

Big Issues, Clear Solutions: a To-Do List for the next government

Our policy solutions

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| 1. Cut spending by \$15 billion each year for three years | 16. Index income tax thresholds |
| 2. Introduce an independent fiscal commission to set budget caps | 17. Cut company tax to 25% immediately |
| 3. Make subsidies transparent | 18. Reduce marginal income tax rates below 35% |
| 4. Pool state hospital and federal Medicare funding | 19. Indigenous programs should be needs-based |
| 5. Extend the Medicare benefit freeze | 20. End state and federal duplication in Indigenous spending |
| 6. Introduce choice-based Health Savings Accounts | 21. Ensure Indigenous programs have outcomes |
| 7. Include the family home in the pension assets test | 22. Make room for State income taxes |
| 8. Introduce a government guaranteed reverse mortgage | 23. Cut tied federal grants in education, health and housing |
| 9. Deem reverse mortgage income in the pension income test | 24. End the overlap between federal and state departments |
| 10. Pilot a Phonics Screening Check | 25. Simplify the Family Benefit means test |
| 11. Improve Initial Teacher Education | 26. Reduce family benefits for multiple children |
| 12. Introduce student funding vouchers | 27. Index family benefit thresholds to average wages and payments to CPI |
| 13. Reduce planning regulations over childcare centres | 28. Allow local variation in minimum wages |
| 14. Combine Child Care Rebate and Child Care Benefit | 29. Discount the minimum wage for the long-term unemployed |
| 15. Cut onerous requirements in National Quality Framework | 30. Cut penalty rates |

Introduction

Every election campaign seems full of promises to spend more money, raise more taxes and make government bigger. Voters expect politicians to offer solutions to all manner of problems, most of them far outside federal jurisdiction and many of which are not problems government can solve at all.

The best answer is for government to step back. We need to allow people to make their own choices and decisions. Australia has a significant budget deficit and a rapidly growing debt. We cannot afford for an interventionist federal

government to continue increasing its reach over every aspect of our lives. Nor should we want it to.

This policy paper presents 30 proposals for TARGET30, the CIS campaign to reduce government spending to less than 30% of GDP over the next 10 years.

Below are 10 areas where Australia faces significant policy issues, and the 30 real solutions that will put power back in the hands of the voters and money back in the pockets of the taxpayers.

Issue: balance the budget

The federal budget has an unsustainable, structural deficit. We are paying for recurrent expenditure with a debt burden on future generations. The budget needs to be brought back into balance in the next term of parliament.

Solutions:

1. **Cut spending by \$15 billion each year for three years:** the budget deficit has averaged \$40 billion in this term of parliament. To get back to balance, a cut in real spending is needed — rather than poorly thought-out changes to tax concessions, negative gearing, and superannuation.
2. **Introduce an independent fiscal commission to set budget caps:** both sides of politics have supported fiscal rules to limit expenditure and tax increases but these rules have had little effect. An independent fiscal body should set limits on spending and revenue to make these rules work.
3. **Make subsidies transparent:** if the government wants to subsidise particular communities, services or industries these payments should be transparent and reviewable. Governments should not hide this protectionism through preferred tendering or regional cross-subsidies via legislation or government-owned monopolies.

Issue: improve choice in health

Health spending is continuing to grow faster than national income and is the major source of financial pressure on federal and state and territory budgets. To ensure the health system is sustainable in an ageing Australia, action needs to be taken now to achieve better value for our health dollars, foster competition to increase efficiency, and give Australians the choice to self-fund their own healthcare.

Solutions:

4. **Pool state hospital and federal Medicare funding:** develop an integrated, risk-sharing payment model to fund innovative, lower-cost chronic disease services and create financial incentives for start-up providers to enter the market; amend the *Health Insurance Act* to allow private health funds to purchase the same services for their members.
5. **Extend the Medicare benefit freeze:** this will allow copayments to be negotiated openly between doctors and patients — consistent with the AMA's commitment to 'private medicine' and with sound health insurance design principles.
6. **Introduce choice-based Health Savings Accounts:** individuals should have more control over their health outcomes and options. One way to achieve this is by allowing people to opt-out of Medicare and receive an equivalent amount deposited in a personal Health Savings Account.

Issue: make the age pension sustainable

Age pension spending is the largest single federal government payment and is projected to grow rapidly with the ageing of the population. The pension should be targeted at those who need the most assistance, while those who can support themselves should do so.

Solutions:

7. **Include the family home in the pension assets test:** the pension means test should reflect how pensioners hold their wealth, those with property have much greater net worth than those who don't and should receive a lower pension accordingly.
8. **Introduce a government guaranteed reverse mortgage:** enable pensioners to access cheap and secure reverse mortgage options through a government guarantee scheme that ensures their homes remain safe from foreclosure.
9. **Deem reverse mortgage income in the pension income test:** encourage pensioners to take out reverse mortgages by reflecting this potential income source in the pension income test.

Issue: make education policy more evidence based

School education policy should focus on maximising the quality of classroom instruction by promoting and incentivising the use of effective, evidence-based teaching practices. Funding for schools should be transparent, consistent and linked to these evidence-based teaching practices.

Solutions:

10. **Pilot a Phonics Screening Check:** early reading acquisition is a strong predictor of academic performance, and scientific research shows that explicit phonics instruction is a key component. Determine whether schools are teaching phonics effectively by piloting a Phonics Screening Check (PSC) for Year 1 students.
11. **Improve Initial Teacher Education:** instruct and empower AITSL to continue its work on improving the rigor of Initial Teacher Education. Define and assess what existing research says 'high impact', high quality teaching means in practice
12. **Introduce student funding vouchers:** a needs-based, student-centred 'voucher' system for federal funding would improve school choice and provide a greater link of school funding to outcomes.

