Submission to Productivity Commission Interim Report on Creating a Dynamic and Resilient Economy

Thank you for the opportunity to comment on the *Interim Report on Creating a Dynamic and Resilient Economy* (the Interim Report). I appreciate the PC's open and staged consultation process, particularly the 'Productivity Pitch' element. I expect that the quality and depth of submissions will only improve in subsequent processes.

TLDR: This submission suggests that the preferred solutions put forward in the Interim Report may rely too heavily on economic assumptions that no longer hold, and could benefit from explicit consideration of the following factors:

1. The structural accumulation of wealth at the apex of the economy, particularly in investment property and family trusts;
2. The transformational impact of artificial intelligence on the future labour market; and
3. The need for regulation to be informed by proper accounting for natural capital.

This submission argues for a more wholistic and ambitious taxation reform agenda. It also **suggests a short-term pragmatic compromise,** however, that may be palatable to the current Government.

If the Government is determined to proceed with cuts to the company tax rate this could be done in such a way as to foster the conditions for dynamism without accelerating the cost-of-living crisis. That is, that **the lower company tax rate could apply to new entrants only, and for an initial period of five years**, to stimulate genuine investment in new and diverse companies. It could be accompanied by the **careful introduction of the net cashflow tax** of 5%. In other respects, the predictability offered by Australia's stable company tax rates could be retained to encourage confident long-term investment.

The real problem: Intergenerational decline in living standards

From the reading the background reports it is clear that the aims of the Government's 'Five Pillars of Productivity' inquiries are laudable. We all want to enable our children to "live better and more prosperous lives than the generations who have come before them".

In reality, the prospect of our children living better more prosperous lives is diminishing. Generations born after 1990 are now facing the prospect of lower living standards and life expectancy than their parents[i]. The PC's diagnosis is that falling productivity is to blame, and it concludes that reducing company taxes and further deregulation is the best way to improve living standards. But this assumes that the fruits of productivity gains will automatically flow through to increased wages, opportunities and standards of living. Such a conclusion assumes chains of causation between productivity and living standards that are not borne out by recent experience.

This submission maintains that the next round of modelling undertaken by the PC must apply broader criteria. Specifically, that proposals will not be fit for purpose unless they can be shown to:

- Reverse rather than accelerate harmful trends towards wealth accumulation at the apex of the economy;
- Cushion the population from adverse impacts of AI on employment and boost the entrepreneurial capacity of younger generations;
- Ensure that regulatory reform delivers the intended benefits without trading away natural capital that will provide for future prosperity.

The structural acceleration of wealth accumulation at the apex of the economy

According to the most authoritative national data source on wealth shares, the Australian Bureau of Statistics (ABS) *Survey of Income and Housing* (SIH), five years ago, in 2019-20, the wealthiest 20% of Australians owned 63% of all wealth, while the bottom 20% owned less than 1%. The rate of wealth accumulation has also been unequal, with the wealth of the top 20% increasing by 25% in the ten years to 2019, while that of the bottom quintile increased by only 7% in the same period. After a long period of stasis and a lull during the Covid period, Australia's Gini co-efficient for wealth (.34) has started to climb[ii]. Ideally government intervention would seek to turn around this wealth intensification which has detrimental impacts on many domains, including life expectancy.[iii]

Australia's existing wealth could be more productively deployed

Australia is the fourth richest country in the world according to Credit Suisse's Global Wealth Report (2021) with the average wealth per person in Australia in 2020 estimated to be $628,000[iv]. By any estimation, Australia has sufficient wealth to fuel its own productivity, if only it were deployed to productive purposes and in ways that benefit the broader Australian society.

Much of Australia's wealth is held in the investment property sector and hoarded in family trusts.[v] This is a constraining dynamic in two ways. First, it is placing upwards pressure on the cost of living through housing prices, and secondly it withholds capital from more active productive investment.

- ATO data show more than 1.9 million Australians own investment properties, many negatively geared.
- Research suggests up to 20–30% of investment properties may be vacant or underutilised at any given time.[vi]
- The result is **capital locked in idle housing stock**, inaccessible to younger generations and unproductive for the economy.

