CREATING A MORE DYNAMIC AND RESILIENT ECONOMY

Thank you for the opportunity to provide comments on the Productivity Commission's interim report titled *'Creating a more dynamic and resilient economy'*.

The contents of this submission are mostly excerpts of relevant passages from *'Is Australia still the lucky country?'* [1]

I share the concerns expressed by ACOSS in its pre-interim report submission that:

- The productivity inquiry needs a holistic approach
- Growth in productivity and incomes cannot be divorced from the impact of high levels of poverty and inequality
- The five nominated pillars are unduly narrow in scope and miss some of the larger drivers of living standards and growth.

ECONOMIC AND SOCIAL WELLBEING

The economic and social fabrics of Australia and elsewhere are closely interwoven and cannot be meaningfully separated. Government policy needs to give equal weight to all economic and social aspects. (I regard environmental considerations as being an integral part of the economic and social aspects.) Economic wellbeing cannot be maximised if social wellbeing is neglected.

The government should acknowledge and promote the fact that economic and social wellbeing can and should coexist, and that both have a complementary and important role to play. The government should derive enough revenue to fund high quality and cost-effective community services, programs, infrastructure and income support to individuals and businesses in need (referred to collectively as 'services').

Terms like 'left', 'right', 'progressive' and 'conservative' are becoming irrelevant. Globally, the political divide is increasingly described as 'democracy vs oligarchy'. Oligarchy is the antithesis of economic and social wellbeing. Economic and social wellbeing can only be maximised in a highly democratic system.

US Supreme Court justice, Louis Brandeis, said: *"We must make our choice. We may have democracy, or we may have wealth concentrated in the hands of a few, but we cannot have both."*

The government should recognise this new 'democracy vs oligarchy' paradigm, and commit to making democracy its highest priority.

I am an ardent supporter of capitalism. But capitalism is open to abuse, and needs to be coupled with a strong social conscience. It has to be managed by the government to ensure an optimal balance between the vast benefits of capitalism on the one hand, and fairness for all on the other. The government should embrace this principle, and commit to fully supporting free **and fair** enterprise.

[1] Rory Ellison, *Is Australia still the lucky country? Working together towards greater economic and social wellbeing*.

It can be argued that a significant turning point began to occur in most capitalist countries around the 1970s. In the period leading up to that decade, jobs were fairly easy to get and to hold onto. Most people in employment, as well as their families, were able to live well. Even lower-paid individuals and their dependents could enjoy a reasonable standard of living. Employees' real incomes increased at roughly the same rate as productivity. The size of the gap between the haves and the have-nots was more tolerable.

Since that turning point, unbridled capitalism has been practised to an ever increasing extent in many countries including Australia. During this time, it has been very difficult for people to get jobs, and to keep them. But a significant feature has been that even people with a full-time job, and those who work full-time hours by means of more than one part-time job, have progressively lost ground in terms of being able to maintain a decent standard of living. Hence, we have seen the emergence of the 'working poor' phenomenon.

INEQUALITY

Acceptable levels of economic and social wellbeing cannot be attained unless inequality and poverty are eliminated.

It is important to stress that equality is not about sameness, uniformity or the absence of diversity. And it certainly doesn't mean that everyone should have equal income and wealth. Equality is simply a condition in which the same rights, responsibilities, treatment, rewards and opportunities, including fair and reasonable access to government services, are afforded to all people regardless of income, wealth or social status.

Countries with lower inequality tend to enjoy faster and more durable economic growth. Significantly unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term.

Inequality in Australia is at its highest level since 2001, especially income and wealth inequality. More than 3.3 million people live below the poverty line, including more than 760,000 children.

A person who works a 38-hour week should be able to earn at least a living wage.

The minimum full-time wage is just over $49,000 pa. At the other end of the scale, the five highest-paid CEOs in 2024 received between $15 million and $30 million pa. This means they were paid 300 to 600 times the minimum wage. Many other CEOs and senior executives receive 100 to 300 times the minimum wage.

The government should commit to working towards fair and reasonable wages for all.

THE TAX AND TRANSFER SYSTEM IS IN NEED OF FUNDAMENTAL REFORM

The tax and transfer system should be fair, simple, transparent, easily understood, consistent, cost effective and not open to abuse. It should also reduce inequality and poverty, and be able to generate sufficient revenue for the government to provide high quality and cost-effective services. Lastly, the tax component should be levelled primarily on those who are best able to pay.

By satisfying these criteria the system would stimulate greater economic and social wellbeing, combat oligarchy and enhance democracy.

Based on these criteria the Australian tax and transfer system is clearly in need of major and fundamental reform.

The tax and transfer components are inconsistent and overlapping

The boundaries between Australia's taxes and transfers are extremely blurred. In many cases, a benefit is 'passed on' by the government to individuals and businesses by way of preferential treatment in the tax system, rather than by means of an outgoing transfer. It is done on such a scale that it is referred to as 'tax expenditure'. Tax expenditure includes tax exemptions, tax deductions, tax offsets and concessional tax rates.

Tax expenditure, which is a significant component of corporate welfare and welfare for rich individuals, is subject to considerably less scrutiny than other forms of welfare, which are currently classified as transfers.

The extent to which Australia uses tax expenditures is higher than most other developed countries.

