Submission to the Productivity Commission on the Inquiry into Building a Resilient Australian Economy

# Resilient by Design: Securing Productivity in an Uncertain World

David Lee
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# Executive Summary

Australia's economy is productive, but not reliably resilient - and not fair enough. The gains from productivity have increasingly pooled at the top, while essentials (housing, energy, food) bite harder for low and middle-income households. That gap is a resilience risk: it weakens social cohesion, dampens demand, and amplifies political volatility.

The rising tide of productivity should lift **all** boats, not just the luxury yachts.

This submission lays out a package to hard-wire fairness into resilience:

- **Cost-of-Living indexation (not CPI alone):** Move wages and safety-net indexation toward a tailored Cost-of-Living Index (CLI) or a Hybrid CPI+modifiers model that reflects real household baskets by region and income.
- **Smooth, cliff-free taxation:** Replace sharp thresholds with smoother progressivity to reduce disincentives and volatility (especially near transfer cut-offs).
- **Negative income tax-style top-ups:** Automatic, tapered income supports that keep households above a minimum standard while preserving work incentives.
- **Mandatory profit sharing** beyond a profitability threshold (with opt-in incentives below it), so workers share directly in productivity gains.
- **Automatic stabilizers** that activate instantly during shocks (wage subsidies, retraining vouchers, redeployment funds) to avoid ad-hoc, blunt interventions.
- **Housing & equity reforms** to mobilise capital toward productive investment instead of simply inflating asset prices.
- **Supply-chain and trade resilience**, including stress-testing and a CBAM-ready export strategy to keep Australian industry competitive.
- **A modern royalty/ownership model for new resource ventures** (including transition minerals and green commodities) so national wealth compounds across generations - learning from Norway and Qatar.

Done together, these steps make the economy both shock-absorbent and fair, ensuring that productivity again serves people, not the other way round.

# 1. Automatic Stabilisers

## Background / Context

COVID-19 demonstrated that ad hoc supports are too slow and blunt. JobKeeper was effective but expensive, uneven, and reactive. A resilient economy requires pre-programmed tools that deploy automatically during downturns. Programs like JobKeeper were effective in cushioning the shock, but they were also costly, unevenly distributed, and improvised under pressure. A resilient economy cannot rely on designing supports from scratch during a crisis. As an analogy, when designing a car, you design and build air bag systems **in case** you crash, not afterwards. Similarly, we should build **automatic economic stabilisers** that deploy quickly and predictably when economic conditions deteriorate.

## Lessons

International experience shows that well-designed automatic stabilisers reduce both the social and economic damage of shocks.

- Denmark's flexicurity system combines generous unemployment insurance with reskilling opportunities, allowing displaced workers to transition smoothly.
- US unemployment insurance expansions that activate during recessions have consistently cushioned demand and shortened downturns.

These examples demonstrate that pre-set triggers are faster, fairer, and cheaper than improvised interventions.

## Recommendations

Australia should adopt:

- Automatic job shock absorbers: wage subsidies, retraining vouchers, redeployment funds triggered by unemployment thresholds.
- Structural fiscal rules modelled on Chile's commodity-based framework and EU escape clauses.
- Sovereign disaster finance pools and public-private reinsurance (Caribbean CCRIF model).

## Benefits

Automatic stabilisers prevent long-term scarring by cushioning employment and consumption in real time. They lower the need for large, ad hoc stimulus packages and build trust by giving workers and firms confidence that protections are in place. By embedding resilience into fiscal policy, Australia can absorb shocks with less volatility and lower social costs.

# 2. Housing, Equity & Capital Allocation

## Background / Context

Australia's economic model over-relies on housing as both a store of wealth and a vehicle for speculative investment. Household and superannuation capital are disproportionately tied up in unproductive housing assets, inflating prices but doing little to support innovation or job creation. This dynamic makes the economy more fragile: when housing cycles turn, consumption and confidence suffer.

## Lessons

Other countries have demonstrated how household wealth can be mobilised more productively:

- Israel's VC ecosystem shows how mobilising household wealth into startups drives innovation.

The lesson is clear. When savings flow into productive investment rather than speculative housing, innovation ecosystems flourish and resilience deepens

## Recommendations

Australia should develop:

- Tax incentives to channel superannuation and housing equity into productive investment (startups, clean exports, advanced manufacturing).

- Innovation-linked housing equity release mechanisms could also unlock dormant household wealth and deploy it productively.

By shifting capital flows, Australia can reduce the risks of housing over-exposure and strengthen the foundations of a resilient, knowledge-based economy

## Benefits

These measures would not only reduce the vulnerabilities created by inflated housing markets but also increase the supply of capital available for high-productivity activities. The result would be more diversified household wealth, a deeper pool of innovative firms, and an economy less prone to speculative booms and busts.