For young Australians, this creates a cycle: higher rents, larger mortgages, limited savings, and reduced capacity to invest in business formation or innovation. Wealth accumulates in unearned capital gains rather than productive enterprise, undermining the very dynamism the PC seeks.

One of the most important things the government can do is to review taxation concessions (and other initiatives like the new deposit guarantee) to ensure that they do not have inflationary impacts on the residential property sector. It was a government aim in the past to encourage inflation in the property market to provide greater yields for investors, and this has contributed to the problems currently faced by our young people.

The transformational impact of artificial intelligence (AI) on the labour market

Mainstream economics in the 20th and early 21st century has been premised on the pre-eminence of economic growth fueled by productivity. It has assumed a chain of causation that increasing competition will improve productivity which will encourage further investment leading to higher real wages and improved standards of living. In reality, GDP has become uncoupled from living standards for some time now. The link between growing productivity in successful firms and increases in wages is predicated on a competitive labour market. This link is already being disrupted by the impact of AI, which is having a discernible impact on the entry level jobs markets in the US and the UK. This is particularly affecting white collar jobs, where intakes of graduates have dropped noticeably in the last five years. The adoption of AI appears likely to put downwards and not upwards pressure on wages.

This foreshadows massive uncertainty in the labour market. Estimations of the scale of impact on employment range from modest temporary effects to a dystopian 99% unemployment rate, as ultimately all but a tiny subset of jobs can be done through AI and robotics (AI safety academic [REDACTED]). Which prediction is closer to the mark is yet to be seen, but one thing emerging from the research is that the public perception of the impact will be greater than the actual impact and this will affect confidence and behaviours. Hopefully the most dire predictions will not come to fruition but the government must at least consider worst case scenarios in order to prepare for this time of transition.

Company tax proposal

The PC favours reducing company taxation revenue to boost additional investment in the productive economy. By its own calculations the ultimate impact will be modest and is hypothetical. It states, "…if the corporate income tax rate were reduced to 20%, after-tax profits would increase by 6.7% for all companies with a 25% tax rate currently (those companies earning less than $50 million per year) and by 14.2% for all companies with an annual turnover of between $50 million and $1 billion per year".

Most of the monetary benefit will therefore **accrue immediately to shareholders** which will disproportionately benefit the most wealthy, since an estimated 64% of the value of shares and other financial investments and 66% of the value of investment property are held by the wealthiest 10% of Australians.[vii] The PC draws on Tulip Economics' estimation that "a five-percentage point cut in the company tax rate would induce companies earning less than $50 million in revenue to reinvest 9.2% of their additional after-tax profits in capital expenditure". So the hypothesised flow on benefit of greater investment in the wider economy is only a miniscule portion of *additional* profits and does not bolster government revenues which will be needed to support living standards for many Australians during the coming transition.

Regulatory Reform Proposals

It's hard to disagree with the general thrust of the Interim Report when it comes to regulation. Over emphasising the potential of deregulation and "red tape" reduction, however, has its dangers. Regulation is not imposed simply to constrain business: it is often the stewardship by which society secures long-term wealth. Governments must seek evidence of the benefits, as well as the costs of regulation.

Calls for deregulation overlook the fact that regulatory systems often **preserve wealth over time**.

- Environmental, planning, and safety regulations protect natural capital — the ecosystems and resources on which future prosperity depends.
- The UN's *System of Environmental-Economic Accounting* (SEEA) provides frameworks already adopted by the ABS for valuing these assets.

Weakening regulation to "cut red tape" may boost short-term investment, but it erodes long-term wealth if natural capital is degraded. Deregulation should therefore be judged not just on cost but on its ability to sustain prosperity across generations. Better, more structured information such as that presented in SEEA accounts can assist in assessing trade-offs (for example between water and data centres).

Careful thought must also be given to unintended consequences. Expectations that approvals will be more rapid and certain will only further encourage speculative investment and land banking, compounding the problems referred to above.

