

# **A productivity agenda for Australia**

**Submission to the Senate Select Committee**

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## Summary

We welcome the opportunity to make a submission to the Senate Select Committee on Productivity in Australia.

Productivity growth is the key to raising our living standards in the long term. While the federal government doesn't hold all the levers, it can strengthen the foundations: a competitive economy, a well-functioning labour market, the conditions for people to flourish (housing, health, education, and social cohesion), and the right infrastructure, tax, and regulatory settings.

Grattan Institute has published research on all these topics and more, and its current suite of recommendations for the federal government is consolidated in the **attached** report, *Orange Book 2025: Policy priorities for the federal government*.

This submission aims to focus attention on four major economic reform opportunities:

1. **Tax reform**, to make the tax system more efficient and the budget more sustainable.
2. **Maximising our talent**, including by reducing barriers to work and improving Australia's skilled migration program.
3. **Creating more homes and better cities**, especially by encouraging state governments to reform land-use planning rules.
4. **Supporting the economic transition to net zero**.

The *Orange Book 2025* identifies and prioritises a wide range of policy reforms to boost economic growth, tackle the structural budget problem, improve health and education, make housing more affordable, reduce emissions, more sustainably meet the needs of an ageing population, and strengthen our political institutions.

Subsequent work by Grattan Institute of relevance to the inquiry includes:

- *More homes, better cities: Letting more people live where they want* (2025), which shows how reforming land-use planning rules can get more housing built.
- *Bills down, emissions down: A practical path to net-zero electricity* (2025), which shows how to accelerate the push to net zero while keeping the lights on and household costs down.
- *A Better Tax System*, a speech delivered to the 2025 Economic Reform Roundtable by our CEO, Aruna Sathanapally.
- *Why super should be on the tax reform table*, a speech delivered to the 2025 Parliament House Tax Forum by our Housing and Economic Security Program Director Brendan Coates. The speech includes updated costings of our recommended reforms to superannuation tax breaks.
- *Net zero: from ambition to action*, the 2025 Luxton Memorial Lecture delivered by our Energy and Climate Change Program Director Alison Reeve.
- Our 2025 submission to the Senate Select Committee on the Operation of the Capital Gains Tax Discount, which shows that reducing the discount would have only a modest impact on house prices and rents.

## 1 Tax reform

Improving the efficiency of the tax system, by shifting Australia's tax mix from more-costly to less-costly taxes, could materially boost Australians' living standards.

More revenue will also be needed to manage the budgetary costs of rising community expectations and an ageing population, especially if economic growth remains lower for longer. Our tax burden is currently low by OECD standards.<sup>1</sup>

Meaningful tax reform is never easy, precisely because it affects many, if not most Australians. This is the 'grand bargain': we contribute as we are able, benefit from broad-based investment in health, education, research, infrastructure, and other services, and receive safety nets when we need them.

The following sections identify some of the best opportunities to reform Australia's tax system.

### 1.1 Support states to replace stamp duties with general property taxes

The biggest tax reform prize in Australia would be to replace state stamp duties with general property taxes.

Stamp duties are inefficient taxes: they discourage people from moving to housing that better suits their needs, and distort people's choices about where they live and work.

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1. Based on 2022 data and including state taxes, Australia is the ninth-lowest country in the OECD for tax collection relative to our economy's size, with tax revenue at 29.4 per cent of GDP compared with the OECD average of 34 per cent: OECD (n.d.). Australia's taxes on individuals are also lower than the OECD average, even if you count compulsory superannuation contributions: Sathanapally (2025a).

The federal government should encourage the states and territories to make this tax switch. The principle of federal financial support for state-level reform is well-established.

Under the National Competition Policy reforms that started in the mid-1990s, the federal government paid the states nearly \$6 billion over 10 years in exchange for much-needed regulatory and competition reform.

### 1.2 Reduce income tax breaks

There are many concessions and minimisation opportunities in Australia's personal income tax system. Curbing these 'leakages' would broaden the income tax base and, over time, reduce governments' temptation to rely on bracket creep to do the heavy lifting on budget repair.

Broadening the income tax base offers a major opportunity for structural reform, would reduce distortion of economic behaviour, and has the potential to raise more than \$20 billion a year.

#### 1.2.1 Reform superannuation tax breaks

Super tax breaks cost nearly \$60 billion a year, or more than 2 per cent of GDP.<sup>2</sup> They are expected to cost almost 2.5 per cent of GDP by 2062, and to overtake the cost of the Age Pension by the mid-2040s.<sup>3</sup>

These tax breaks are also poorly targeted. Two-thirds of the benefits flow to the wealthiest 20 per cent of households, who already have enough resources to fund their own retirement.<sup>4</sup>

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2. Coates (2025a).