Issue: make childcare funding sustainable

Childcare is one of the fastest-growing federal government programs, yet costs to parents are increasing and childcare availability is limited.

Solutions:

13. **Reduce planning regulations over childcare centres:** incentivise state governments and local councils to reduce regulations governing childcare centres, such as where they are located, their size, and space allocation, in order to increase availability of childcare places.
14. **Combine Child Care Rebate and Child Care Benefit:** commit to the single subsidy, tapered by income as envisaged by the Productivity Commission, with payment on 'deemed' prices rather than actual fees. This is to control costs to taxpayers and fees for parents.
15. **Cut onerous requirements in National Quality Framework:** staff-to-child ratios for older children should be relaxed and staff qualification requirements for younger children should be lowered. This will reduce barriers to entry and increase supply, as well as reduce costs.

Issue: Taxation is too high

The tax burden imposed by the federal government is above its historical averages and forecast to go well above these levels. In particular Australia's revenue from personal and company tax are both well above the developed world average.

Solutions:

16. **Index income tax thresholds:** bracket creep is a particularly inefficient and punishing tax increase, which hits middle and low income earners hard. Indexing tax thresholds will eliminate bracket creep and stop governments from sneaking extra revenue to spend
17. **Cut company tax to 25% immediately:** this will make Australia's tax system more competitive, driving investment and therefore growth in incomes, wages and the overall economy. A company tax cut is a reduction in the most inefficient tax levied by the Commonwealth government.
18. **Reduce marginal income tax rates below 35%:** cutting marginal tax rates has a strong, positive influence on decisions relating to work, saving and investment. Over time, Australia's very high top marginal income tax rates must be lowered.

Issue: introduce accountability to Indigenous funding

Total government expenditure on Indigenous specific programs and services is estimated at \$5.6 billion but there is very little accountability for how this money is spent. To improve accountability and transparency of Indigenous programs, funding must be delivered on the basis of need, and achieving outcomes.

Solutions:

19. **Indigenous programs should be needs based:** government support and funding must be targeted solely at need in order to address Indigenous disadvantage. No funding should be directed simply on the basis of Indigeneity.
20. **End state and federal duplication in Indigenous programs:** state governments should be fully accountable for state government responsibilities like health and education outcomes, federal governments for federal responsibilities like income support.
21. **Ensure Indigenous programs have outcomes:** all Indigenous spending programs should be measured against specific performance standards, with formal accounting for how money has been spent and documented evidence of impacts and outcomes.

Issue: restore self-reliance to the States

Federalism requires states to manage their own revenues and expenditures. As long as the federal government pays, there is no fiscal incentive for states to improve efficiencies and no political pain for demanding additional revenue.

Solutions:

22. **Make room for State income taxes:** The federal government should cut income tax rates and allow states to levy the difference.
23. **Cut tied federal grants in education, health and housing:** having given the States their own income tax stream, the federal government should end all funding of state responsibilities such as state run schools or hospitals.
24. **End the overlap between federal and state departments:** Duplicating state departments at the federal level is a waste of taxpayers' money. Federal departments with similar responsibilities as state departments should close.

Issue: rationalise family benefits

Family Tax Benefits have grown significantly over the last decade and a half and they now represent the third-largest item of expenditure for the federal budget. Attempts to reform the payments to make them more targeted and reduce perverse incentives have failed.

Solutions:

25. **Simplify family benefit means test:** Simplify the FTB Part A means test by having a uniform taper rate once income reaches the maximum rate threshold. This would simplify four rates of payment to two and target households who need the most support
26. **Reduce family benefits for multiple children:** Target spending to real costs of children by having a reduced rate of payment for second and subsequent children in recognition of economies of scale: a second child is entitled to 90% of the first, a third 80%, and so on.
27. **Index family benefit thresholds to average wages and payments to CPI:** Instead of periodic freezes to indexation, legislating a permanent indexation policy will be simpler, more transparent and predictable, and ensure cuts aren't borne by the most vulnerable.

Issue: fix the Industrial Relations system

Australia's heavily regulated and rigid industrial relations system limits the opportunities for low skilled / low experience workers (particularly youth) and the long term unemployed to get a job.

Solutions:

28. **Allow local variation in minimum wages:** setting a national minimum wage ignores regional differences in cost of living and employment opportunities. Allowing regional variations in the minimum wage will boost employment in regional areas
29. **Discount the minimum wage for the long-term unemployed:** high minimum wages and restrictive dismissal provisions discourage employers from taking on long term unemployed workers and should be amended
30. **Cut penalty rates:** Penalty rates are remnants of an antiquated system and a smokescreen for higher minimum wages for some. Minimum pay and conditions should be the same for all workers and employers.

TARGET30

REDUCING THE BURDEN FOR
FUTURE GENERATIONS

What is TARGET30?

TARGET30 is a campaign to reduce government spending from its current level of more than 35% of Gross Domestic Product (GDP) down to less than 30% over the next 10 years.

Why does Australia need TARGET30?

Having a smaller government will increase economic growth in Australia and strengthen social and family bonds, leading to better communities and better outcomes for all Australians.

Without TARGET30, by 2050 government could be clawing more than 50% of the value of all goods and services produced in the economy.

What does TARGET30 involve?

TARGET30 is a campaign promoting the benefits of small government, supported by a series of research papers and companion activities, including public events.

TARGET30 provides concrete plans and policy suggestions for reducing the size of government in key areas including welfare, education and health care.

The campaign focuses on ensuring the crucial services Australians need are delivered efficiently and effectively by all levels of government while curbing the uncontrolled growth of inefficient spending.