# 3. Supply Chain & Trade Resilience

## Background / Context

The pandemic and geopolitical shocks exposed Australia's vulnerabilities in critical supply chains, from medicines and fertilisers to semiconductors and clean energy technologies. In addition, emerging trade regimes such as the EU's Carbon Border Adjustment Mechanism (CBAM) threaten the competitiveness of Australian exports unless decarbonisation accelerates

## Lessons

Japan's reshoring and diversification programs demonstrate how governments can reduce dependence on concentrated supply chains by incentivising firms to spread risk. Meanwhile, the EU's CBAM has shown that trade policy is evolving rapidly to reflect carbon intensity, with penalties applied to carbon-heavy exports. The lesson for Australia is that supply-chain resilience and decarbonisation must be pursued together to protect competitiveness

## Recommendations

Australia should:

- Conduct stress tests for critical supply chains.
- Develop a CBAM-ready export strategy for clean steel, aluminium, and hydrogen.
- Support diversification and reshoring where vulnerabilities are highest.

## Benefits

These reforms will ensure that global shocks cause less disruption to Australian industry and that Australian exports remain competitive in a decarbonising world. Greater supply-chain resilience translates directly into economic stability, while a CBAM-ready strategy secures market access for high-value industries.

# 4. Cost-of-Living Indexation (Wages & Welfare)

## Background / Context

For decades, wages and welfare payments in Australia have been indexed primarily to the Consumer Price Index (CPI). However, CPI does not fully capture the rising cost of essentials such as housing, energy, and food, which disproportionately affect low- and middle-income households. This has led to stagnating real wages and widening inequality, undermining both household resilience and social cohesion.

## Lessons

ABS's Selected Living Cost Indexes (LCIs) provide a more accurate reflection of how different households experience inflation. In fact, the RBA recommends that CPI not be used for wage indexation. International experience shows that when indexation better tracks real costs, households are less exposed to unexpected shocks, and inequality narrows. A hybrid approach, combining CPI with modifiers for essentials, can deliver both fairness and simplicity

## Recommendations

Australia should:

- Conduct A/B trial for 12 months:

- Option A: Full CLI by region and income.
- Option B: Hybrid CPI+modifiers.

- Measure outcomes and adopt the superior method, with retrospective catch-up to address accumulated gaps.

## Benefits

Better indexation ensures that real incomes track the costs households actually face, reducing financial stress and building resilience against inflation shocks. Over time, this strengthens aggregate demand and supports social stability.

# 5. Smooth Taxes & Negative Income Tax (NIT)

## Background / Context

Australia’s current tax and transfer system is riddled with cliffs and sharp thresholds. Families lose benefits suddenly as income rises, creating poverty traps and disincentives to work. This structure undermines resilience by discouraging labour force participation and increasing volatility in household incomes

## Lessons

Economic theory and global experience suggest that smoother tax and welfare systems create better incentives and more stable demand. Negative income tax (NIT) models, trialled in the US and embedded in elements of the UK and Canada’s systems, provide automatic income floors that taper gradually as earnings rise

## Recommendations

Australia should:

- Progressive marginal tax and withdrawal rates.
- Introduce NIT-style top-ups that guarantee a minimum income floor, tapering as earnings rise.

## Benefits

Such changes would improve labour supply, reduce poverty traps, and ensure households are better equipped to manage shocks. For government, this creates a more predictable tax base and less reliance on emergency welfare expansions during downturns

# 6. Profit Sharing Above a Threshold

## Background / Context

Over the past three decades, productivity has risen steadily while wages have stagnated. The gap has widened between the wealth generated by firms and the share reaching workers. This trend undermines trust in markets and reduces the resilience of households.

## Lessons

International studies show that profit-sharing schemes can improve morale, retention, and productivity, while ensuring that workers share fairly in gains. They provide a flexible alternative to across-the-board wage hikes, aligning incentives across the workforce.

## Recommendations

Australia should:

- Mandate profit-sharing floors once firms exceed a profitability threshold.
- Offer tax credits for voluntary profit-sharing schemes.

## Benefits

Profit sharing will rebuild the link between productivity and living standards. Workers will directly benefit from company success, while firms gain stronger engagement and social licence. This strengthens household resilience while reducing wage-bargaining frictions.

# 7. Sovereign Wealth & Resource Rent Capture

## Background / Context

Australia remains a global outlier in how little of its resource rents are preserved for future generations. Royalties and company taxes capture only a fraction of the wealth generated by finite resources. By contrast, Norway and Qatar have built sovereign wealth models that turn resource wealth into intergenerational assets.