Businesses also receive other forms of financial assistance from the government, including considerable amounts paid in subsidies, grants and bail outs.

The lack of coordination between taxes and transfers results in many people receiving income support while paying tax at the same time.

The system also treats different types of benefits differently. Some benefits are classed as taxable income, while others are not.

These inconsistencies and overlaps are inefficient, confusing and unnecessary, and make the system more prone to abuse.

Taxes should only be used for raising revenue to fund government expenditure on services. Transfers should be used for all forms of income support paid to individuals and businesses. This would enable tax expenditure to be abolished.

Those individuals and businesses that believe they are eligible for income support should be required to apply for it, as is currently the case for other types of income support. For generic income support payments, such as the small business instant asset write-off, a simple online form would be sufficient.

The system is unnecessarily complex and open to abuse

Australia's tax system is highly complicated and convoluted. This makes it easier for individuals and businesses to abuse the system, and as a result pay significantly less tax than they should.

There are more than 120 taxes paid by Australians every year. Yet, nearly 90 percent of federal tax revenue is derived from three taxes: personal income tax, company tax and GST.

The *Income Tax Assessment Act 1997* is an extremely lengthy and complex document. This is primarily because there are a large number of exemptions, deductions and allowances.

Many aspects of the Act are unclear or open to widely different interpretations. This enables people — especially the wealthy and large businesses, who can afford specialised advice — to find loopholes that enable them to avoid and even evade their tax obligations. People at the lower end of the scale cannot afford to do this, and are therefore disadvantaged.

In Australia, the ‘tax gap’ (the difference between the amount the ATO actually collects and the amount it would have collected if every taxpayer was fully compliant with tax law) is estimated at between $20 billion and $40 billion annually. If the system were simpler and better understood, the tax gap would be minimal.

Following are a number of proposals that would simplify the tax system and make it more equitable.

The tax-free threshold

The current tax-free threshold of $18,200 is considerably lower than the poverty line for a single person, which is around $25,400 pa. It is therefore unfair and unreasonable for an individual whose total income is between $18,200 and $25,400 to be required to pay income tax.

Because the tax-free threshold is so low, income tax is payable on the Age Pension (and other forms of income support). To compensate for this, pensioners are eligible for some or all of the Seniors and Pensioners Tax Offset (SAPTO). This is another avoidable complexity in the system.

The tax-free threshold should be increased to at least $25,000. And the Age Pension (and other forms of personal income support) should not be classed as taxable income. If this is done, the SAPTO could be abolished.

People below the poverty line cannot avoid paying the GST. So, even if they would not be paying any income tax, they would still be contributing to government revenue.

The cost of this increase in the tax-free threshold would not be significant. In any event, there are other tax-related changes proposed in this submission, including increasing the rate and coverage of the GST, which would generate considerable additional revenue.

Tax deductions

The legislation around deductions is particularly complex. As a result, much of the abuse of the tax system centres on the complexity and uncertainty around deductions.

To simplify the system:

- Salaries, wages, other work-related income, as well as interest on savings accounts and term deposits, should be classed as ‘primary’ income.
- Deductions and tax offsets against primary income should be abolished.
- Other forms of interest, as well as dividends, fund distributions, rent, real capital gains, fringe benefits, reimbursements for work related expenses, income from trusts and income from superannuation should be classified as ‘secondary’ income.
- Individuals should be allowed to subtract the costs directly incurred in earning ‘secondary’ income, to arrive at ‘net secondary income’.
- Primary income plus any net secondary income should constitute taxable income.
- Businesses should be allowed to subtract ‘normal’ operating costs from gross profit to arrive at net taxable profit.
- All other business deductions and tax concessions should be abolished.

Those individuals and businesses that believe they are entitled to income support from the government should be required to apply for it, as is currently the case for other types of income support.

Some might argue that the elimination of most deductions from the tax system would just move the problem from the taxation arena to the transfer system. But, there is a major difference between an individual or company actively and openly applying for income support, compared with simply claiming tax deductions on their tax form. The current system is essentially an honesty system that is not as honest as it should be. Handling all income support via the transfer system would be much more transparent and would maintain integrity between the tax system and the transfer system.

Capital gains tax

The treatment of capital gains is excessively complicated and misunderstood by many.

Essentially, when a capital asset is sold, the ‘nominal’ capital gain is the difference between the sale proceeds and the cost base of the asset (purchase price plus associated costs). This ‘nominal’ capital gain doesn’t take into account the effect of inflation. Prior to 1999, the cost of assets held for one year or more was indexed by the consumer price index to arrive at the ‘real’ capital gain. This indexing meant that the part of the gain which was due to inflation was not taxed, which is as it should be.

In 1999, the government discontinued indexation of the cost base and instead introduced a 50 percent discount on the capital gain for individual taxpayers. This was done to simplify the process of calculating the real capital gain. The 50 percent discount was considered, at the time, to be a reasonable proxy for the average proportion of a nominal capital gain that was attributable to inflation. Assets held for less than 12 months were (and still are) not eligible for the discount.

Unfortunately, inflation hasn’t always accounted for 50 percent of nominal capital gains, and in periods when the inflation component has been significantly less than 50 percent, the system has been criticised for being too generous.

