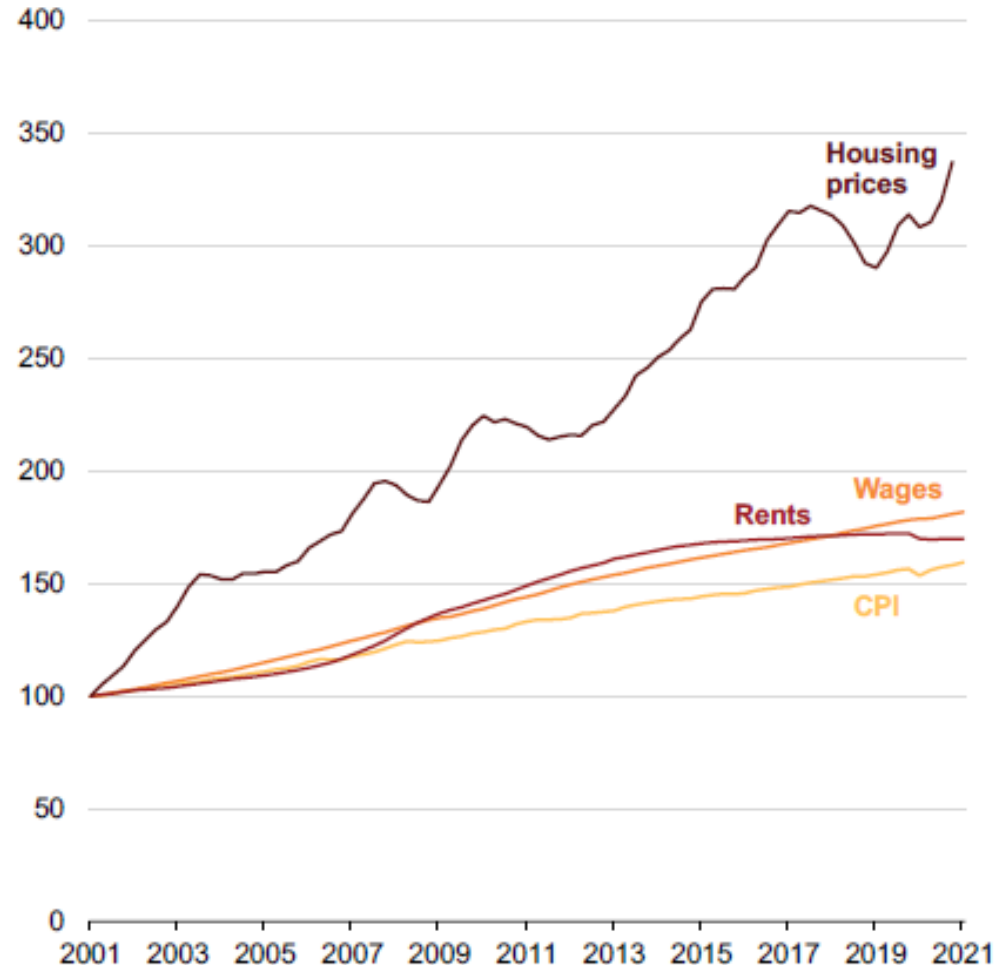
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## Housing – where we are

- Australians are spending more of their incomes on housing
- Home ownership is falling, especially for younger, poorer Australians
- Housing costs have contributed to growing inequality and rising homelessness in Australia

House prices have increased much faster than rents and income  
Nominal, index 2001 = 100



Notes: Nominal house price growth from Bank for International Settlements; Wages from Wage Price Index (excluding bonuses; private and public). Rents in the CPI are stratified according to location, type, and size. Sources: BIS Residential property prices; ABS CPI, WPI.

# Housing – what we should do

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## Housing supply

- Encourage the states to change planning laws to allow higher-density housing in inner-urban areas and established suburbs.
- Establish Housing Australia as a statutorily independent research body with responsibility for collecting and publishing nationally consistent data related to housing supply and demand.