3. Coates and Moloney (2023).

4. Coates and Moloney (ibid, Figure 1.4).

Nor do super tax breaks materially reduce Age Pension spending. That's because the cost of super tax breaks far outweighs the Age Pension savings they produce, with the bulk of the benefits going to higher-income earners who would never receive the Age Pension.<sup>5</sup>

The federal government should:<sup>6</sup>

- Raise Division 293 tax, which curbs tax breaks to high-income earners on their pre-tax super contributions. The tax should be increased from 30 per cent to 35 per cent, and the income threshold at which the tax applies should be lowered from \$250,000 a year to \$220,000 a year. This would save the budget about \$1.2 billion a year and stop many high-income earners benefiting from larger tax breaks, per dollar contributed to their super, than low- and middle-income earners.
- Lower the cap on pre-tax super contributions from \$30,000 a year to \$20,000 a year. This would save about \$1.8 billion a year, mostly by reducing voluntary contributions made by older, wealthier Australians to minimise their income tax bills.
- Abolish carry-forward provisions and government co-contributions, which were intended to encourage catch-up contributions but in fact facilitate tax minimisation for high-income couples. This would save about \$1.2 billion a year.
- Tax all superannuation earnings in retirement at 15 per cent – the same rate that applies to super earnings before retirement. Retirees would then pay some tax on their superannuation savings – the same as people working today – but still much less than younger workers pay on their wages. This reform would save more than \$5.5 billion a year.

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5. Callaghan et al (2020, Chart 4A-23).

6. All costings are from Coates and Moloney (2023).

These changes could save the federal budget more than \$10 billion a year, and much more in future, without reducing the adequacy of retirement incomes.<sup>7</sup>

### 1.2.2 Reduce the capital gains tax discount and curb negative gearing

The CGT discount is designed to preserve incentives to save and invest. But the 50 per cent discount has overcompensated property investors for inflation over the past 25 years. Since the introduction of the Capital Gains Tax discount in 1999, house prices have grown annually by an average of 6.4 per cent, and the ASX 200 has risen by 4.3 per cent per year on average. Whereas inflation over this period averaged 2.9 per cent annually.<sup>8</sup> And in practice, annual capital gains, especially on property, are much larger because investors typically borrow to finance their investment.<sup>9</sup>

Capital gains also benefit from other tax advantages, including:

- They are taxed only upon realisation, rather than as they accrue, which is akin to the government providing the investor with an interest-free loan. It reduces the effective tax rate paid on gains, with the tax benefit increasing if the asset is held for longer.<sup>10</sup>

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7. Coates (2025b). Low-income workers would continue to have a much higher living standard in retirement than they had while working, as would most middle-income earners. Higher-income earners' expected replacement rates would be marginal lower.

8. Daley et al (2016); Grattan analysis of PropTrack (2025), ABS (2025a), and Yahoo Finance (2025) using a compound annual growth rate. While inflation has spiked over the past three years, it is expected to return to the RBA's target band by mid-2027: Reserve Bank of Australia (2026).

9. For example, a property investment made in 1999 where the investor borrowed 80 per cent of the purchase price would have recorded an average annual capital gain of up to 30 per cent.

10. For example, past Grattan work estimated that with the 50 per cent discount, this deferral over 15 years for a top-marginal-rate taxpayer reduces the effective

- Investors are also able to choose the time of an asset's sale to minimise taxes on capital gains. They can reduce their tax by selling assets when their income is low, such as after they retire, so they are taxed at a lower marginal rate.<sup>11</sup>

Taxing capital gains more lightly than most other savings income creates an incentive for investors to choose riskier assets that return more via capital gain. In conjunction with generous rules for deductibility of interest costs (i.e. negative gearing), the tax system creates strong incentives for debt-financed and speculative investments. The interaction of a 50 per cent CGT discount with negative gearing reduces home-ownership. And the discount undermines income tax integrity by creating opportunities for artificial transactions to reduce income tax.<sup>12</sup>

Like most tax concessions, the Capital Gains Tax discount largely benefits the wealthy. For example, the wealthiest one fifth of Australians receive nearly 90 per cent of the benefit of the Capital Gains Tax discount.<sup>13</sup> While 95 per cent of people pay similar tax rates for similar incomes, for the top 5 per cent, the amount of tax paid varies hugely, and indeed people on very high incomes can end up with lower rates than those who earn far less.<sup>14</sup> And the discount is a big reason that older Australians pay a lower tax rate on their income than younger Australians who are still working.<sup>15</sup>

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nominal tax rate on capital gains from 32 per cent to 28 per cent: Daley et al (2016, Figure 2).

11. Some Australians, particularly high-income earners, wait until retirement to realise capital gains. Those 65 and older are much more likely to sell assets than those who are younger: Daley et al (ibid, Figure 3).
12. Ibid (pp. 15–17).
13. Australian Government (2025, Chart 10).
14. Kaplan et al (2025).
15. Sathanapally (2025b, Figure 5).

Ultimately, if taxes on savings are lower, then other taxes must be higher, and other taxes typically impose greater economic costs.

The 50 per cent CGT discount for individuals and trusts should be reduced to 25 per cent, with a gradual phase-in over five years (rather than grandfathering).<sup>16</sup> This would better balance competing objectives, and raise about \$6.5 billion a year for the federal budget.<sup>17</sup>

The dominant rationale for this reform is the economic and budgetary benefits – money which could be used to shore up the budget, reduce more economically harmful taxes and lower the tax burden on younger Australians, or pay for more support for low-income renters by boosting Rent Assistance.