Currently, if a capital loss is made, it can be used to reduce any capital gain made in the same financial year. If a capital gain has not been made in the same financial year, the loss can be used to reduce a capital gain in a later year. However, capital losses or an overall net capital loss for the year are not permitted to be deducted from other income. This is another source of complexity and confusion. It is also difficult to see the logic of requiring capital gains to be included in taxable income, but not allowing capital losses to be deducted from taxable income.

In certain circumstances, a capital gain can be rolled over to the next year or years. This too is an added complication. It is fair and reasonable to avoid situations where some or all of the real capital gain is taxed at a much higher rate than would normally be the case for the individual. Similarly, it would not be reasonable for a real capital loss to result in the tax payable by a high-income earner to be reduced disproportionately.

To overcome the above deficiencies and to further streamline the system, a simple, automated indexing system should be implemented as follows:

- The taxpayer enters in the tax return the purchase month, sale month, cost of the asset, any ongoing costs for each year of owning the asset, and proceeds of the sale of the asset.
- The system automatically calculates the increase in the CPI for the period concerned, enters it on the return and uses it to inflate the purchase cost and any ongoing costs.

- The adjusted purchase cost, and any ongoing costs of owning the asset, are automatically deducted from the sales proceeds to arrive at the real capital gain or loss.
- One third of any real capital gain made during the year is automatically added to that year's income, and one third of the gain is added automatically to the income of each of the following two years.
- One third of any real capital loss incurred during the year is automatically deducted from that year's income, and one third of the loss is deducted automatically from the income of each of the following two years.

The 12 month cut off rule should be abolished.

Capital gains and losses made by businesses should be treated in the same way as for individuals.

The small business capital gains tax concession should be abolished. Any income support required to be paid to small businesses as a result should be dealt with as transfers.

Fringe benefits

The Fringe Benefits Tax arrangements are complex and administratively burdensome.

In most cases, fringe benefits are provided by employers to or on behalf of employees in order to increase employee income while minimising their tax.

With regard to salary sacrifice, it is unreasonable and unfair for people who are employees, and therefore earn a wage or salary, to be able to reduce their tax simply by arranging for their employer to pay certain costs for them, or to transfer funds into an account such as a superannuation account. Non-employees, such as self-funded retirees, pensioners, people caring for young children and others, as well as self-employed people and small business owners, are not able to access this type of tax break. This perk, which is a significant distortion available only to employees, is very costly to administer and adds significantly to the complexity of the tax system.

No tax advantage should be associated with fringe benefits. The value of all fringe benefits should be included in employee ‘secondary’ income and taxed accordingly.

The Medicare Levy and Medicare Levy Surcharge

The Medicare Levy, and exemptions to it, are unnecessarily complex.

The Levy should be abolished and Medicare should be funded out of consolidated revenue.

The Medicare Levy Surcharge is payable by people who earn above a certain income. But it also applies to those who do not have an appropriate level of private patient hospital cover. The tax system should not be used to penalise people who do not have the desired level of private hospital cover.

Instead, the government should contribute to the premiums paid by people who do have the required level of private hospital cover.

Many of the tax proposals in this submission would contribute towards the additional government revenue that would be required.

The dividend imputation scheme

The dividend imputation scheme can be difficult to understand. However, in simple terms it is a means of avoiding dividends being taxed twice — once by the company and once by the dividend recipient.

I believe this double taxing could be eliminated without having to use dividend imputation. It could be achieved by treating all dividends paid by companies as ‘before-tax’ expenses, in the same way that interest paid by companies is a before-tax expense.

If this approach were adopted, dividends would not be subject to company tax at all. Dividends received by shareholders would simply form part of their ‘secondary’ income.

Taxation of the superannuation system

The superannuation system, which was established in 1993, provides generous tax concessions to encourage people to save for their retirement. The objective has been to reduce reliance on, and the cost of, the Age Pension. However, after three decades, 79 percent of retirees still receive the full or part pension. Only 21 percent of retirees are fully self funded. These proportions are predicted to still apply in 2050.

Unfortunately, the taxation of superannuation is highly complex and convoluted. As is always the case when the tax system is distorted by incentives, a range of exceptions, exclusions and other rules apply.

The superannuation system benefits high income individuals disproportionately. This is because the tax concessions applied to superannuation are of little or no benefit to lower income people who pay little or no tax. Conversely, the tax concessions are of considerable benefit to higher income earners who pay significant amounts in tax. Superannuation tax concessions are increasingly being used by high income earners as a way of minimising their tax.

The top 20 percent of income earners receive 60 percent of superannuation tax concessions. The bottom 40 percent combined only get around 5 percent.

The current superannuation system is also flawed in many other ways, including:

- The top 20 percent of income earners receive 49 percent of employer contributions.
- According to Treasury, superannuation tax concessions are growing at 25 percent per year. In contrast, the cost of the Age Pension is growing at only 13 percent per annum.
- The Superannuation Guarantee (SG), essentially comes out of employee pay. Had it not been for the SG, wages would have been significantly higher, and this higher amount would have been taxed at marginal rates rather than at concessional rates applicable to superannuation, which would result in greater income receipts by the government.
- The lost revenue deprives the government of an extra $2 to $2.5 billion each year.
- The super system cannot guarantee retirement incomes for people who are self-employed, who constitute nearly 10 percent of the labour force. Around 29 percent of self-employed people have no superannuation. In addition, the super system cannot guarantee retirement incomes for people who are homemakers.
- Also affected are individuals who because of disability or other factors beyond their control are only able to work limited hours and/or receive a low hourly rate of pay.
- Superannuation savings only account for about 15 percent of the wealth of most households. Even without counting the family home, the average Australian saves as much outside the super system as in it. For older households close to retirement, assets other than super are often even larger than the value of their homes.