## Housing support for low-income earners

- Establish a \$20 billion Social Housing Future Fund targeted at people at greatest risk of homelessness.
- Increase the rate of Rent Assistance by at least 40%; benchmark it to rents paid by poorer renters.
- Establish a national shared equity scheme for home buyers who don't have 'the Bank of Mum and Dad':
  - The federal government should take up to a 30 per cent equity stake in the home.
  - The scheme should be available to singles with gross incomes of less than \$60,000 and couples earning less than \$90,000 a year.
  - It would be restricted to owner-occupiers who do not own an investment property.

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# Energy and climate change – where we are

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## Electricity

- Emissions from the sector have been consistently falling over the past five years
- Supply has been reliable for the past two years
- Prices have been falling

## Gas

- The sector must reduce emissions to help meet our commitment to reach net zero by 2050.
- Gas is an increasingly expensive energy source.

## Light vehicles

- Light vehicle emissions increased by 14 per cent between 2005 and 2019
- Only modest improvements are projected to 2030
- To have a net-zero light vehicle fleet by 2050 requires all new cars to be electric or hydrogen-powered by 2035.

## Industrial emissions

- Industrial emissions are not projected to fall between now and 2030
- The Safeguard Mechanism baselines are set inconsistently

## New industries

- LNG and coal will decline
- Minerals and metals will grow
- Steel and other commodities are longer-term prospects

# Energy and climate change – what we should do

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## Energy

- Implement the Energy Security Board's recommendations on critical electricity market reforms:
  - Reform the wholesale market structure to ensure adequate generation in a system dominated by solar and wind.
  - Prioritise regulatory reforms to allocate costs for new electricity transmission projects.
  - Improve integration of distributed and renewable energy resources into the National Energy Market.
- Plan for a future without natural gas.

## Climate change

- Implement a suite of sector-based emissions reduction policies, consistent with the long-term commitment to net zero emissions, and supported by mechanisms that implicitly or explicitly establish efficient carbon pricing.
  - Work with the states to better align and coordinate policies to support the decarbonisation of electricity supply.
  - Amend the Safeguard Mechanism so that industrial facilities are subject to declining caps (baselines) on their emissions.
  - Establish emissions intensity benchmarks for new facilities that are substantially lower than the industry average.
  - Set a mandatory fleet emissions standard, or ceiling, applying to the sale of all new light vehicles.
  - Invest in an outreach program to advise farmers on how to reduce farm emissions and secure resilient income streams.
- Work with industry on strategies to deliver the opportunities from Australia's comparative advantage in renewable energy and critical minerals.
  - Fund a flagship project to make green steel in Australia.
  - Shift trade diplomacy away from fossil fuel exports, towards commodities whose markets will grow in a net-zero world.
  - Establish an Industrial Transformation Future Fund to close the risk gap for transformational industrial investment.