Property prices would probably fall by less than 1 per cent.<sup>18</sup> And would-be homeowners would win at the expense of investors.<sup>19</sup>

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16. Alternatively, the discount applying to an asset could be apportioned between the periods over which the asset was held where the new and old discount rates that apply, such that an asset held for 10 years prior to the change, and 10 years post the change, would be subject to a discount of 37.5 per cent.
  17. Figures are for the 2025-26 budget year. Curbing negative gearing so that rental losses could no longer be offset against wage and salary income, in line with most developed nations, would boost the budget bottom line by a further \$4.5 billion a year in the long term: Sathanapally et al (2025, p. 52).
  18. Grattan has previously estimated that a combined package that halves the CGT discount to 25 per cent and curbs negative gearing would result in property prices being 1 per cent lower than otherwise. Updated from Daley et al (2018, pp. 97–98) for growth in total value of housing stock to \$11.5 trillion, and tax concessions on residential property of \$11 billion a year. House prices at the bottom of the market would probably fall by more, since these tax breaks have channelled investors into low-value homes that are lightly taxed under states' progressive land taxes.
  19. For example, one recent study estimates that abolishing deductions for negative gearing losses and halving the Capital Gains Tax discount would help more renters to become homeowners, raising the rate of home-ownership by 3 percentage points, because they would be bidding against fewer investors at auctions: Warlters (2024).

This reform would have only a modest impact on the pace of new housing construction, and rents. For example, immediately halving the Capital Gains Tax discount could decrease the number of new homes being built by about 10,000 over the five years to 2030.<sup>20</sup> That would result in a tiny – less than \$1 per week – increase in median rents across Australian capital cities.<sup>21</sup>

This impact on housing supply, and rents, could be more than offset if even a small portion of the proceeds from the reforms was used to fund a further boost to Australia's social housing stock,<sup>22</sup> or was reinvested in a revitalised National Competition Policy agenda to encourage state and territory governments to lift the pace of housing construction by reforming land-use planning rules and other regulatory barriers to more housing.<sup>23</sup>

Other proposals, such as restricting the Capital Gains Tax discount (and negative gearing) to new properties, applying a different Capital Gains Tax discount to housing vis-a-vis other assets, limiting the dollar value of deductions that can be claimed against personal income tax, or restricting these tax concessions to only one property, would also be improvements on the current regime.<sup>24</sup>

### 1.2.3 Harmonise tax rates across savings

In an ideal world, as envisaged by the 2010 Henry Review, tax rates would be consistent across different types of savings – such as via a dual income tax structure with a lower (but consistent) tax rate applied

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20. The combined impact of halving the Capital Gains Tax discount and curbing negative gearing would reduce housing construction by about 16,500 homes: Sathanapally et al (2025, p. 52).

21. Assumes a 0.6 per cent decline in house prices results in a 0.07 per cent (from Tulip and Saunders (2019)) decline in the housing stock over a five-year period.

22. Sathanapally et al (2025, p. 56).

23. Coates et al (2025a, Chapter 6).

24. Coates et al (2025c).

to all savings income – as others have proposed.<sup>25</sup> A more consistent treatment of household savings would encourage households to seek the best pre-tax return on their savings, and to invest their savings in assets that best suit their circumstances and risk-preferences.<sup>26</sup> However, under such a model, tax rates on the most-concessionally-taxed savings vehicles would inevitably have to rise.

### 1.3 Broaden and/or raise the GST

Australia collects less in consumption taxes than similar countries, and our GST tax base is narrow by international standards. The GST base is also being eroded over time as a growing share of consumer spending goes on GST-free items.

Increasing collections from the GST by broadening the base and/or raising the rate would diversify Australia's tax base. Raising more tax through the GST would also make Australia's tax system more efficient, because the GST creates less distortion in incentives to save and invest. It is a hard tax to avoid, and it acts as a lump-sum tax on accumulated wealth by collecting from households such as well-off retirees who are living off savings and otherwise pay little tax.

GST reform has been politically challenging because the revenue is passed through to the states and territories, but the federal government wears the political costs of reform and would foot the bill to cushion the impact on vulnerable households. And some of the income from raising and/or broadening the GST would need to be used to cushion the impact on vulnerable households.

But the states have limited options to raise revenue efficiently themselves, and face increasing spending pressures, particularly in health and education.

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25. Henry (2010); and Breunig et al (2020). Both proposals exclude owner-occupied housing.

26. Henry (2010, p. 62).

Extra revenue from GST reform could be shared between the federal government and the states and territories to bring everyone to the table.

There are two ways to increase GST revenue: raising the rate from 10 per cent, or expanding the GST to cover items that are currently exempt.

Increasing the GST rate to 15 per cent would raise more than \$50 billion per year, based upon analysis of the PBO's *Build your own budget* tool.<sup>27</sup> If around 60 per cent of this additional revenue was spent on a compensation package for the bottom 40 per cent of households – as the Grattan Institute has previously recommended in 2015<sup>28</sup>– this would improve the budget bottom line by around \$20 billion per year, or \$10 billion if revenue was shared 50:50 with state governments.