- Those with vested interests in sustaining the superannuation system derive $36 billion in fees from it each year.
- The costs of administering the current convoluted superannuation system are extremely high.
- Those in and entering retirement now, who worked hard, but for whom compulsory contributions came too late, face living on a means-tested Age Pension.

The bottom line is that the total cost of the superannuation system plus the current means-tested Age Pension amounts to some $76 billion. This far exceeds the $55 billion it would cost to simply pay the pension to everyone over 65.

Consideration should be given to:

- Progressively reducing the various generous tax concessions associated with superannuation until they have been eliminated.
- Progressively reducing the Superannuation Guarantee paid by employers to 5 percent of the employee's gross pay.
- Requiring employees to contribute 5 percent of their gross pay to their superannuation.
- Paying the Age Pension to everyone over 65 years of age.

This would be a substantial saving to employers, which would enable them to pay out at least some of the saving to their employees in the form of increased wages.

The combined 10 percent contributions would ensure that individuals would save at least a reasonable amount towards their retirement. And the total cost to the government would be significantly reduced.

Bracket creep

Historically, tax brackets have been held constant until a major taxation review is conducted. This means that the effects of inflation are not taken into account, resulting in an increasing proportion of an individual's income creeping into their marginal tax bracket, or entering into a higher tax bracket. The increasingly higher tax they pay purely because of inflation is not reasonable.

The tax thresholds should be indexed annually to eliminate bracket creep. The index should be based on average earnings rather than the CPI.

Our taxes are not high enough

Residents of many countries, including Australia, perceive that their taxes are high, when in fact they aren't when compared with other countries. Interestingly, people of the Nordic nations don't complain about their taxes even though these countries do actually have some of the highest taxes in the world. The lack of concern over their high tax rates is because Scandinavians are very happy with what they, their families and society generally, receive and experience in return for the taxes they pay. The inhabitants of these countries consistently top the world scales in terms of happiness, and their cities are often regarded as the most livable. The economies of the Nordic nations also perform strongly.

Australia is a relatively low-tax country, particularly in relation to GST. The government needs to spend considerably more on various services, particularly aged care, child care, health, education, housing (including accommodation for the homeless), defence, and combating terrorism and other forms of crime including cyber crime.

An increased GST rate and broadening its coverage would go a long way towards providing the required extra funding. But, if we want better government services, our income taxes will need to be increased.

The tax on high incomes

We are told that high rates of tax on high incomes damage the economy. However, the evidence is clearly to the contrary. In most countries, including Australia, when the top income tax rates have been high (up until around the 1970s), economies thrived. Conversely, when tax rates have been low, GDP growth has been much more modest.

In Australia, the top marginal personal income tax rate during the Menzies years (1949 to 1966) was never below 67 percent. It is now 47 percent including the Medicare Levy. This is the 17th highest out of the OECD members.

Consideration should be given to introducing an additional tax bracket of around 60 percent, applying to income in excess of $3 million pa.

The Buffett Rule

Warren Buffett has repeatedly stated that he was lucky to have been born when he was born, where he was born, and who he was born to. His wealth originates directly from the collective contributions of many. So, he was shocked to discover that he was paying a lower effective tax rate than many of his staff, including his secretary.

As a result, Buffett set about devising a scheme that would ensure millionaires and billionaires would always pay a higher tax rate than middle and low-income earners. The Buffett Rule, as it became known, entails a minimum tax of 30 percent on gross incomes of between US$1 million and US$10 million, and 35 percent for higher incomes. The rule applies to incomes before deductions are claimed. This means that regardless of the amount that is claimed in deductions, a fair and reasonable rate of tax would still be payable. So, high income earners would not get away with paying a lower rate of tax than lower income people.

In Australia, consideration should be given to applying the Buffet Rule principles.

The system does little to combat extreme wealth

Various measures need to be implemented to reduce the extreme levels of wealth inequality.

Inheritance taxes (or death taxes) are very controversial and emotive. However, some of the gross inequities existing today can be addressed by means of a wealth tax, which would be more palatable than an inheritance tax. It would also be more efficient.

An annual tax should be introduced in Australia on high levels of wealth. Consideration should be given to a tax of around 2 percent on individual net wealth in excess of $50 million, and around 5 percent on net wealth over $500 million.

The goods and services tax

Personal income tax and tax on business profits are based on the ‘assessment’ of income and expenditure, both of which are very difficult to define, quantify and verify accurately.

In the case of income, many business owners and high income earners find ways to make their income appear, for tax purposes, to be considerably lower than it really is.

With regard to expenditure, many business owners find numerous ways to make their business expenses and other deductions appear, for tax purposes, to be higher than they really are.

As a result, many businesses and high income people pay considerably less tax than they should. In contrast, the ‘PAYG group’ generally pays a disproportionately large amount in income tax.