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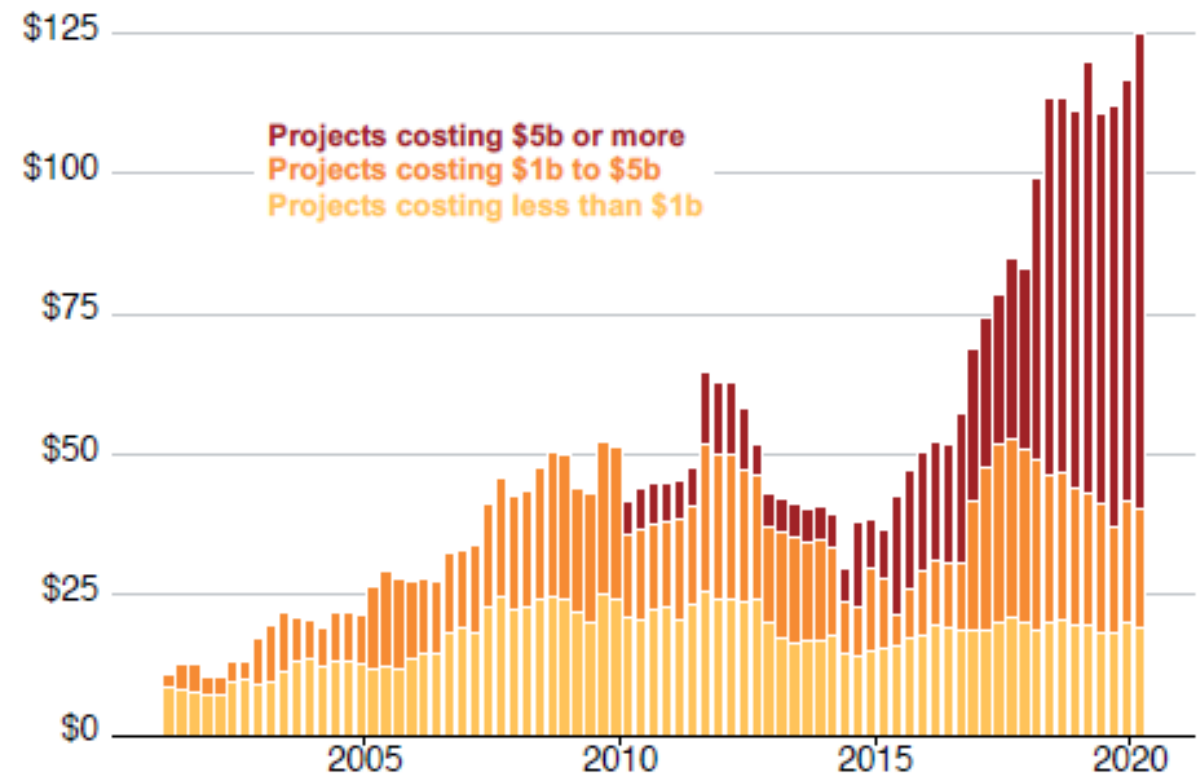


## Transport – where we are

- Record transport infrastructure spend, particularly ‘mega projects’
- The federal Government is not making the best of its transport infrastructure project spend
  - Risky, premature project choices
  - Inaccurate cost estimates are not addressed
  - The portfolio of projects is not coordinated effectively
- The federal Government does not have a credible plan to reduce emissions from cars

### All the growth in public road and rail infrastructure work is in Megaprojects

Expected cost of projects under construction, \$2020 billion



Note: Includes all public road and rail projects costing more than \$20 million.  
Source: Grattan analysis of Deloitte Access Economics Investment Monitor..

# Transport – what we should do

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## Establish new transport infrastructure projects on a sounder basis

- Disclose the status of cost estimates for large infrastructure proposals, from a wide range at the concept stage, a narrower range at business case stages, and the tender and final costs.
- Collate data on completed projects:
  - Costs at key milestones
  - Location and characteristics
  - Time estimates at key milestones
  - Scope changes
  - Contract type and partners.
- Require states that receive federal funding to publish post-completion reviews

## Take seriously the national coordination role

- Encourage states to identify modest-sized infrastructure projects with higher net benefits.
- Megaprojects should be proposed as the last, not the first resort.
  - Assist the states to pay more attention to costs of building new transport infrastructure:
  - Regularly update a benchmarking series of road and rail costs;
- Report on how other countries build high-quality transport infrastructure more cheaply;
- Ensure that states avoid giving preference to bidders who pledge to use Australian-produced materials.

## Transport – what we should do

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### Reduce harmful emissions from cars

- Improve the quality of Australia's petrol, so that vehicles here can meet international pollutant standards.
- Tighten vehicle pollution standards so that they are consistent with current international standards.

