



ACADEMY OF
THE SOCIAL SCIENCES
IN AUSTRALIA

19 January 2017

The Hon Michael McCormack MP
Minister for Small Business
Parliament House
CANBERRA ACT 2601

Dear Minister,

The Academy of the Social Sciences in Australia welcomes the opportunity to make a brief submission to the 2017-18 Federal Budget.

The attached submission recognises that research pays its way. It is a key driver of future living standards. It needs true Budget recognition as an investment that contributes handsomely to fiscal sustainability – and more.

Australia risks under-investing in knowledge. Opportunities exist for innovative support of research.

Two such opportunities that would be cost-effective and could be adopted now in the Budget are:

- income-contingent loans for research and development that partners universities with industry; and
- deployment of endowment funds for research infrastructure, including for social innovation through research such as in disability and health.

These two steps alone could play a big part in a program of progress that delivers growth with equity and sustainability.

The Academy of the Social Sciences in Australia stands ready to assist with further development of these policy initiatives.

Yours sincerely,

Glenn Withers AO FASSA
President



BUDGETING FOR AUSTRALIA'S FUTURE

Summary

Research pays its way. It is a key driver of future living standards. It needs true Budget recognition as an investment that contributes handsomely to fiscal sustainability – and more.

Australia risks under-investing in knowledge. Opportunities exist for innovative support of research.

Two such opportunities that would be cost-effective and could be adopted now in the Budget are:

- income-contingent loans for research and development that partners universities with industry; and
- deployment of endowment funds for research infrastructure, including for social innovation through research such as in disability and health.

These two steps alone could play a big part in a program of progress that delivers growth with equity and sustainability.

Research Investment.

Research is an investment in future benefit. Devoting resources now pays off handsomely in the future.

In purely economic terms the evidence is that research overall pays a real return of around 20 %ⁱ. This contrasts with the government hurdle rate of return of 7%ⁱⁱ. The difference is stark and means Australia is under-investing in research.

Action to remedy this fundamental misallocation for national productivity gain, must be led by government. Private sector entities conduct research, but such are the public good and public spillover benefits not captured in private decision-making that Government must also play a large role to prevent under-investment.

There are a number of ways in which government support of research and development, both through private sector incentives and through direct government support could be enhanced. General university and other Budget Submissions no doubt address some of the pertinent present support arrangements.

But there are two specific problems in present government funding of research that continue to be of concern that this submission wishes to draw attention to for redress. These are:



- the relatively limited direct linkages with industry commercialization relative to other comparable countries.
- the failure to invest strategically and adequately in the research infrastructure that underpins the ongoing research effort.

Research Policy Innovation

Accordingly, this Academy wishes to draw further attention to two specific proposals that would allow enhanced support at a time when considerations of fiscal restraint are said to operate - and which would have the benefit of enhancing fiscal sustainability for the future.

1. Start-Help. The first is to propose Income Contingent Loans for Research and Development for start-ups that work with partner universities. This scheme would require industry- university collaboration for funding. Industry should include community organisations and social innovation.

2. Future Funds. The second is to propose that presently appropriated endowment funds for future investment purposes be dedicated to research. The allocation would provide recognition of research needs and infrastructure for social innovation and advance in areas such as disability and health.

Details of how these two innovative investment funding ideas could operate can be provided by this Academy. The proposals are quite complementary to the general frameworks available to government through recent review processes such as:

- 2016 National Research Infrastructure Roadmap (draft released for comment on 5 December 2016)
- Engagement and Impact Assessment Consultation Paper released for comment by the Australian Research Council in 2016 as part of the National Innovation and Science Agenda.

Good Budgeting

An Income Contingent Loan proposal ensures that there is a return to the public purse from the investment made – both from general economic benefit, but also from direct loan repayment. Linking the scheme to large well- managed organisations in the form of universities guarantees proper selection procedures and financial oversight allied with mechanisms that can be put in place for managerial mentoring and assistance. This is how HECS operates and avoids the problems around less well attested arrangements as seen in programs such as Pink Batts or VET Fee Help.

A Funds allocation for research also retains the good budgeting principle of using endowments for investment and not recurrent purposes, as intended by Treasurer Costello. But targeting some or all of the research to high priority social and health research backed by big investment in a new national data archive would be fully consistent with the best intent of those also suggesting diversion to areas such as NDIS.



For immediate social needs in recurrent outlays other options do exist that do not reduce support of future fiscal sustainability as diversion of endowment funds to recurrent purposes does. Equally, a basic Budget principle is fungability not hypothecations, so that alternatives can readily be considered that better meet sound Budget objectives. For example, a recent Australian Council of Learned Academies report <http://www.acola.org.au/PDF/SAF01/SAF01%20full%20lo%20res.pdf> looks at both economic effects and public attitudes to alternative spending priorities and so shows how reconfigurations across budgets are feasible (section 5).

Indeed the ACOLA Report also shows how such knowledge investment as part of a package of reforms that cover both competition reforms and structural reforms can enhance Australia's future prospects substantially. Specifically such a package could add more than 20% to living standards by 2030 relative to present policy settings (p.14).

ⁱ KPMG Econtech, Economic Modelling of Improved Funding and Reform Arrangements for Universities. June 2010

ⁱⁱ Department of Finance and Deregulation, Best Practice Regulation Handbook, 2010.