Australia places much less emphasis on its value added tax (GST) than other developed countries. It has the 4th lowest value added tax rate of all the OECD countries. The OECD average rate is a little under 20 percent — almost double that of Australia. In addition, a number of significant items are excluded from the Australian GST. This flaw in the system results in added administrative costs, and it means that considerably less tax revenue is raised than if the GST related to all goods and services.

A GST is a fair and effective tax, which should be increased, **provided lower income people are not disadvantaged**. This can be achieved if the increase in the GST rate is accompanied by corresponding reductions in income tax at the lower levels of income, and fair compensation paid to people who pay little or no income tax.

The GST should be changed in three annual steps:

- Year 1: The tax should be broadened to apply to all goods and services.
- Year 2: The GST rate should be increased from 10 to 15 percent
- Year 3: The GST rate should be increased to 20 percent.

As stated above, each stage should be accompanied by corresponding reductions in income tax, particularly at the mid to lower levels, and fair compensation paid to people who have little or no taxable income.

THE SIZE AND ROLE OF GOVERNMENT

Most of the debate around the perceived merits of small vs big government is based on ideology rather than evidence.

There is a perception that big governments inhibit economic growth. However, numerous studies have shown that countries with big governments — and correspondingly high levels of taxation — perform better, in terms of economic and social wellbeing, than those with small governments.

The Nordic countries demonstrate that it is possible to combine capitalist principles with a large government. Between 25 and 30 percent of their workforce is employed in the public sector, compared with an average of 15 percent for all OECD countries. Scandinavian countries strongly support free trade, and avoid as far as possible intervening in the market even to protect large iconic companies. But, at the same time, they provide universal education and health care for their citizens.

People generally associate the size of government with red tape or bureaucratic interference. But most government expenditure has little to do with these aspects.

Australian and international information should be gathered on the relationship between the size of government (level of taxation) and economic and social wellbeing. This information should be used to inform national debates and government policies aimed at optimising the size and role of government in Australia.

THE NEED TO ENHANCE OUR DEMOCRACY

There is so much more to democracy than every adult citizen having the vote. To be fully democratic the political system needs to ensure that:

- All votes have the same value
- There is no undue influence by big companies, wealthy individuals, the unions or other peak bodies
- Economic and political and institutions, including the parliament, are of a high quality
- There is open and effective community engagement.

Based on these criteria the Australian political system is clearly in need of considerable and fundamental reform.

The Senate

Each state or territory votes as one electorate. Twelve Senators are chosen for each state and two Senators for each of the two territories. The fact that an equal number of Senators are elected for any given state, regardless of the number of voters in that state, means that votes in states with fewer electors have a much higher value than votes in the more populous states.

The method for determining the Senate result is also extremely complicated.

Since 1949, the governing party, as determined by a majority of seats in the House of Representatives, has frequently been without a majority in the Senate. As a result of the 2025 federal election, for example, the ALP which has 63 percent of the lower house seats, only has 37 percent of the Senate seats.

In addition, the way Senate voting is carried out means that one or two Senators, who are Independents or representatives of very small parties can, and often do, hold the balance of power in the Senate.

New or amended legislation requires the approval of the Senate. So, a small number of Senators, who may represent a very small proportion of the total electorate, in effect have the power of veto over the lower house. For example, in the 2025 federal election, one candidate received only 0.7 percent of the first-preference votes, but secured a Senate seat (2.5 percent of seats up for election). Conversely, a minor party received 3.5 percent of the first-preference votes, but did not secure a seat.

As a result, the government of the day has often been forced to go cap-in-hand to one or more of these Senators to offer them a deal that would encourage them to support a bill for which the government had received a clear mandate from the electorate at the previous election.

Therefore, instead of being a meaningful, useful and democratic house of review, the Senate enables a handful of people to exert grossly disproportionate power over the political process.

I believe the Senate is an expensive mechanism that does not provide a significant net benefit to Australia's democracy. It is relevant to note that the two Australian territories do not have an upper house, and Queensland abolished its upper house in 1922. Many countries, including Denmark, Sweden, New Zealand and South Korea, and many states/provinces within a number of countries, have also abolished their upper houses.

Consideration should be given to abolishing the Australian Senate.

In the absence of the Senate, appropriate checks and balances would be achieved more cost-effectively and more democratically by means of the review function of the Citizens Engagement Panel proposed below.

Citizen engagement

Citizen participation should be an integral part of the government's policy development, planning, implementation and review processes.

A distinction needs to be made between community collaboration and government control. While the process needs to have a high degree of community engagement, it is necessary for the government to maintain sufficient influence over the process to ensure that tangible and desirable results are achieved in a cost effective manner — and that the electorate's mandates are honoured.

Citizens Engagement Panel

To enhance citizen participation, a Citizens Engagement Panel should be established under the umbrella of the *myGov* website. The existing *myGov* authentication/verification protocols would apply to the Citizens Engagement Panel in the same way as they currently protect access to Centrelink, the Australian Taxation Office, Medicare, and more. The Citizens Engagement Panel should be managed by the Department of Human Services and audited by the Auditor General.

Citizens should be encouraged to register with the Citizens Engagement Panel. As the concept catches on, and the political system becomes more collaborative and transparent, people would increasingly want to use this mechanism to participate in political processes. Only Australian adult citizens would be able to register for membership of the Citizens Engagement Panel.

The Panel would enable the government and Members of Parliament to seek opinions on a particular topic or proposal in a systematic way.