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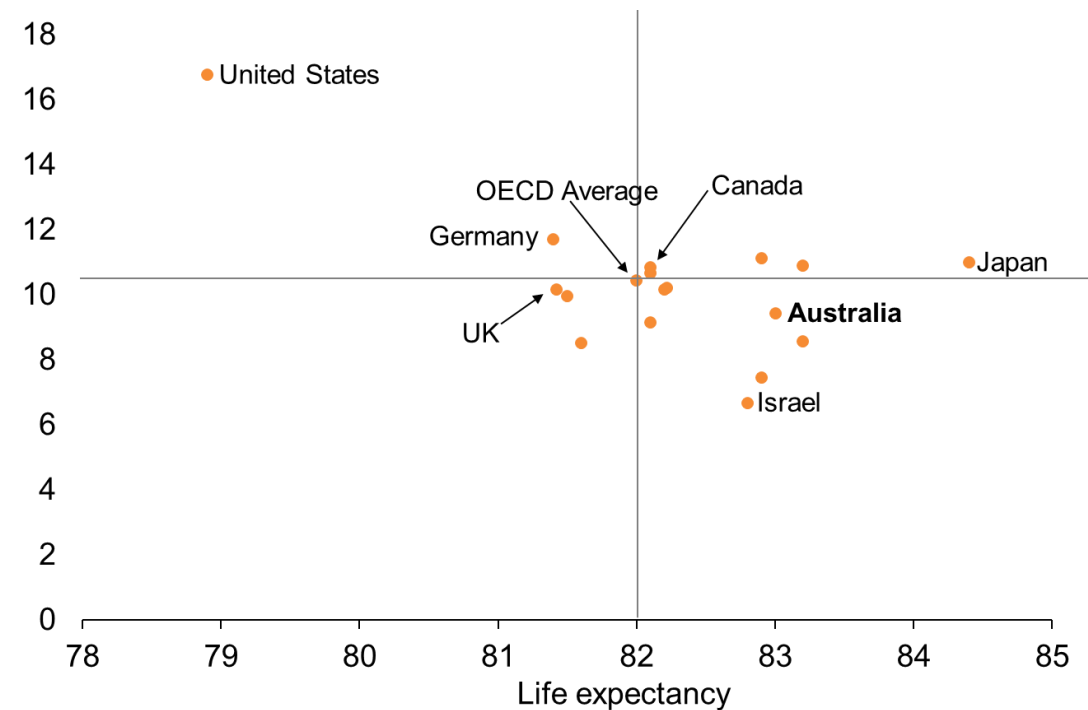
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## Health – where we are

- Australia’s health system generally delivers good outcomes
  - But this doesn’t mean we can’t do better.
- Australia’s COVID-19 public health response has been good in parts
  - But mistakes were made, and the consequences continue to affect the health system.
- Out-of-pocket payments cause numerous problems.
  - They reduce people’s use of necessary services, particularly poorer people.
- Many Australians miss out on care because of cost
- There are some service gaps
- The private health insurance industry is in a death spiral

### Australia performs well on international comparisons of health

Health spending as proportion of GDP, selected OECD countries, 2019



Source: OECD Health at a Glance 2021.

## Health – what we should do

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### Plan for the continuing impacts of COVID

- Provide extra support to the states: remove the cap on hospital funding; continue the 50:50 arrangement.
- Plan a long-term COVID vaccination program.
- Commission a comprehensive review of all aspects of Australia's COVID response.

### Create a more equitable health system

- Fund universal dental care.
- Establish a national secondary consultation scheme (between GPs and specialists).
- Discuss with states introducing public reporting of clinical waiting times for public outpatient services.
- Establish bulk-billing specialist private clinics.
- Minimise low-value prescribing to reduce pharmaceutical out-of-pocket costs
- Lower the (post-review) safety net for non-concession card holders who are on five or more drugs.
- Abolish out-of-pocket payments for pathology, radiology, and radiotherapy services by switching from fee-for-service to a tendering arrangement.

## Health – what we should do

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### Fix private health insurance

- Negotiate a plan for the future of private care.

### Improve the primary care system

- Introduce voluntary enrolment and ‘participating practices’.
- Fund new out-of-hospital services.

### Improve hospital quality

- Ensure the Independent Hospital Pricing Authority calculates and publishes information on the cost of adverse events in hospitals.
- Ensure hospitals get information about their relative quality performance and the estimated cost of adverse events in the hospital.

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# Aged care

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## Where we are

- Wait times are long and people don't get the care they need.
- Care has often been poor quality
- Significant workforce challenges
- Government has made a significant investment following Royal Commission but there are still some items on the do list

## What we should do

### Improve oversight and stewardship

- Establish new independent bodies to act as regional 'system managers' of the local service system.
- Implement a new public reporting system that provides information on the quality and prices of service providers.
- Ensure better training and regulation of aged care staff.

### Meet home care need

- Supply the number of packages required to meet independently assessed need.

### Address aged care workforce needs

- Introduce a sped-up process so the result of the FWC determination on wages is quickly incorporated into funding.