Alternatively, the government could broaden GST base by removing some of the concessions that currently apply. Growth in exempt items, including private healthcare and education spending, as a share of household consumption, have contributed to the erosion of the GST base over time. Including these areas would help GST revenue keep pace with economic growth.

#### 1.4 Redesign resource rent taxation

Australia is a major producer and exporter of fossil fuels, yet despite the extraordinary profitability of fossil fuel extractors, government revenues from fossil fuels are relatively small. Giving Australians a greater share of resource rents offers much less economic downside than increasing other taxes on business.

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27. Grattan Institute analysis of Parliamentary Budget Office (2025). Figure is for 2026-27 fiscal year, and includes offsetting increases in payments due flow-on impacts of GST to CPI.

28. Daley et al (2015).

The government should consider a resource rent tax on non-renewable resources such as coal and iron ore.<sup>29</sup> The government should also consider including critical minerals such as lithium, cobalt, and rare earths in any future resource rent tax, because these minerals will be in strong demand in coming years to meet the demands of a net-zero global economy.

The Petroleum Resource Rent Tax (PRRT) should be redesigned to raise more revenue and support the energy transition. There have been several reviews of the PRRT that have led to some changes, but the government should revisit options for a more fundamental redesign.

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29. Henry (2010, pp. 47–48) recommended a uniform resource rent tax set at 40 per cent, administered by the federal government, with the allocation of revenue and risks negotiated between the federal and state governments.

## 2 Maximising our talent

A well-functioning labour market enables the growth that comes with making full use of the talents of all Australians.

With a tight labour market, and with labour market tightness expected to persist,<sup>30</sup> reducing barriers to work should be a priority. The main opportunities to increase workforce engagement are for women with young children, older workers, and migrants.

It is not just participation in the workforce that matters, but also that people can work the hours they need and want, that there is efficient matching between jobs, education, and skills, that people can move to higher-paid jobs over time, and that workers are able to adapt to the needs of a changing economy.

### 2.1 Childcare reforms remain critical

Australia's tax and transfer system features steep taper rates, which help to deliver benefits more efficiently, but can also create significant barriers to paid work, particularly for women with children.<sup>31</sup>

Federal and state governments have made important progress in recent years on reducing barriers to work for parents with young children. Improvements to childcare and parental leave policies, and agreement across jurisdictions on universal access to public pre-school, all help make it easier for parents to choose to work or work more if they want.

But there is more to be done. In 2024, nearly 300,000 parents reported that childcare-related issues such as cost or lack of availability affected their ability to work and their decisions about how much to work. Almost all these parents (93 per cent) are mothers.<sup>32</sup>

Even after the recent Child Care Subsidy increases, a quarter of working-age women who use childcare still face high or very high 'effective marginal tax rates' (higher than 60 per cent).<sup>33</sup>

Older women are also less likely to work than men of the same age.<sup>34</sup> Many older women care for children (21 per cent of women in their 60s),<sup>35</sup> probably grandchildren, but their lower workforce engagement may also be a carry-over effect from having had children earlier in life.

Ensuring high-quality childcare is broadly available and affordable will reduce barriers to work for parents and older carers too, helping to boost our talent pool. Federal and state governments should be taking a more active market stewardship role, and working together to test alternative funding models (including flat-fee models, tendering, and direct provision) to ensure quality and value for money.

Governments can further support older-worker engagement by supporting healthier ageing and flexible work. Preventing chronic

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30. The OECD expects labour market tightness to persist across most advanced economies due to shortages of high-skill workers, an ageing population, and a cyclically strong labour market.

31. There is a broad consensus in the literature that women with children are the group most likely to change their working hours in response to tax and welfare changes.

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32. ABS (2025b).

33. Effective marginal tax rates (EMTRs) are the proportion of additional income lost to taxes, reduced welfare payments, additional childcare costs, and HELP repayments. When EMTRs are high, there is less incentive to work: Phillips (2024).

34. About 44 per cent of women aged 55-59 are engaged in work or education, compared to 70 per cent of men the same age. And this drops to just 27 per cent of women aged 60-64, compared to 49 per cent of men aged 60-64: ABS (2025c).

35. Compared to 13 per cent of men in their 60s: ABS (2022).

disease, and better supporting GPs to manage chronic disease, will be critical to healthier ageing.<sup>36</sup>

## 2.2 Support flexibility in the labour market

A flexible labour market helps more Australians enter and stay in the workforce, and enables them to find work that better suits their needs and circumstances.

Flexible, hybrid, and remote work are particularly important to reducing barriers to work for people with caring responsibilities, people with disability, and older Australians. Hybrid working can lift participation among under-represented groups, increase happiness, and doesn't appear to weigh on productivity.<sup>37</sup>

The federal government should pursue reforms to enable people to more easily move to jobs that better suit their skills and needs.