Having a large number of screened citizens on tap by means of the Citizens Engagement Panel would be an extremely valuable resource for the federal, state and local governments, as well as businesses and the community in general. The Panel would also be able to provide invaluable information, coordinated by the Department of Human Services, for market research and opinion poll purposes. Charges would apply for the provision of such information to non-government organisations. The revenue raised would make a significant contribution towards the cost to government of operating the Citizens Engagement Panel.

Citizens discussion forum

All citizens registered for the Citizens Engagement Panel would be able to raise and discuss issues in the same way as on other discussion groups. These posts would also be available for the general public to view. But, only registered members of the Panel would be able to participate in any of the discussions.

As above, it would be in politicians' best interests to keep abreast of discussions held by members of the Citizens Engagement Panel.

Artificial intelligence should be used to collate and summarise panel discussions.

Citizens review function

Once the Citizens Engagement Panel has a sufficient number of registered members, it should be used as a very cost-effective way of providing a review function for the Parliament. This function would be extremely important if the Senate is abolished, as proposed above.

The aim should be for the Citizens Engagement Panel to have at least one million registered members. Having such a large number of people provide this review function would be considerably more democratic and meaningful than the disproportionate power that a handful of Senators often possess.

Ultimately, the Panel's review function could be used to conduct plebiscites and referenda.

A minimum number of votes, say, two million, cast by authenticated members of the Panel, would be required for the process to qualify as an official plebiscite or referendum.

This would save considerable amounts of money, time and effort. In 2017, for example, the postal plebiscite on marriage equality cost taxpayers more than $120 million.

As described below, under certain circumstances, the Citizens Engagement Panel would also have a review role to play in the ongoing operations of the Parliament.

Preferential voting

In Australia, elections are conducted using a system of preferential voting. Unfortunately, it is a complicated system and, as outlined below, it often results in unexpected and undemocratic outcomes.

For elections to be democratic, electors need to know exactly how their votes are used and how the voting process works. And the system should not give undue weight to lower order preference votes.

The preferential voting system often means that the candidate with the highest number of primary (first preference) votes does not win their seat. For example, in the 2025 federal election for the lower house, nearly 10 percent of the candidates who had secured the highest number of primary votes, did not win their seat — and in a number of cases these 'unsuccessful' candidates had won the primary vote by a significant margin.

The preferential voting system should be abolished.

The use of seats rather than votes to determine which party governs

In Australia and many other countries, the candidate who wins their seat (electorate) is elected to the House of Representatives. The party that secures the most seats forms government, but it has to rely on the support of other members of the house if it does not hold the majority of seats.

It sometimes happens that the party which receives the most primary or first preference votes does not secure the most seats. It therefore 'loses' the election. This occurred in the 2022 election. The Coalition received 36 percent of the primary votes and secured 38 percent of the seats. The ALP received 33 percent, but secured 51 percent of the seats.

Even when the election is won by the party that receives the most primary votes, it often happens that it secures a highly disproportionate number of seats. In the 2025 election, for example, the ALP received 35 percent of the primary votes, but secured 63 percent of the seats. The Coalition received 32 percent of the primary votes, but only secured 29 percent of the seats. Significantly, the Greens received 12 percent of the primary votes, but only secured one seat (0.7 percent of the seats).

In my view, for the political system to be democratic, the party (or formal coalition) securing the highest number of total votes, i.e. the popular vote[2] should be the party that forms government — not the party that wins the most seats.

Every vote should have the same value as any other vote, and the only way of ensuring this is for elections to be based on total votes cast. The following proposals are based on this principle.

The party that has secured the greatest number of total votes at an election should form government. In terms of these proposals, where this party has received more than 50 percent of the total votes, it will be able to govern effectively, but with safeguards. However, where the votes secured by the winning party are not more than 50 percent of the total, it would not be able to govern in its own right without some sort of compensating adjustment. The proposals below outline how such an adjustment could be made.

Representation in the Parliament

The Parliament should comprise a number of Members of Parliament who are voting members, and a number of Parliamentary Representatives who are non-voting participants.

Members of Parliament

The number of seats in the lower house, and therefore the number of electoral districts, should be reduced from 150 to 100. This would mean that the composition in percentage terms would be very clear to all concerned. It would also save a considerable amount of money.

Following an election, the allocation of seats in the Parliament can be thought of in terms of two scenarios as follows.

Scenario 1: The winning party has secured 51 percent[3] or more of the popular vote

In this scenario, the number of seats allocated to a party would be equal to the proportion of the popular vote it has secured.

Each party's seats would be filled by the candidates who received the greatest number of popular votes cast nationally.

For example, if Party A has received 53.9 percent of the popular vote, it would be allocated 54 seats in the Parliament. These seats would be filled by the 54 Party A candidates who have received the most votes. If Party B has secured 38.1 percent of the total vote, it would be allotted 38 MP seats, and so on.

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[2] Using the terminology that would apply if preferential voting were abolished, as proposed above.
[3] Rounded to the nearest whole number.

Scenario 2: The winning party has received less than 51 percent of the popular vote

Scenario 2 relates to the situation where a party has received the highest number of total votes but has failed to secure 51 percent or more of the votes. Based on Australia's voting history, this scenario is likely to arise more often than not.

