

## Budget does little to help 'transition' the economy

Written by The Conversation USA

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Ahead of this week's federal budget both [Prime Minister Malcolm Turnbull](#) and [Treasurer Scott Morrison](#)

have spoken of the need for an economic plan to help transition Australia's economy post the mining boom. We asked a group of experts to assess the budget against this stated agenda.

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## Wealth has to be created before it can be distributed

*Beth Webster, Director, Centre for Transformative Innovation, Swinburne University of Technology*

This budget does little to assist Australia achieve its potential growth rate.

If the government was serious about improving the productivity and export potential of Australian industry, it would raise the amount of funding to technology and industry programs beyond the token amounts laid out in the past. On the contrary, the current budget represents a savage 13% cut to industry programs over last year and a 9% cut to the Australian Research Council.

The 2016 budget has been heralded by the government as the budget for jobs and growth. With over 700,000 unemployed people (half of whom have post-school qualifications) and arguably a further 700,000 underemployed, we would do well to focus on jobs.

Economists have long known how to create jobs – expand aggregate demand. The more difficult part however is to create jobs at the same or higher level of productivity as existing jobs. And this is where it matters how governments spend money.

Governments from most advanced countries now have sizeable programs to translate ideas and new inventions into industry. These include innovation procurement programs; incentives and rules to keep knowledge-based products onshore; and networking bodies to bring the research and business sectors closer together. Australia has yet to make a serious commitment to

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compete in the hi-tech global market for products.

Localisation policies, such as growth centres, have been shown across the world to play a significant role in the generation and use of knowledge. Encouraging geographical concentrations of knowledge diffusion creates a virtuous circle. It strengthens the knowledge base of a region which then attracts other innovating firms and further knowledge inflows. Given our distance from global markets, it is a tragedy that we have no policy to deliver fibre-to-the-home communications via the NBN.

Spending on welfare and health – desirable as it is – will not do it. These are essentially consumption items. Even if the additional health and welfare workers are highly productive, we still need to equip them with imported plant, equipment and consumables. To buy these imports, we need to export more, and to export more we need more highly competitive and innovative industries.

Solid economic modelling evidence exists that shows which government programs lead businesses to acquire more sales and exports. This budget ignores these studies. Instead it appeals to short term hip-pocket sentiments leaving the heavy lifting to future governments. This budget blithely ignores evidence that does not support its prior beliefs. It appears to be making decisions in an evidence-free vacuum.

### **What happened to the ideas boom?**

*Roy Green, Dean of UTS Business School, University of Technology Sydney*

We have to look very hard to find the “ideas boom” in this budget.

The breakthrough of the Turnbull government was its recognition that science, technology and innovation are critical to Australia’s transition from the mining boom to a more balanced and diversified economy. This budget was supposed to build further momentum around this transition.

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Last year's [National Innovation and Science Agenda \(NISA\)](#) introduced long overdue measures to boost entrepreneurship and energise collaboration between business and universities. But it only restored \$1 billion of the research and innovation spending that was cut by \$3 billion under the Abbott government.

The question now is whether and to what extent the 2016 budget makes a further contribution to the NISA vision and the development of a competitive and dynamic knowledge based economy. Clearly the small and medium business tax cut through the "10 Year Enterprise Tax Plan" will stimulate activity in the mid-market. But it will just be more of the same.

A tax cut by itself will not build the innovation capability in our firms so essential for ["small specialisation"](#) in global markets and value chains. Nor will the emphasis on startups, welcome though it might be. Here, new measures are thin on the ground – a "regulatory sandbox" for FinTech ventures and a switch in jobseeker support to youth entrepreneurship.

Beyond startups, we need a lot more ["scaling up"](#) in our advanced manufacturing and internationally traded services to fill the gap left by mining exports. This is the key challenge for Australia's economy. But there is no pathway in this budget for achieving a transformation from "business as usual", and the projected cuts to higher education and research further reduce our national capacity.

Already Australia's public outlay on higher education as a proportion of GDP is among the lowest of developed countries, and the government's plans for \$2 billion savings in this area are confined to the small print and budget tables. These could be completely averted by winding back the annual \$5 billion diesel fuel tax rebate. Budgets are about priorities.

## Digital readiness and transitioning the economy

*Marek Kowalkiewicz, PWC Chair in the Digital Economy, with Rowena Barrett, Head of School of Management, QUT and Shahid M Shahiduzzaman, Research Fellow, QUT.*

Treasurer Scott Morrison says Australia's transitional economy needs a plan for jobs and growth. Literacy, numeracy and STEM School education is important to ensure Australians can

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thrive in a digital future. The pre-employment skills training (Youth Jobs PaTH Program) for the unemployed under-25s includes digital literacy. However it does not address those who now face industry and professional disruption due to automation and the changing nature of work. An estimated six million Australians will need digital literacy training by 2025.

Another 100,000 IT workers are needed in the next five years for Australia to compete internationally in the digital economy; figures that the budget does not clearly address. The corporate tax rate cut, as part of the Ten Year Enterprise Tax Plan, *may* provide small business owners with an indirect incentive to invest in innovation. The Fintech Statement has some welcome news but more details are needed. Similarly, the various tax measures, in addition to the NISA, to encourage new innovative entrepreneurial ventures, will be welcomed by the growing startup community.

The digital economy has real potential to spearhead Australia's economy, our international competitiveness and deliver jobs and growth. But significant investment in education is still needed as is encouragement to retrain people and develop their entrepreneurial and innovative abilities. Australia needs digitally literate workers, managers and entrepreneurs. With government they can build an ecosystem to foster a digital revolution.

Given the budget constraints, and the electioneering to come, we are optimistic innovation will remain a focus of the Turnbull government.

*Roy Green was expert adviser to last year's Senate Innovation System inquiry.*

*Elizabeth Webster receives funding from the ARC and the Commonwealth and Victorian Governments.*

*Marek Kowalkiewicz receives funding from PwC Australia, Queensland Government and Brisbane City Council.*

*Rowena Barrett receives funding from Qld Government, Brisbane City Council and PwC Australia for activities related to the PwC Chair in Digital Economy.*

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*Shahid M Shahiduzzaman receives funding from PwC Australia, Queensland Government and Brisbane City Council. He is affiliated with Queensland University of Technology, Australia.*

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