Productivity Commission Submission: Pro-Growth Economic Reform Package for Australia

Executive Summary

This submission presents a comprehensive, evidence-based reform program aimed at accelerating Australia's economic growth, enhancing productivity, and strengthening fiscal sustainability. It advocates reducing the corporate tax rate from 30% to 15%, introducing full expensing for capital investments, targeted privatisation of non-core government assets, and a disciplined program of regulatory simplification. These reforms are informed by two centuries of economic thought—from Adam Smith's advocacy of market efficiency to contemporary OECD and IMF findings—and by both international and domestic case studies demonstrating the growth and efficiency gains from market-oriented reforms.

The package is designed to be sequenced over five years to maximise investor confidence and public acceptance. Economic modelling suggests a potential GDP uplift of 7.1% under conservative assumptions and 11.3% under optimistic scenarios after a decade. Fiscal impacts are expected to turn positive by Year 5 as the expanded tax base offsets initial revenue reductions.

Policy Summary Table

Policy Initiative	Estimated Fiscal Cost/Proceeds (AUD bn)	Estimated GDP Impact (10 yrs)	Implementation Timeline
Corporate tax cut to 15%	-$25.0/year initial	+3.5–5.5%	Years 1–2
Full expensing for capital investment	-$10.0/year (temporary)	+1.0–1.5%	Years 1–5
Privatisation of non-core assets	+$80.0 one-off	+0.5–1.0%	Years 1–3
Regulatory simplification (one-in, two-out)	Neutral	+0.2–0.4%	Years 1–5

Historical and Theoretical Background

The intellectual lineage of this reform package can be traced back to Adam Smith's seminal 1776 work, 'The Wealth of Nations', which argued for the efficiency of markets in allocating resources and warned against excessive government intervention. Smith's 'invisible hand' framework suggested that individual pursuit of profit, within a stable rule of law, could generate collective prosperity.

Joseph Schumpeter emphasised the role of entrepreneurial innovation and 'creative destruction' as drivers of economic dynamism, reinforcing the case for an environment in which new entrants can challenge incumbents without undue regulatory barriers. Friedrich Hayek and Milton Friedman advanced the argument that centralised economic planning is inherently less efficient than decentralised decision-making, and that low, simple, and stable taxation combined with competitive markets best support innovation and growth.

Modern empirical work—such as the OECD's 'Tax Policy Reform and Economic Growth' (2010)—finds a robust negative relationship between corporate tax rates and investment, especially foreign direct investment (FDI). The IMF's 'Corporate Tax Reform: International Trends and Implications' (2017) further shows that reductions in corporate tax rates can attract internationally mobile capital, stimulate productivity, and expand the tax base.

International Case Studies

Ireland: In the late 1990s, Ireland reduced its corporate tax rate to 12.5%, triggering a sustained surge in FDI. Between 1998 and 2007, GDP per capita rose by over 50% in real terms, supported by inflows from multinational corporations in technology, pharmaceuticals, and financial services.

Singapore: With a corporate tax rate of 17% and a consistent pro-business regulatory environment, Singapore has become one of the world's most competitive economies, ranking at the top of the World Bank's Ease of Doing Business Index. Its model demonstrates the compound benefits of low taxes, open trade, and high-quality governance.

New Zealand: The 1980s–1990s reform era saw widespread privatisation and deregulation, leading to improved fiscal discipline, reduced public debt, and increased productivity. Key assets such as Telecom New Zealand and Air New Zealand were sold, fostering more competitive markets.

United Kingdom: The Thatcher-era reforms combined privatisation with regulatory overhaul. While politically contentious, these reforms revitalised underperforming state-owned industries and laid the groundwork for sustained GDP growth in the 1990s.

Australian Case Studies

Commonwealth Bank of Australia (CBA): Privatised in stages from 1991 to 1996, generating over $8 billion for the Commonwealth and transforming CBA into one of the world's most profitable banks.

Telstra: Privatised between 1997 and 2006, raising approximately $45 billion. Subsequent competition reforms and infrastructure investment significantly improved telecommunications services.

Qantas: Privatised in 1993, enabling strategic partnerships and greater operational flexibility, which contributed to its resilience and competitiveness in the global aviation market.

Airports: The 1997–1998 long-term lease sales of major airports generated $8.6 billion, leading to substantial private investment in capacity upgrades and passenger services.

Electricity Networks: State-level privatisations in Victoria and South Australia delivered both fiscal proceeds and efficiency gains, with service reliability metrics improving post-sale.

Modelling the Reform Package

Conservative Scenario: GDP uplift of +7.1% by Year 10; net fiscal gain of $16 billion/year from Year 10 onward.

Optimistic Scenario: GDP uplift of +11.3% by Year 10; net fiscal gain of $25 billion/year from Year 10 onward.