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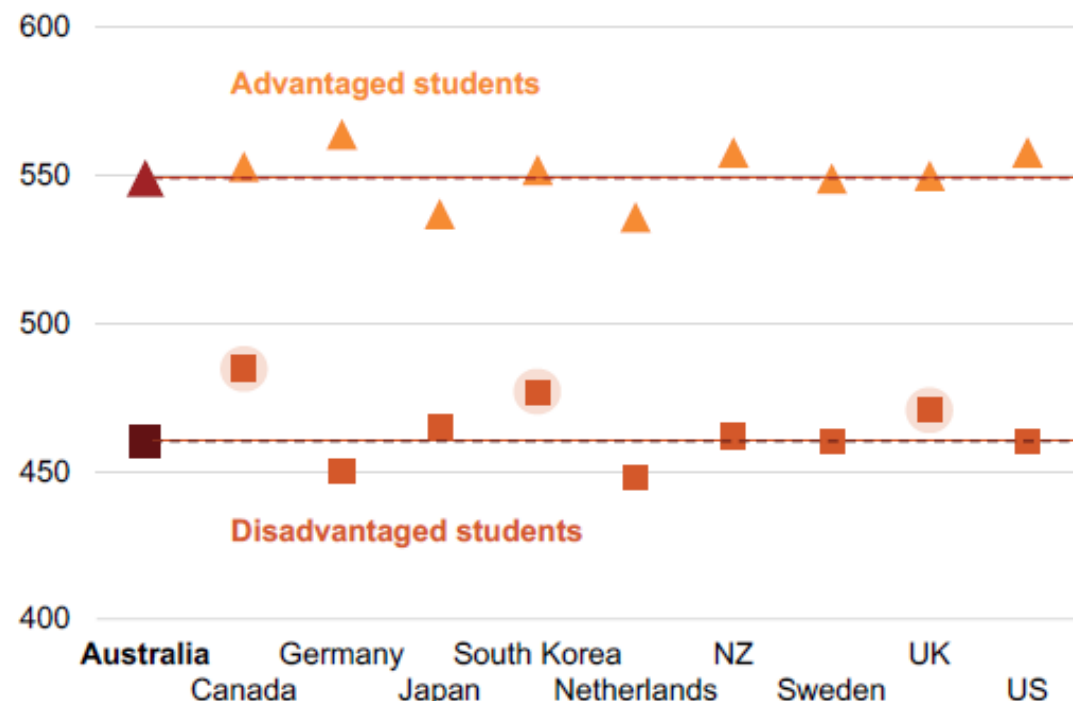
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## School education – where we are

- Australian students are falling behind
- Equity in education is a significant challenge
- On school spending, Australia is in the middle of the OECD pack
- COVID-19 has had a significant impact, but it's not all bad
- Too few high achievers enter teaching
- Existing teacher career paths don't recognise teaching expertise sufficiently or deploy it strategically
- Teachers struggle to find the time to get to the highest-impact teaching tasks

### Australia's disadvantaged students do worse in reading than their peers in Canada, South Korea, or the UK

Mean performance in PISA reading, 2018, points



Notes: Disadvantaged students are those in the bottom quartile of the PISA index of economic, social, and cultural status (ESCS) in each country. Advantaged students are those in the top quartile of ESCS.  
Source: OECD PISA 2018 Database

## School education – what we should do

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### Keep the federal government's role limited and well-targeted

- Avoid new school reforms unless: evidence supports it; government can make it happen; and federal involvement will help.

### Strengthen the Australian education evidence base

- Spend more on the education evidence base.
- Fund research to evaluate innovations emerging from COVID disruption.

### Attract more high achievers to teaching, and improve initial teacher education

- Commit to doubling within 10 years the proportion of high achievers who choose teaching.
- Fund \$10,000-a-year scholarships for high-achieving students.
- Launch a marketing campaign to re-position teaching as a challenging and rewarding career.
- Review the recommendations of the 2021 independent expert review of ITE and implement reforms.

### Work with the states to improve the career path for top teachers

- Work with states on a new expert teacher career path, with two new positions: Instructional Specialists and Master Teachers.
- Help fund pilot programs to refine the role description, training, and integration of the two new positions.