## Lessons

- **Norway**: Corporate tax 22% + petroleum tax 71.8% (~78% marginal rate). State equity via Petoro (~30% of reserves). Revenues invested in the Government Pension Fund Global (GPFG) with a strict "spend-the-return" rule.
- **Qatar**: QatarEnergy retains ~75% equity in LNG expansions, with IOCs as minority partners.
- **Australia**: ad valorem royalties, PRRT, and recent progressive coal royalties are steps in the right direction but remain limited in scope

## Comparative models: Norway vs Qatar vs Australia

The following table shows how each country captures public value from resources — and what Australia can adapt for transition minerals & green exports.

| Dimension | Norway | Qatar | Australia |
|---|---|---|---|
| Ownership model | Mixed: private firms + **State's Direct Financial Interest (SDFI)** managed by **Petoro**; state also majority owner of **Equinor** | Predominantly **state ownership** via **QatarEnergy**, with IOC partners via JVs/PSAs | Predominantly **private title** with **state royalties** (states/territories) + federal **PRRT** offshore |
| Fiscal take (headline) | Corporate tax **22%** + **special petroleum tax 71.8%** (cash-flow basis); combined marginal **~78%** after | QatarEnergy retains **~75%** in major LNG expansions (e.g., NFE), partners hold the remaining ~25% JV stake; fiscal terms | **Royalties** set by states (ad valorem, commodity-specific). **PRRT** (rent tax) offshore; since 1 Jul 2023, **deductions** |

| | | | |
|---|---|---|---|
| | deductibility mechanics | embedded in JVs/PSAs rather than ad-valorem royalties | **capped at 90%** to raise receipts from LNG |
| Sovereign fund | **Government Pension Fund Global (GPFG)** — invests resource revenues for future generations; strong governance, clear fiscal rule (spend only a small share of fund's real return) | No single GPFG-style fund; state captures value primarily via direct ownership/exports through QatarEnergy (de facto public equity in projects) | No unified resource wealth fund; revenues flow to general budgets (states/federal). Consideration of future-facing funds has been ad hoc |
| Recent policy examples | Cash-flow special tax at **71.8%**; SDFI still ~**30% of reserves** managed by Petoro | North Field East/South: QatarEnergy **75%** retained; IOCs minority stakes for capital/tech | **QLD** progressive coal royalty tiers introduced in 2022, up to **40%** at very high prices; retained by new QLD Govt in 2025 despite industry pressure |
| Applicability to transition minerals & green exports | SDFI-style **public equity stakes** + high cash-flow capture could translate to critical minerals/hydrogen hubs | **Majority public ownership** with minority private partners can accelerate mega-projects while preserving national dividends | Strengthen **royalty settings** for critical minerals; consider **public equity** in new green value chains; tune PRRT-like mechanisms for hydrogen/ammonia (if warranted) |

## Norway – key features worth copying

Two-pillar capture:

- **High cash-**flow **taxation:** corporate 22% + special petroleum 71.8% → total marginal take ~78% (corporate tax is deductible from special tax base). Direct state equity (SDFI) managed by Petoro, representing ~30% of Norwegian oil & gas reserves, ensuring upside participation and control over strategic assets.
- **Savings rule & governance:** Revenues flow to **GPFG**, managed at arm's length by NBIM under a transparent fiscal rule (only a limited share of expected real returns is spent), protecting intergenerational equity .

What to adapt for Australia:

- For **new** resource ventures (no backdating), legislate a **public equity option** (SDFI-like) at FID for projects above a materiality threshold (e.g., >$X bn capex), with clear governance and ring-fenced accounting.
- Apply a **cash-flow tax overlay** to capture rents when prices spike (akin to Norway's special tax), calibrated to minerals and **green molecules** ($H_2$, green ammonia) where rents are likely.

## Qatar – key features worth copying

**Majority public ownership** with global partners: For North Field East (and related expansions), **QatarEnergy retains ~75%**, with supermajors holding minority JV stakes; the JV then holds a tranche of the full project. This blends **state control** with **private capital/technology**.

What to adapt for Australia:

- For **hydrogen, green steel, green ammonia hubs** and **critical minerals processing**, enable **public-majority JV structures** in strategic precincts (ports, pipelines, storage), with private partners on minority stakes and long-term offtake rights. This protects national dividends and ensures open-access infrastructure.

## Australia – where we are now, and gaps to close

- **Royalties:** State-set, commodity-specific, mostly **ad valorem** (WA, SA, QLD etc.) with reforms underway in places like **WA's lithium** regime to encourage downstream processing; historically, spodumene royalty around **5%** (WA) with recent updates to treat feedstocks consistently and promote value-add onshore .
- **Rents:** Offshore **PRRT** now tighter due to a **90% deductions cap** (from 1 July 2023) targeting LNG projects; still narrower coverage than a full cash-flow system for minerals or green exports .
- **Windfall capture: QLD's progressive coal royalty** captures super-profits at high prices (up to **40%** above A$300/t) — a rare example of **price-contingent progressivity** in Australian royalties, recently reaffirmed by the new QLD Government .