In terms of these proposals, when Scenario 2 applies, an adjustment would be made to enable the winning party to govern effectively. The adjustment would involve assigning 51 seats to the party that has received the highest number of total votes. The other parties would share in the remaining 49 seats, based on the total number of votes they each received as a proportion of the remaining votes (i.e. excluding Party A's votes).

So, as indicated in the following table, if Party A (the winning party) has received 45.0 percent of the popular vote, it would be allocated 51 seats in the Parliament. If Party B has received 4.70 million votes, its proportion of the remaining seats would be 59.8 percent, i.e. 4.70 as a percentage of 7.86. Party B would therefore be assigned 59.8 percent of the remaining 49 seats, which equals 29 seats. And so on.

Illustrative example of how the adjustment would be carried out

Party	Total votes received (million)	Proportion of total votes received	Unadjusted number of MP seats	Adjusted number of MP seats allocated
Party A	6.44	45.0%	45	51
Party B	4.70	32.9%	33	29
Party C	2.70	18.9%	19	17
Party D	0.46	3.2%	3	3
Grand total	**14.30**	**100.0%**	**100**	**100**

Total votes excluding Party A's votes = 7.86 million

This proposed adjustment would be done once at the national level, and would be completely transparent and easily understood.

In contrast, under the current preferential voting system, similar but often larger adjustments are carried out many times at the individual electorate level. And the adjustments are made behind the scenes and are largely not understood by the electorate.

A single adjustment at the Parliament level, as proposed above, would eliminate:

- The occurrence of hung parliaments
- The need for cynical alliances of convenience
- The ability of minority parties and independents to exert grossly disproportionate power, enabling them to hold the governing party to ransom and preventing it from doing the things for which it has secured a mandate from the electorate.

A review process that would provide cost-effective safeguards is proposed below.

Parliamentary Representatives

The Parliamentary Representatives, who would be non-voting participants, should consist of positions allocated to each of the following groups:

- Indigenous people (five positions)
- Small parties (five positions)
- Independents (five positions).

The Indigenous representatives would be nominated by existing Indigenous Peak Bodies. Other Indigenous people would of course continue to be free to run for Parliament as a party candidate or an Independent.

The small party positions would be allocated to those candidates who secured the five highest number of total votes out of those who failed to secure a Member of Parliament seat.

The five Independent positions would be allocated in the same way as the small party positions.

The 15 Parliamentary Representatives are included to give a voice and representation to the groups concerned. However, because they would be non-voting participants, they would not be able to exert disproportionate influence over the political system.

Proposed review process in the absence of the Senate

In order for a political system to be democratic, it is necessary for fair and effective checks and balances to be an integral part of the legislative process — provided they don't prevent the government of the day doing the things for which it has been given a clear mandate by the electorate. The review function of the Citizens Engagement Panel would meet these criteria in a highly cost-effective manner. It would operate as follows.

It is proposed that if 45 or more MPs vote against a bill, it would be suspended, and the governing party would be required to either:

- Revise the bill, and resubmit it to the Parliament, or
- Submit it to the Citizens Engagement Panel for review.

In cases where 45 or more MPs vote against a bill, **and** the governing party elects to submit the bill to the Citizens Engagement Panel for review, the following would apply:

- If, having carried out the review, 70 percent or more of the members of the Citizens Engagement Panel vote against the bill, the governing party would be required to either: (1) Revise the bill based on Panel responses, and resubmit it to the Parliament, or (2) Withdraw the bill.
- If less than 70 percent of Panel members vote against the bill, the governing party would be permitted to proceed with it. However, the government would be well advised to seriously consider the Panel's feedback regarding any desired changes to the bill.

Clearly, in the event that the governing party holds 56 seats or more, the non-governing members would not be able to force a bill to be suspended (as it would only be possible for a maximum of 44 MPs to vote against the bill). However, it makes sense that if the governing party holds a significant majority, it should be able to govern effectively in its own right. In addition, the highest proportion of primary votes received by a party over the past several decades is 53 percent (except for the 2025 election, when the ALP secured 63 percent of the seats). So, it is likely that the governing party would seldom hold 56 seats or more. We should also remember that some jurisdictions in Australia, and a number elsewhere, do not have an upper house and nor do they have any other review mechanism.

MEASURING ECONOMIC AND SOCIAL WELLBEING

A major problem in Australia and most other countries is that the level of activity of an economy is measured using Gross Domestic Product (GDP). The concept of GDP was first developed by Simon Kuznets in 1934. Kuznets recommended that GDP be used as a temporary measure, and warned against its use as a measure of welfare.

GDP involves estimating the dollar value of physical goods produced and most, but not all, services provided. Other less tangible items that are more difficult to quantify, but are nevertheless vital aspects of economic and social wellbeing, are not included, including the contributions of unpaid carers, unpaid parents and all forms of volunteering.

Importantly, GDP does not take into account the degradation and consumption of national resources. In addition, GDP does not take into account the considerable differences in the distribution of income and consumption across different demographic groups.

Peter Drucker coined the phrase: *'What gets measured gets done'*. This means that governments, economists, the media and others tend to focus on the things that contribute to increasing GDP. The result is that the many important items that are not measured by GDP do not receive the attention they deserve. And the things that are measured — because they are easier to quantify in dollar terms — receive a disproportionate amount of attention, effort and resourcing. This extreme goal displacement damages economic and social wellbeing.