### Work with the states to give teachers more time for great teaching

- Fund an investigation of how to ensure teachers have the time they need to prepare and deliver great teaching.

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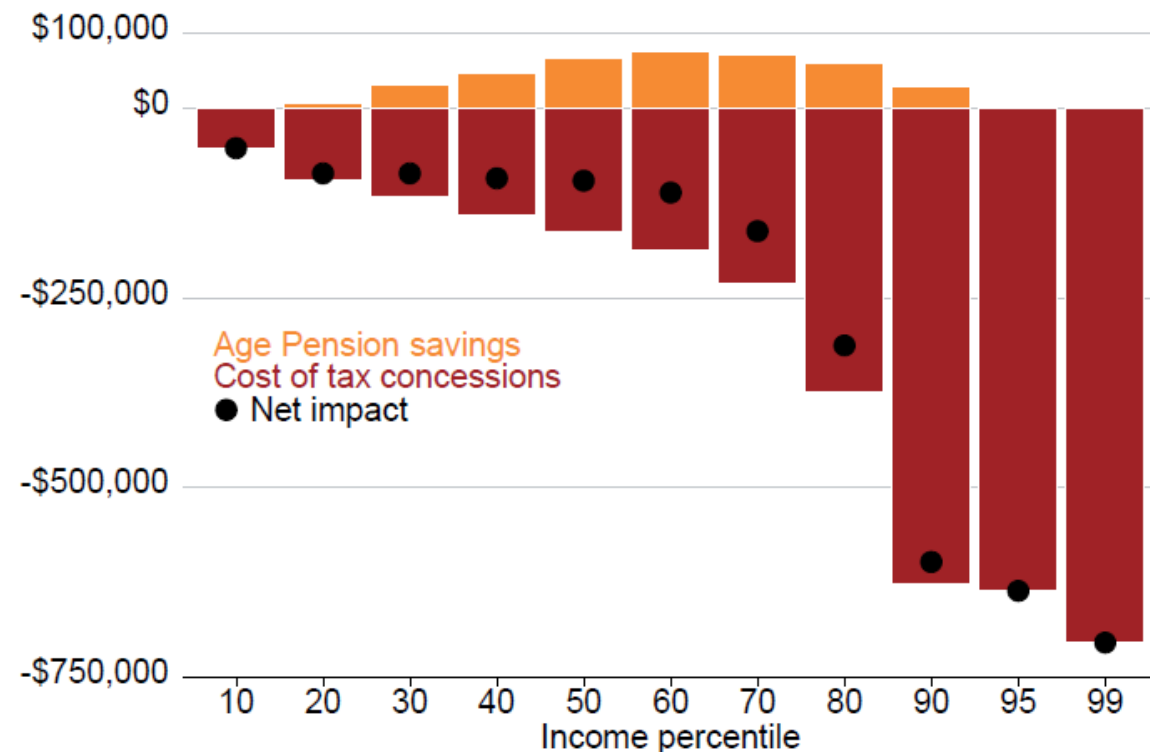
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## Retirement incomes – where we are

- Retirement incomes are adequate
- Age Pension spending is sustainable
- Renting retirees are struggling
- Home-owning retirees don't use their equity
- Safety nets for early retirees are inadequate
- Super tax concessions are too high
- Super fees are too high
- Super balances are not converted into income

The cost of super tax breaks far outweighs the corresponding Age Pension savings, especially for high earners

Projected tax concessions and Age Pension savings over a lifetime, by income



Source: Callaghan et al (2020): Retirement Income Review: Final Report.

# Retirement – what we should do

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## Retirement income adequacy

- Abandon the legislated increases in compulsory super from 10% to 12%.

## Superannuation tax

- Reduce the concessional contribution cap to \$15K/year, and put a lifetime cap of \$250K on post-tax contributions.
- Tax super earnings in retirement at 15%, as applies before retirement.

## Superannuation costs

- Create a ‘best in show’ shortlist of up to 10 funds, to assign a default fund for new workers.
- Establish an independent inquiry into default insurance in super.
- Explore how best to provide retirees with high-quality retirement income products:
  - Could directly offer a limited suite of retirement income products, such as annuities, on an opt-out basis.
  - Alternatively, establish a ‘best in show’ shortlist of default drawdown-phase products.