It should:

- Enable workers and employers to negotiate more flexible workplace conditions. In particular, the government should not try to limit remote working that enables hybrid work practices.
- Ensure non-compete clauses do not unnecessarily restrict job switching, particularly for low-wage workers.

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36. Six in 10 Australians now have a chronic disease (such as cardiovascular disease, diabetes, or dementia), and many chronic diseases can be prevented through better diets, more physical activity, fewer drugs, less alcohol, and more social connection. Australia's investment in prevention is poor by international standards and there are many opportunities to do it better. See Chapter 6 of the attached Grattan Institute report, *Orange Book 2025: Policy priorities for the federal government*.

37. Wiltshire (2025).

- Support states to replace stamp duty with a broad-based land tax and change planning laws and processes to allow higher-density housing in inner-urban areas and established suburbs.<sup>38</sup>
- Improve transport project selection to make it easier for workers to move around our cities,<sup>39</sup> and pursue other reforms to enable more efficient use of our existing infrastructure.

## 2.3 Improve skilled migration

Skilled migration delivers huge economic benefits for Australia, and there is room to boost these benefits. The current program is slow, expensive, and doesn't always select the most-skilled candidates. Many migrants face barriers in Australia to maximising their potential and/or reside here with long delays in, or no prospect of, gaining permanent residency.

The federal government can deepen Australia's talent pool and reduce barriers to work for skilled migrants by:

- Reforming the points test by allocating visas to migrants who are likely to make the biggest economic contribution to Australia.<sup>40</sup>
- Abolishing state and regional points-test visas and expanding the number of skilled independent visas granted each year.<sup>41</sup>
- Making permanent employer-sponsored visas available for workers in all occupations, provided the job pays at least \$90,000 a year, and temporary employer-sponsored visas to all those earning at least \$76,500 per year.<sup>42</sup>

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38. See Chapter 5 of the attached Grattan Institute report, *Orange Book 2025: Policy priorities for the federal government*.

39. Terrill and Bradshaw (2024).

40. Coates et al (2024, Chapter 2).

41. Coates et al (ibid, Chapter 3).

42. Coates et al (2022).

- Investing more in attracting skilled migrants to Australia and supporting them when they arrive.

The skills recognition process also needs reform. Under the current system, many skilled migrants have to complete a skills assessment, and then separately meet 'occupational licensing' requirements (professional standards to be able to practice in their profession). For some skilled migrants, it can take months or years before they can work in their field of study. This slow process is a major contributor to many migrants working in jobs below their skill level.

Occupational licensing requirements also affect Australian workers. Some workers need to be registered and/or hold a licence in the state or territory where they wish to work, which can impede the movement of skilled workers across Australia. Occupational licensing is more stringent in Australia than in the best-performing OECD countries.

The government should commission a review to recommend ways to streamline the skills recognition process for skilled migration. The federal government should also work with state and territory governments to streamline occupational licensing; this could be done as part of a revitalised National Competition Policy reform agenda.

Further detail on these reforms is provided in Chapter 2 of the attached Grattan Institute report, *Orange Book 2025: Policy priorities for the federal government*.

### 3 Creating more homes and better cities

Housing in Australia's cities is among the least affordable in the world. Since the turn of the century, Australia's housing stock has grown more slowly than the population. Whereas in the latter half of the 20th century, we consistently built enough to absorb population booms. But the problem runs deeper than simple population maths. Falling household sizes, rising wealth, and work-from-home patterns mean we need to build more homes than population growth alone suggests.

Unsurprisingly, our cities are among the least dense of their size in the world. Restrictive planning controls add hundreds of thousands of dollars to the cost of new housing in our capital cities. And too many Australians can't afford a home near where they want to live and work, leading to stagnating populations in many affluent inner-city areas and pushing people further from their jobs, their families, and friends.

We can do better. Allowing more housing in established suburbs would mean cheaper homes. It would boost Australians' incomes and their quality of life by letting people live closer to high-paying jobs as well as transport, schools, and other amenities. And it would lead to shorter daily commutes and hence lower greenhouse gas emissions.

Federal and state governments can do more to prioritise major infrastructure projects to ensure the highest-value use of public spending, and to manage the economy's capacity to deliver on those projects.

#### 3.1 Sharpen states' incentives to boost housing supply

The federal government should sharpen the incentives for state governments to get more housing built in good locations. Coordinating action by the states is worthwhile because increased housing supply in one state spills over into lower housing prices in other states. And

land-use planning policies are among the biggest policy levers to boost economic growth.

#### 3.1.1 The New Homes Bonus is not working

The federal and state governments have committed to building 1.2 million homes over five years, backed by \$3.5 billion in federal incentives for states to actually deliver the extra homes.<sup>43</sup>

An ambitious target is important in focusing attention on the problem of our national housing shortfall, and building momentum for change.<sup>44</sup> But these incentives aren't working. Sharp jumps in interest rates and the cost of construction have weighed on housing construction, leaving the states well short of qualifying for the payments, even if they make substantial reforms to get more housing built.