Key Assumptions: Corporate tax elasticity based on OECD midpoint estimates; FDI responsiveness based on IMF findings; privatisation efficiency gains based on Productivity Commission averages; regulatory burden reduction equivalent to 0.3% of GDP over five years.

Implementation Strategy & Risk Mitigation

The reform package is sequenced to prioritise measures with high signalling value for investors (tax cuts, full expensing) and quick fiscal wins (privatisation). Safeguards include a Debt Retirement Fund to hypothecate asset sale proceeds, a Receipts Stabiliser to smooth cyclical revenue volatility, and an Independent Regulatory Audit Office to ensure compliance with the one-in, two-out rule.

Risks such as global economic downturn, political reversal, or investment under-response are mitigated by embedding reforms in legislation with bipartisan support, introducing sunset clauses for transitional measures, and maintaining policy consistency across electoral cycles.

Conclusion

This package aligns with Australia's need for higher productivity growth, increased competitiveness, and fiscal resilience. By drawing on both historical lessons and contemporary evidence, it offers a credible path to a decade of stronger growth, better wages, and sustainable public finances.

References

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Appendix A — Charts & Data Tables

Figure A1 — Corporate Tax Rate and FDI Inflows: Australia vs OECD (1990–2024).

Figure A2 — GDP Impact of Corporate Tax Reduction (Modelled vs Baseline).

Figure A3 — Privatisation Efficiency Gains (Australian Case Studies).

Table A1 — 10-Year Fiscal Impact of Reform Package (AUD bn).

Appendix B — Methodology & Assumptions

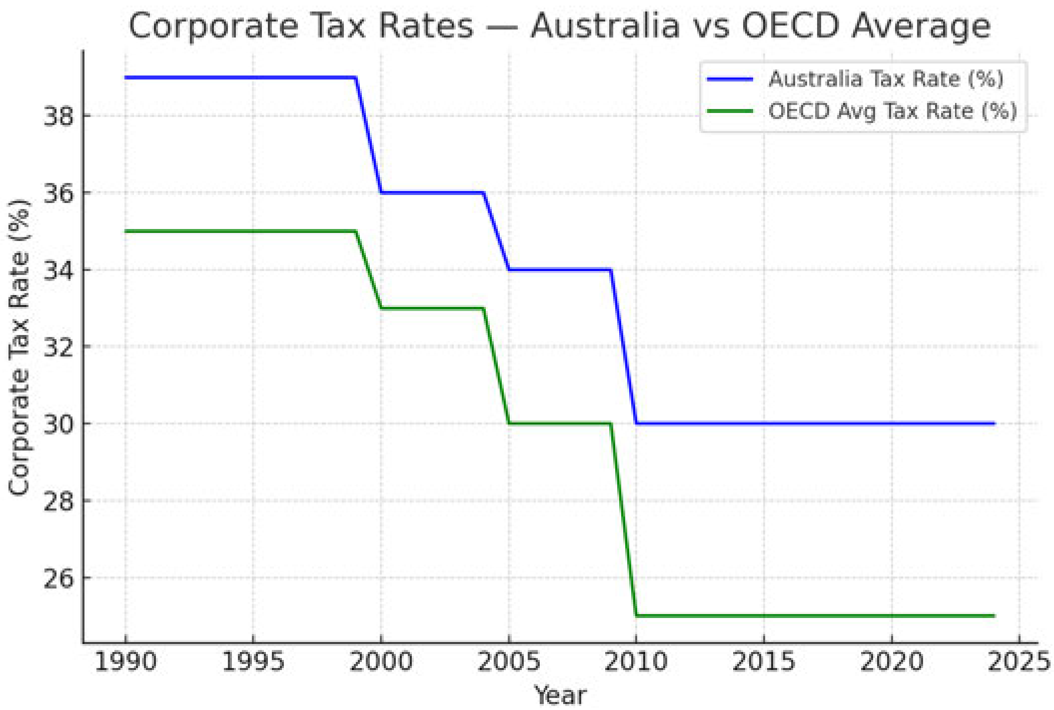
B1 — GDP and Productivity Modelling — OECD elasticities, Treasury baseline.

B2 — FDI Modelling — IMF elasticities, adjusted for dividend imputation system.

B3 — Fiscal Modelling — Static and dynamic scoring, debt service savings.

B4 — Regulatory Reform Impact — Productivity Commission estimates of compliance cost savings.

B5 — Risk Sensitivity — Conservative vs optimistic scenarios, external shock testing.