## Age Pension

- Include in the assets test the value of a home above some threshold; raise the value of assets that do not reduce the Age Pension for homeowners to the same levels that apply to non-homeowners.
- Taper the Age Pension at \$2.25/fortnight for each \$1,000 of assets, rather than \$3.

## Home equity release

- Lower the interest rate on the Home Equity Access Scheme.
- Cap the interest rate for the life of the loan, or ring-fence a modest portion of home equity.

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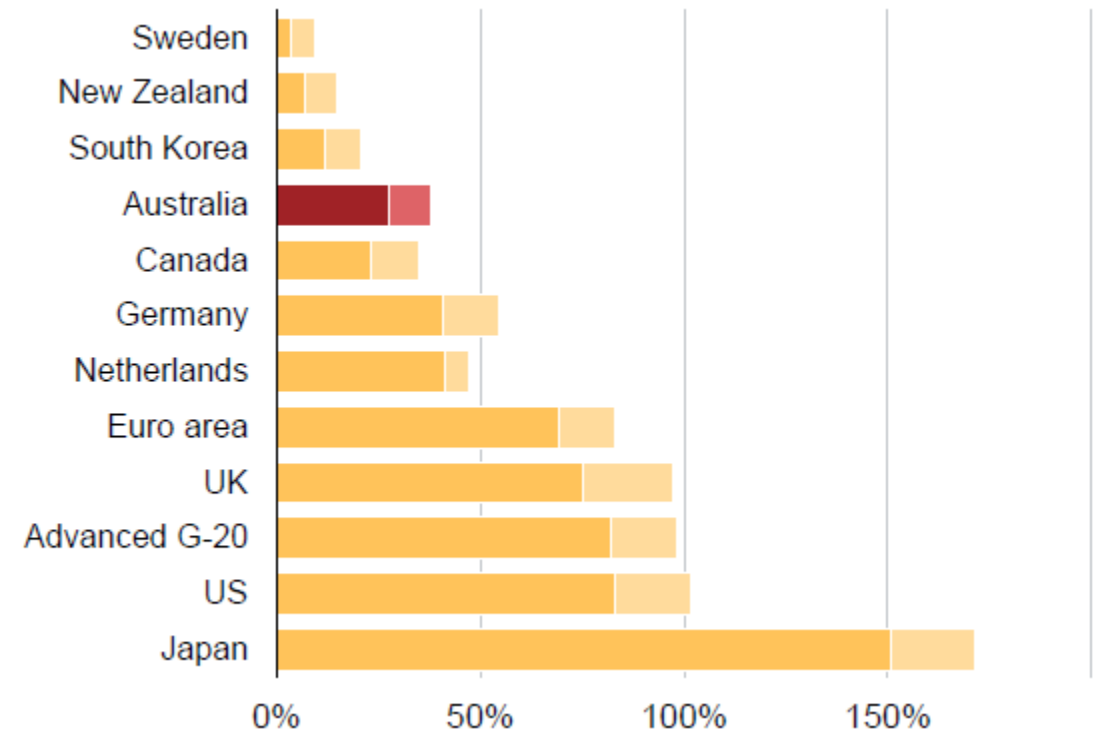


## Budget policy – where we are

- Debt is high by historical standards but interest costs are manageable
- But there are long-term structural pressures on the budget
- The Federal Government’s fiscal strategy will need to evolve as the recovery develops

### Australia has low debt by international standards

Net debt as a per cent of GDP 2019 (darker) and increase through to 2021 (shaded)



Source: IMF Fiscal Monitor October 2021.

## Budget policy – what we should do

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- Maintain the current fiscal recovery strategy until the recovery is secured and wages are growing.
- BUT do not engage in additional short-term stimulus spending by way of significant short term spending commitments or tax cuts which could create inflationary pressures
- Once the recovery is secured, targeting debt as a share of the economy will provide some guardrails but should consider whether other targets might be preferable
  - E.g. capping interest payments as a share of government revenue better targets the actual burden on taxpayers and provides more room to respond to macroeconomic conditions
- Work with the states to produce a national Intergenerational Report that contains long-term fiscal projections across all levels of government.