The New Homes Bonus could be made more potent by bringing it forward to be paid in installments, subject to progress towards meeting a recalibrated baseline, rather than it being paid at the end of the five-year period.

But this points to the limits of paying state governments for an outcome – the rate of new housing construction each year – which they do not fully control.

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43. Under the New Homes Bonus, states are to be paid \$15,000 for each home built in each state above their share of the first 1 million over the five years, up to a maximum of \$3 billion for 200,000 extra homes: Albanese (2023).

44. Past Grattan work showed that if the 1.2 million home target was sustained for a full decade, rents could fall by 8 per cent, saving renters \$32 billion over those 10 years: Sathanapally et al (2025, p. 54).

Relaxing land-use planning controls would lead to substantially more new housing being built each year *on average*. But housing construction would probably remain highly cyclical.

Therefore the federal government should focus on rewarding state governments for specific reforms that are expected to lift housing construction over time and which are entirely within their control.

### 3.1.2 The federal government should reward specific reforms that relax residential land-use controls

State and territory planning systems say ‘no’ to new housing by default, and ‘yes’ only by exception. About 80 per cent of residential land within 30km of the centre of Sydney, and 87 per cent in Melbourne, is restricted to housing of three storeys or fewer. And three quarters or more of residential land in Brisbane, Perth, and Adelaide is zoned for two storeys or fewer.<sup>45</sup> Other built form controls, such as minimum lot sizes, maximum site coverage and floor-space ratios, further limit what can be built on scarce inner-city land. Approval processes for new housing are too costly, slow, and uncertain. And the governance of land-use planning – who decides what gets built and where – favours those who oppose change.

The federal government should reward state governments that enact specific, ambitious, and verifiable reforms that relax residential land-use planning controls to allow more housing to be built.

Grattan Institute’s recent report, *More homes, better cities: Letting more people live where they want*, recommended that state and territory governments:<sup>46</sup>

- Adopt a Low-Rise Housing Standard, which would permit three-storey townhouses and apartments on all residential land in capital

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45. Coates et al (2025a).

46. Coates et al (2025b).

cities. Such developments should be certified as ‘complying’, instead of needing a planning permit.

- Adopt a Mid-Rise Housing Standard, which would permit at least six-storey developments on all residential land within walking distance of transit hubs and key commercial centres, via a ‘deemed-to-comply’ pathway.
- Identify and upzone other high-demand locations for even higher densities, including land in and around the CBDs of capital cities.
- Review systems of heritage and character controls to allow more housing in high-demand areas.

These reforms would tackle the two big problems with land use planning and housing: that existing planning controls are too restrictive; and that development approval processes are costly, slow, and uncertain.

An inherent principle of National Competition Policy is that it’s better to pay for specific changes to law or regulation that offer an economic payoff, rather than simply rewarding states that boost GDP per capita year-to-year.

These payments should be made to the states by extending the National Competition Policy to cover reforms to residential land-use planning rules. Alternatively, payments could be made via a separate Federal Financial Agreement on housing between federal and state governments. The National Competition Council should monitor whether states have enacted these reforms.

The federal government could, in time, offer incentive payments to state governments that reform car-parking requirements, apartment design controls, and heritage policies, in ways that makes more housing commercially feasible to build.

### 3.1.3 The Productivity Commission should regularly evaluate the performance of state land-use planning regimes

The federal government should ask the Productivity Commission to regularly assess the performance of state planning systems. Among the measures used to evaluate the performance of planning systems are:<sup>47</sup>

- Comparisons of the price of newly built homes to the cost of constructing those homes (i.e. ‘zoning taxes’).<sup>48</sup>
- Trends in the ratio of house prices to the cost of constructing new dwellings for different housing types and locations.
- Trends in the ratio of urban to rural land prices at the urban fringe of capital cities.
- Whether planning systems facilitate sufficient commercially feasible capacity to meet expected future demand.<sup>49</sup>

The Productivity Commission should also regularly advise the federal government on other policy reforms that would boost commercially feasible housing capacity, including:

- Further changes to state and territory land-use planning controls.
- Relaxing minimum car-parking requirements.
- Relaxing apartment design controls, such as minimum apartment sizes.
- The use of heritage protections on well-located land.

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47. For a more detailed assessment of potential metrics, see Valiente et al (2024).

48. See Coates et al (2025a), Section 2.5.

49. For an example of such an assessment, see Coates et al (2025b, Chapter 5).

- The nature and level of state and federal taxes, including stamp duty, and infrastructure contributions.

Further details of these reforms is provided in the Grattan Institute report, *More homes, better cities: Letting more people live where they want*.

### 3.2 Get major infrastructure projects right

Governments need better upfront assessments of Australia’s transport infrastructure needs, to strengthen discipline in decision-making and improve procurement processes.

Premature, often politically motivated decisions have proved very costly, especially as ‘megaprojects’ have become more common. Bigger projects carry much bigger risks, and evolving scope is common.<sup>50</sup>

Weak assessment of costs means these contingencies are not properly built in and planned for – and are exacerbated by poor processes and decisions along the way.<sup>51</sup>

Governments need to do more rigorous cost-benefit analysis, use more appropriate discount rates, and should get better at coordinating projects<sup>52</sup> (including being open to mothballing projects and pausing new ones in an overheated market). Buying smaller, more regularly, and ‘off-the-shelf’ reduces risks and cost.<sup>53</sup>

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50. Terrill and Danks (2016).