In 1968, Robert Kennedy captured all that is wrong with GDP when he said: *'GDP measures everything except that which makes life worthwhile.'*

A measure of wellbeing should be regarded by the government and society as the country's primary indicator of performance.

The measure should:
- Focus on income and consumption rather than production
- Include wealth statistics
- Focus on the distribution of income, consumption and wealth
- Incorporate median consumption, income or wealth (as it provides a better measure of what is happening to the 'typical' individual or household than average consumption, income or wealth)
- Include non-market activities.

THE NEED FOR A UNIVERSAL BASIC INCOME

A UBI is essentially a non-means-tested income that is paid to every citizen or permanent resident of a country — hence the term 'universal'. The income is intended to cover only the essentials of life — hence the term 'basic'.

A UBI would:
- Alleviate poverty
- Reduce the negative effect of technology on jobs
- Overcome the problems inherent in the current means-tested system
- Stimulate the economy through increased demand for goods and services
- Supplement the minimum wage
- Complement the GST
- Contribute to greater social justice
- Provide greater financial security and certainty to recipients.

A great deal of research shows that a UBI would also result in:
- Better nutrition and other health outcomes
- Improved education amongst children
- Greater access to higher education by school leavers
- Increased attainment of further education by older people
- Reduced crime and anti-social behaviour
- Less drug taking
- Less family violence.

A properly implemented UBI could be affordable, given that it would enable:
- The elimination of most income support payments
- Significant reductions in certain other transfers such as tax deductions for philanthropic activities
- The elimination of the considerable costs of administering the current inefficient means-tested system
- Significant reductions in the costs associated with a number of other government services, including those related to policing, prisons, other aspects associated with crime prevention, health and alleviation of the effects of poverty such as state housing.

No income tax should be payable on incomes received under the UBI system.

Means testing of income support payments

As a result of Australia's extensive use of means testing, our income support payments are relatively low. Australia ranks 27th out of the OECD countries in terms of public social spending as a percentage of GDP.

Means testing of the JobSeeker Payment is a major disincentive for unemployed people to seek work.

A UBI would enable means testing to be abolished.

THE NEED FOR A MAXIMUM WAGE MINDSET

As outlined above, implementing a UBI would go a long way towards increasing the wellbeing of individuals, society and the economy. However, a UBI alone would not address the noxious injustices that are present at the other end of the income scale. Therefore, in addition to a UBI, ways need to be found to reduce to more fair and reasonable levels the excesses captured by those at the top end.

A highly effective way of closing the gap is to embrace the notion of a maximum wage. In a broad sense the maximum wage concept includes any mechanism that would place downward pressure on those incomes that are regarded as unfair and unreasonable, i.e. incomes that have been extracted rather than earned.

The need to focus on pay ratios

Since 2017, US companies have been required by law to disclose annually the ratio of their CEO's total remuneration to the median pay of all company employees.

In 2019, the Conservative government in the United Kingdom brought in new legislation requiring UK corporations to annually publish and justify the pay ratio between CEOs and their average UK worker.

Australia should follow the lead of the US, the UK and other countries in requiring companies to disclose the ratio of their CEO remuneration to their median pay level.

Increased tax rates on high incomes

Another strategy is to raise the tax rates on high incomes.

A benefit of increased tax rates at the top end is that they would apply to high-income people employed in the corporate world as well as the many non-corporate individuals, including entertainers, sporting stars and the like.

As proposed above:

- Consideration should be given to an additional tax bracket of around 60 percent applying to income in excess of $3 million pa
- The Buffet Rule should be introduced.

Introduction of a company tax based on pay ratios

A new company tax should be introduced that would take effect when the ratio of the CEO's pay to the median pay of the company exceeds a certain level. This would mean that, if executive packages increase at a faster rate than median earnings, they would attract proportionately higher levels of tax.

This strategy would highlight and continuously remind all concerned how large the gap is. It would also provide an incentive to increase the remuneration of lower-paid employees by at least the same percentage as higher-paid staff.

In addition, it would reduce dissatisfaction, alienation and disillusionment amongst middle- and lower-level employees, which would result in increased productivity.

Introduction of a tax on high levels of wealth

Taxing high income and high pay ratios would not directly address the massive wealth inequalities that exist today. However, a tax on significant wealth would make considerable inroads into this problem.

As proposed above, an annual tax should be introduced in Australia on high levels of wealth. Consideration should be given to a tax of around 2 percent on individual net wealth in excess of $50 million, and 5 percent on individual net wealth over $500 million.

This strategy would be most effective if applied in conjunction with taxes on high incomes and high pay ratios.

Some experts propose that a global wealth tax should be introduced, which would help to capture at least some of the tax that is missed because of foreign ownership and money being hidden in offshore tax havens.

Predistribution of income and wealth

Each of the above proposals have merit. However, they constitute a 'redistribution' of income and wealth after high incomes have been received and substantial wealth has been accumulated. In addition, individuals and companies would find ways to minimise the impacts of these new taxes.

Other initiatives are therefore also needed that provide incentives to all concerned to avoid high incomes before they are received. These mechanisms would relate to the ‘predistribution’ of income and wealth.

Companies that have pay ratios above certain levels should not be eligible to be awarded government contracts, be paid government subsidies, or receive tax concessions.

Rory Ellison