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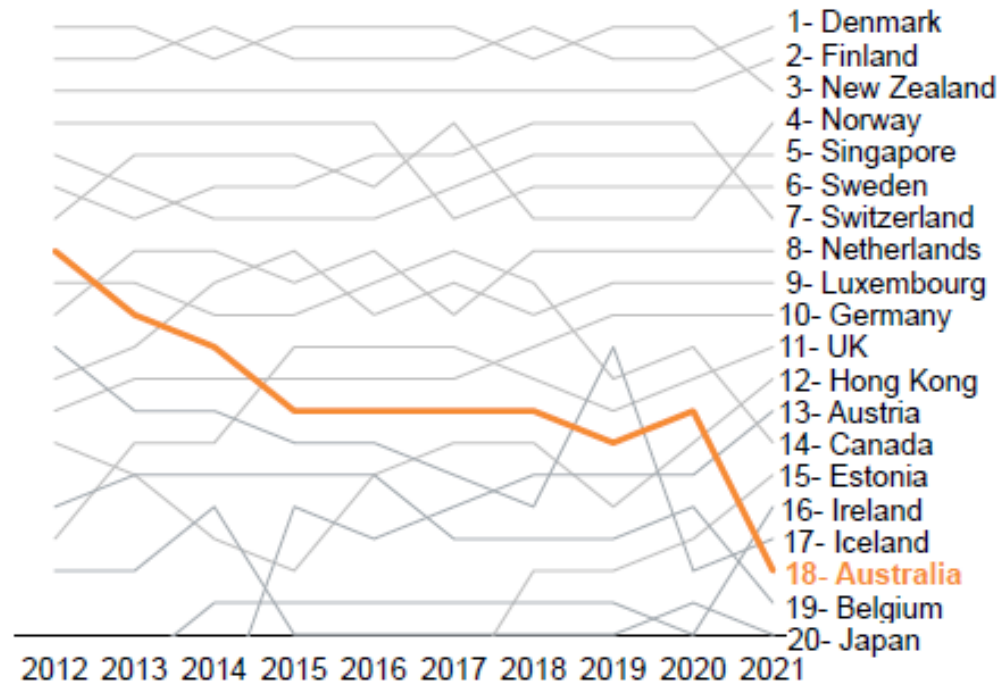
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## Integrity – where we are

- Australians are increasingly cynical about how government functions (despite a resurgence in trust during the early stage of the pandemic)
- Recent scandals have probably reinforced cynicism about government and its motives
- Australia is slipping in international corruption ratings
- Australia's checks and balances on decision-making remain weak

### Australia is falling behind on international measures of Corruption

Corruption Perceptions Index rank, 2012-2021, top 20 countries in 2021



Notes: The Index scores countries on how corrupt their public sectors are seen to be, according to surveys of businesspeople, analysts, and others. Since 2012, Australia has seen the largest decline of top-10 ranked countries (from a score of 85 and a rank of 8th in 2012, to a score of 73 and a rank of 18th in 2021).

Source: Transparency International. Corruption Perceptions Index 2021.

## Integrity – what we should do

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### Improve checks and balances on the influence of vested interests

- Lower the donations disclosure threshold, require parties to aggregate donations, and disclose in ‘real time’.
- Cap expenditure on political advertising during election campaigns.
- Publish ministerial diaries.
- Broaden the lobbyist register to include all holders of Parliament House ‘orange passes’.

### Improve checks and balances to reduce politicised decision-making

- Advertise all public appointments, and require an independent panel to select a shortlist of candidates based on merit. The Minister should be required to select from the shortlist.
- Amend the Ministerial standards to require Ministers to make merit-based appointments.
- Improve grant decision-making processes to reduce the opportunities for ministers to pork-barrel.
- Reinstate funding for the ANAO to boost oversight of grants programs.

### Strengthen the accountability of public officials

- Introduce a code of conduct for all parliamentarians.
- Establish a Commonwealth Integrity Commission, with capacity to receive and investigate tip-offs.