51. Terrill et al (2021).

52. D. Wood et al (2022).

53. D. Wood (2023).

## 4 Supporting the economic transition to net zero

All governments in Australia need to plan more directly for the physical and economic consequences of a changing climate, and to integrate climate change issues into all decisions on infrastructure planning, land use, and resource extraction. This will require greater policy coordination across jurisdictions, and building the financial cost into the Budget.

Emissions-reduction targets play an important role in guiding the transition and providing a predictable environment for investors and consumers. Australia should remain committed to its emissions-reduction targets for 2035 and 2050, and the federal government should work with the states and territories, which have their own targets, to develop and implement workable policies to meet these targets.

Meeting these targets is also an opportunity to improve productivity. This is particularly the case in energy: about two-thirds of the fossil fuel that goes into our energy system is wasted before we get any of the products and services that we use it for. Shifting to a largely-electric, renewables-based system will eliminate most of this waste.

Restructuring the economy to emit less carbon is a golden opportunity to modernise our industrial base and get more value from every unit of energy consumed. Better-designed industry policy could help achieve this.

The place to start is with the electricity sector. Australia is at the start of an asset renewal cycle, and needs to build a lot of electricity infrastructure in the next decade to keep the lights on.

### 4.1 Climate change will hit productivity hard

The National Climate Risk Assessment, published last year, alerts us that climate risk to the economy and the trade and finance systems is

already at a moderate level.<sup>54</sup> Climate risk is likely to reach very high levels by 2050, when impacts will be significant across multiple states, affecting safety and security nationally. Vulnerable communities will face substantial impacts, exacerbating inequalities. There is a very high risk of significant loss of life and property damage, with major disruptions to community stability, livelihoods, and natural systems. At this level of risk, national security, resource security, and environmental health face substantial threats.<sup>55</sup>

As physical risks to infrastructure and critical assets increase, there will be financial losses and reduced productivity.

Extreme heat is likely to reduce productivity of outdoor workers. More frequent extreme weather events will damage more facilities, disrupt operations more often, and lead to financial losses. Mining, construction, agriculture, and power generation and transmission are particularly vulnerable. Together, these sectors counted for 21 per cent of Australia's GDP in 2025.<sup>56</sup>

Supply chains are already vulnerable to climate impacts both domestically and globally. Disruptions in global supply chains caused by extreme weather in key trading regions will compound these risks, affecting the availability and cost of raw materials and products. This will challenge

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54. Defined as 'impacts are limited to a few local regions, with minimal effects on a state or national level and on vulnerable communities. There is moderate potential for loss of life or property damage, and limited disruption to community stability, livelihoods and natural systems. The risk to national security, resource security, and environmental health is low, with minor threats to biodiversity and sustainable resource use': ACS (2025), p. 24 and p. 98.

55. ACS (ibid), p. 24 and p. 98.

56. ABS (2024), Table 37.

the viability of some businesses, especially those in primary industries and construction.<sup>57</sup>

Financial shocks always cascade into other aspects of society, whether household finances, social and community cohesion, or capacity to govern. These impacts are likely to be felt most acutely by already disadvantaged populations and regions.

Many of these risks are already locked in, and governments need to start preparing for them to manifest. The federal government needs to follow up on the National Climate Risk Assessment by building the cost of climate change and adapting to climate change into the Budget and the Inter-Generational report. It should start working with the states and local government to plan for how Australia is going to adapt to climate change, and, critically, who is going to pay for it.

#### 4.2 Targets guide investment and encourage action

While some impacts of climate change are locked in, the choices Australia and other countries make in coming decades will affect how badly these affect our economy and society.

For Australia to be productive in a world affected by climate change, we need other countries to take strong action to reduce their emissions too. Our climate targets signal to other countries how seriously we take the threat of climate change. Abandoning or softening our targets sends the message that we expect less of other countries; and puts more of our fate in their hands.

Achieving Australia's emissions-reduction targets will not be easy. But this is not a reason to reduce effort. There is a policy gap between where the government wants emissions to be in 2035 (62 to 70 per cent below 2005 levels) and where they are today. The government

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57. ACS (pp. 98-102, 2025).

should use upcoming reviews of the Safeguard Mechanism<sup>58</sup> and the New Vehicle Emissions Standard to strengthen these measures. And it should develop policies for sectors that currently receive no signal to control their emissions: electricity and heavy vehicles in particular. It should also clarify the expected role of gas.

#### 4.3 A decarbonised economy can be a more productive economy

The largest change between our current economy and a net-zero one will be where and how we produce and use energy. About 90 per cent of Australia's net greenhouse gas emissions, and 75 per cent of gross emissions, come from the energy sector.<sup>59</sup> Most of these emissions will disappear as homes, businesses, and industry stop depending on fossil fuels and start using more electricity.