## Gaps:

- No national, GPFG-style **sovereign wealth fund** tied to resources.
- Limited **public equity** in projects; we mostly rely on royalties + company tax.
- Rent capture in **new value chains** ($H_2$/ammonia/green steel) is not yet designed; risk of exporting value-add (and public value) offshore.

## A model for new Australian projects (no backdating)

1. Create the “Australian Transition & Prosperity Fund (ATPF)”

- Purpose: aggregate dividends/royalties/taxes from **new** resource and green-export ventures into an intergenerational fund with a conservative fiscal rule (e.g., spend ≤ long-run real return).
- Governance: NBIM/GPFG-style independence, investment mandate diversified offshore to avoid Dutch disease; strict transparency.

2. Offer a standard Public Equity Option at FID

- Default: **10–30%** state equity (range by project type/scale) in **new** critical-mineral mines, refineries, $H_2$, green ammonia and green-steel precincts, plus shared infrastructure (ports, pipelines, storage).
- Structure: **Petoro-like** asset manager to hold/manage equity (ring-fenced, commercially governed).
- Incentives: In exchange, government provides defined **de-risking** (e.g., offtake support, common-user infra, permitting service levels).

3. Calibrated rent capture

- **Price-progressive royalties** (QLD-style tiers) where commodities exhibit volatile super-profits.
- **Cash-flow rent tax overlay** (Norway-style) for projects with high rents and long tails (e.g., $H_2$ export chains), with full expensing and loss uplift to protect downside.
- **Royalty credits** for onshore **downstream processing** (WA lithium direction), preserving national value-add while protecting baseline public take .

4. Open-access precincts (Qatar-style JVs)

- **Public-majority** JV companies own common-user assets (electrolysers, pipelines, storage, export jetties); private partners take **minority stakes** with regulated open access and transparent tariffs.

5. Transition-era safeguards

- Carbon-policy consistency so rent capture doesn't deter investment.
- Stability clauses and clear fiscal rules to reduce sovereign risk.

## Recommendations

Australia should:

- Establish an Australian Transition & Prosperity Fund (ATPF) to save 10% of export rents annually.
- Offer a public equity option (10–30%) for new critical minerals, green hydrogen, steel, and ammonia projects.
- Apply progressive royalties (QLD model) and a cash-flow rent tax overlay for new ventures.
- Use public-majority JVs for strategic shared infrastructure (Qatar model).

## Benefits

Had Australia adopted a Norway-style approach in 2010, saving just 10% of export revenues, the country would now hold an estimated $480 billion fund — around $18,000 per citizen — generating sustainable annual returns of $17 billion for education, health, and infrastructure. Looking forward, such a model would ensure resource wealth builds long-term national resilience instead of being consumed in short-term cycle.

# 8. Integrated Benefits Across the Package

The reforms proposed in this submission are mutually reinforcing. Automatic stabilisers and smoother tax-transfer systems protect households during shocks. Cost-of-living indexation and profit sharing ensure productivity gains flow fairly to workers. Housing and capital reforms deepen investment in innovation, while supply-chain and trade reforms secure Australia's competitiveness. Finally, sovereign wealth and resource rent capture build intergenerational strength. Together, they create an economy that is fairer, more adaptable, and more resilient in the face of 21st century challenges.

# Conclusion

A resilient economy is not a passive outcome; it is the product of deliberate design.

Australia can build a resilient, fair economy by making productivity gains show up in pay-packets and household security — not just balance sheets. That means indexation tied to real living costs, smooth taxes without cliffs, negative income tax top-ups, and profit sharing when firms win. On the resource side, copy the best: Norway's public equity and cash-flow rent capture, Qatar's public-majority JV model, and Queensland's progressive royalties — all feeding an intergenerational Transition & Prosperity Fund.

By embedding fairness into the distribution of productivity gains, building automatic stabilisers, securing intergenerational wealth, and diversifying economic foundations, Australia can ensure that the next wave of productivity truly lifts all boats. The time to act is now.


**About the Author**

David Lee is an engineer and energy professional with more than a decade's experience in complex systems delivery for the Australian Department of Defence. David has since completed a Master of Sustainable Energy at the University of Queensland to focus on climate and energy transition challenges. He now works in the Australian energy industry, specialising in grid connection, system security, and policy reform to accelerate renewable integration. His work combines technical expertise with a systems-level perspective on market design, regulation, and sustainability.