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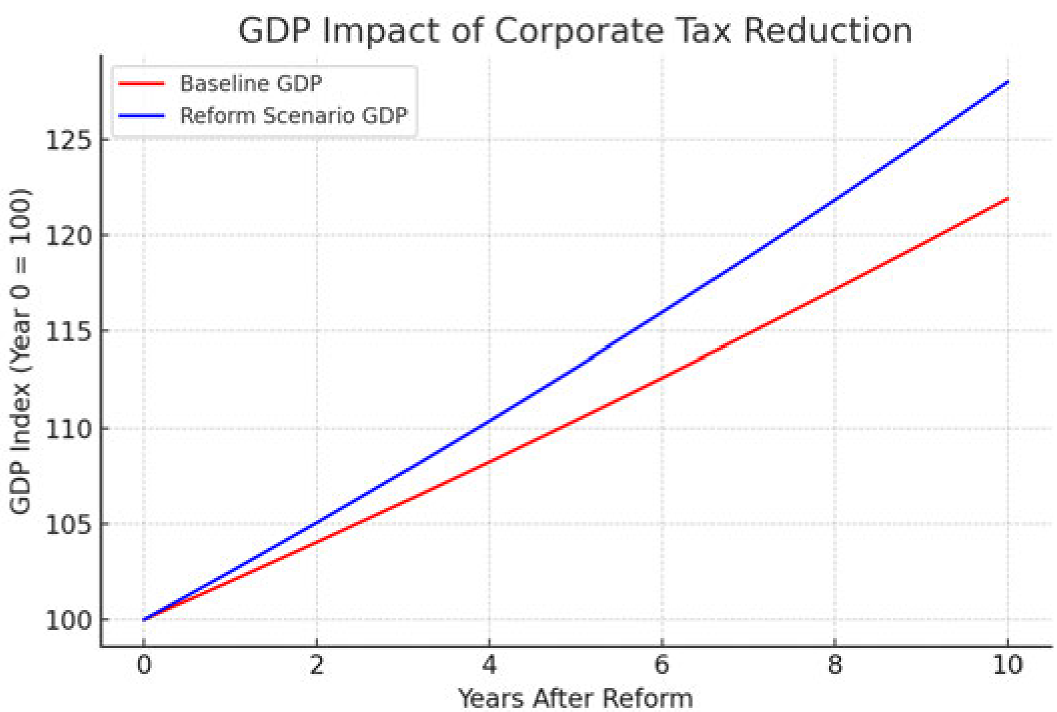

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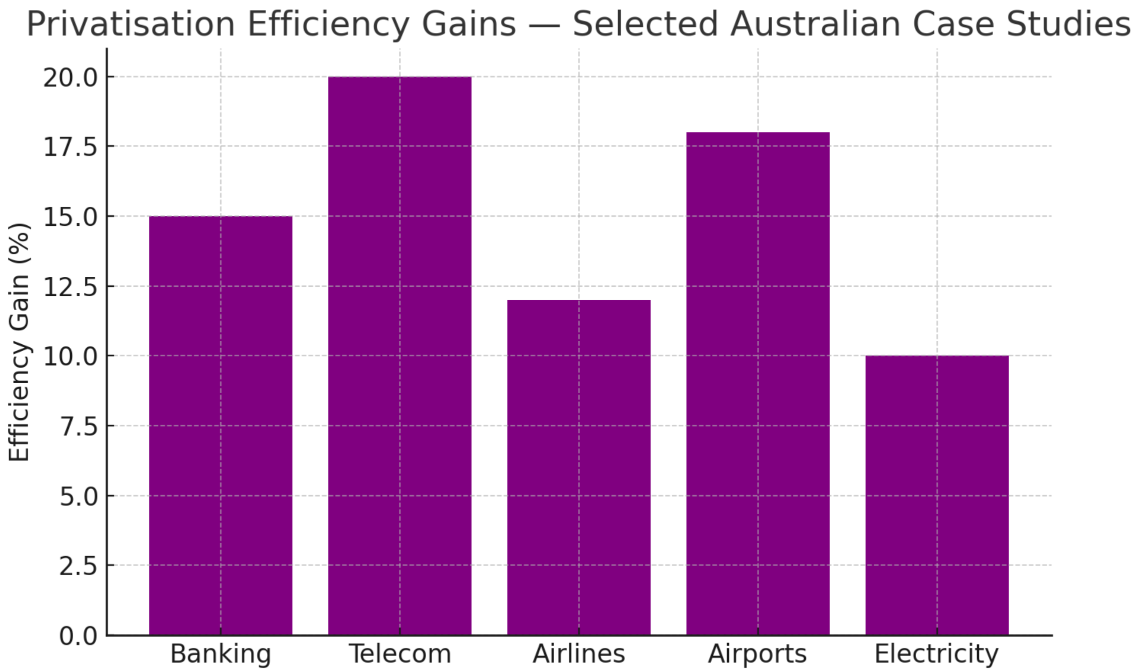

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