This is a golden opportunity to improve productivity, particularly in the industrial sector. Many Australian industrial facilities are small compared to ones elsewhere, and old to boot: the median age of Australian industrial facilities is 58 years.<sup>60</sup> Transforming these facilities to low- or -zero emissions production is an opportunity to modernise them, consolidate them, and make them more efficient. This is particularly the case where future facilities switch to using electricity instead of gas or coal. An astonishing two-thirds of fossil fuel energy is wasted in the process of digging it up, processing it, moving it, and burning it to deliver useful work.<sup>61</sup>

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58. The Safeguard Mechanism requires large industrial and mining facilities to keep their emissions under a cap, or purchase offsets where they exceed the cap. It was introduced by the Abbott Government in 2015 and reformed by the Albanese Government in 2023.

59. DCCEEW (2025).

60. T. Wood et al (2023).

61. Walter et al (2025).

Australia could also capitalise on its renewable energy resources and mineral resources as the rest of the world moves to phase out fossil fuels. If Australia maintains current market share of critical minerals, exports of these in 2050 could be worth double what coal exports are worth today.<sup>62</sup>

To make the most of these opportunities, Australian governments need to get better at industry policy. Industry policy makes markets more efficient, by correcting for under-investment in research and development. It shares some of the risks associated with technological change, but needs to be done in a way that reduces the need for government involvement over time.

Australia is still feeling its way with industry policy. It has been implemented successfully in the electricity sector (by successive governments of both colours) and has achieved a big increase in the share of electricity coming from renewable sources, from 8 per cent in 2000 to beyond 40 per cent today.

There have also been missteps. Both the Morrison and the Albanese governments put too much money up for hydrogen before the industry was ready to absorb it, and as a result undermined confidence in the role of hydrogen as an alternative fuel.

There is a worrying trend towards announcing billion-dollar 'green' funds for this industry or that one, before the policy design work has been done to determine what's actually needed. Sometimes these announcements seem timed more to prevent distressed facilities collapsing financially.<sup>63</sup>

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62. T. Wood et al (2021). Critical minerals include cobalt, copper, graphite, lithium, manganese, nickel, rare earths, and silicon.

63. Some of the bail-out packages announced in the past year are firmly aimed at repositioning to capture net-zero opportunities – for example, the money on offer to transform the Whyalla steelworks into a green steel facility. Others look more like a package to save regional jobs at any cost: for example, bailing out the Mt

The risk lies not in 'picking winners' so much as 'losers picking government', leaving little capacity to support willing, viable firms that could be engines of growth.

To improve its industry policy, the federal government should use the framework it legislated in the *Future Made in Australia Act* to properly assess which sectors should be supported and how. It should use this information to take a portfolio approach, and 'pick the willing' rather than 'pick winners': that is, support the companies that are willing to take the risks and make the investments to improve their productivity and reduce their emissions. The government should restructure its big funds to provide the right support at the right time.

#### 4.4 The electricity sector is the keystone

As noted above, the shift to electricity will underpin Australia's emissions reductions in coming decades, and is also an opportunity to improve energy productivity.

The primary drivers of change in the electricity sector in the past 20 years have been decarbonisation policies and the need to replace ageing coal assets.

At present, coal plant owners are closing their generators faster than replacement capacity – renewables, storage, and gas back-up, and transmission – can be built, in part because market signals are insufficient for investors to commit to these new assets. Community opposition, poor coordination, and outdated market designs threaten reliability, affordability, and decarbonisation of the energy system.

The task ahead for the electricity sector is threefold: build sufficient new renewable generation, storage, and transmission to replace coal

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Isa copper smelter was the fourth government rescue package in 13 years, over a period when world copper prices were 55 per cent higher than the long-term average: Walker (2021), Coorey and Ludlow (2017), and Ignacio (2020).

generation as it is retired; continue to expand the system beyond that, to provide sufficient electricity to support electrification; and, through both stages, keep the system affordable and reliable.

The federal and state governments should continue with market reform so that investors have the confidence to invest in new energy infrastructure.

As noted in Section 3.2 on page 13, Australia's governments are poor at procuring new infrastructure, and energy is no exception. The Snowy 2.0 project, announced in 2017 without a business case or a front-end engineering design, is now three years late and 900 per cent over-budget.<sup>64</sup> The projected costs of replacing coal generators and expanding the electricity system have increased in the past few years, as inflation bit and delays in planning permission held projects up. Labour shortages are also delaying progress. The most recent example – Project Energy Connect – is two years late and 82 per cent over budget.<sup>65</sup>

The recommendations made above for major infrastructure apply equally to the energy sector: Australia needs more rigorous cost-benefit analysis and better co-ordination (including coordinating energy projects with other infrastructure projects). The energy market's Integrated System Plan – a major planning document released every two years – needs to be overhauled to play this role.<sup>66</sup>

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64. Kinsella and Macdonald-Smith (2025).

65. Williamson (2026).

66. Specific changes are explored in Reeve and T. Wood (2026), Grattan's submission to the review of the Integrated System Plan.

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