Process of consultation

The PC is doing a good thing engaging the community in economic debate and the 'Productivity Pitch' was a great initiative. Promotion of the pitch process to wider audiences through social media such as Facebook and Reddit would no doubt generate a wider canvas of ideas, which can only help. This is important because in emergent contexts it is valuable to draw on a wider range of perspectives to assist with deliberative processes. Our current dilemmas have been created by the global economic system of the 20th century. We are clearly reaching the limits of traditional economics to anticipate a future that does not comply with its outdated models and, as Einstein observed, new thinking is required to overcome the past and create new futures.

When one looks at the submissions provided to the initial consultation, they are dominated by companies and special interests. These same interests are also well represented in Canberra by lobbyists, and the results in the Interim Report are therefore not surprising. The genuine citizen submissions post Interim Report provide a different perspective and are full of worthy suggestions. They need more comprehensive consideration before being dismissed. Synthesizing and considering input from the public is a difficult but worthwhile art, and one that the Productivity Commission must perfect!

Conclusion

This submission supports the PC's aims of encouraging dynamism and innovation in the Australian economy, as well as lifting investment and productivity. It suggests, however, that over-reliance on cutting the company tax rate, and under-weighting of distributional and asset-market dynamics, may have some unintended consequences. The PC report's recommendations may accentuate wealth inequality and increase relative poverty and hardship amongst the younger generations and those without capital reserves. This could stifle real world innovation, suppress entrepreneurship amongst the non-wealthy and lead to a deterioration in social and economic wellbeing for most Australians.

Instead, this submission proposes a more ambitious agenda. It also presents a short-term compromise that moderates the proposals put forward in the PC report while also stabilising revenue and encouraging diversity in the small to medium business sectors.

1. **Maintaining the current company tax rates for existing companies**. Stability is its own virtue when it comes to long term investment and Australia has benefited from avoiding swings in company tax rates unlike the UK which has dropped and then raised them.
2. **Lowering the company tax rate to 20% for new entrants only, for a period of five years**, to provide incentives for investment in new and emerging industries and innovative developments.
3. **Introducing the proposed 5% net cashflow tax** as proposed.
4. Continuation of lower tax rates should be **contingent on realised benefits**. An evaluation framework using program logic should be put in place before commencing changes.
5. Ensuring that options for regulatory reform incorporate structured analyses of **prevention of harms/loss of public value** as well as costs to business.
6. Continuing the **debate on Australia's taxation system** and broadening it to include the concerns raised by younger generations[viii].

To create a truly dynamic and resilient economy, the PC should also recommend:

- **Housing and asset reform**: Rebalance tax concessions (negative gearing, CGT discounts, dividend imputation, family trusts) to redirect capital into productive uses.
- **Resource rent taxation**: Ensure Australia captures fair value from critical minerals and natural resources.
- **Wealth taxation:** With attention to measures to manage capital flight and retain genuine investment in Australia's economy.
- **Inheritance taxation**: Explore balanced mechanisms to slow intergenerational wealth concentration, including the German model of inheritance tax.
- **Universal Basic Income (UBI)**: By 2030, consider UBI as a tool to stabilise incomes in an AI-driven economy, supporting both resilience and innovation.

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[i] Australian Bureau of Statistics (2021-2023), *Life expectancy*, ABS Website, accessed 15 September 2025
[ii] World Population Review Gini coefficient by country 2025
[iii] Marmot Review 2010 and Marmot Review Ten Years On, Michael Marmot, Jessica Allen, Tammy Boyce, Peter Goldblatt, Joana Morrison, Institute of Health Equity, UK,
[iv] Global Wealth Report 2021, Credit Suisse (2021)
[v] *Wealth Inequality by Asset Types: What's Driving Australia's Wealth Inequality*, The Australia Institute, Matt Grundoff, January 2025
[vi] Prosper Australia, Speculative Vacancies Report 11 2024
[vii] Inequality in Australia 2024: who is affected and how, UNSW and ACOSS 2024
[viii] [viii] Bridging the Generational Gap: Perspectives on tax reform from Gen z and Millennials Think Forward, November 2023