COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Reference: Productivity growth in the Australian economy

FRIDAY, 30 OCTOBER 2009

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

TO EXPEDITE DELIVERY, THIS TRANSCRIPT HAS NOT BEEN SUBEDITED

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

http://www.aph.gov.au/hansard

To search the parliamentary database, go to:
http://parlinfo.aph.gov.au

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Friday, 30 October 2009

Members: Mr Craig Thomson *(Chair)*, Mr Andrews *(Deputy Chair)*, Mr Bradbury, Mr Briggs, Mr Fitz-gibbon, Ms Jackson, Mr Morrison, Ms Owens, Mr Anthony Smith and Mr Turnour

Members in attendance: Mr Andrews, Mr Briggs, Ms Owens and Mr Craig Thomson

Terms of reference for the inquiry:

To inquire into and report on:

The key factors influencing Australia's productivity growth rate, focusing on, but not limited to:

a) trends in Australia's productivity growth rate during the past 20 years and reasons for the recent trending decline;

b) trends in productivity growth rates against other OECD countries;

c) the adequacy of productivity growth measures;

d) the contribution made by microeconomic reform to the permanent improvement in the growth rate of productivity and the continuing effectiveness of the microeconomic reform agenda;

e) the willingness and ability of small and medium enterprise to adopt best practice technology;

f) the adequacy of the level of investment in physical capital;

g) the adequacy of the level of investment in public infrastructure;

h) the level of resources devoted to research and development;

i) the adequacy of resources devoted to training and development of the labour force; and

j) the key reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth.

WITNESSES

ANNISON, Dr Geoffrey, Deputy Chief Executive, Australian Food and Grocery Council 16

BARKER, Dr George Robert, Director, Centre for Law and Economics, College of Law, Australian National University 36

CARROLL, Dr Nicholas Edward, Acting Branch Manager, Strategic Policy Group, Department of Education, Employment and Workplace Relations 2

DAWSON, Ms Sue, Group Manager, Strategic Policy Group, Department of Education, Employment and Workplace Relations 2

GRIEW, Mr Robert, Associate Secretary, Department of Education, Employment and Workplace Relations 2

HARNISCH, Mr Wilhelm, Chief Executive Officer, Master Builders Australia Ltd................................ 26

JONES, Mr Peter, Chief Economist, Master Builders Australia Ltd 26

KIDD, Ms Margaret, Group Manager, Jobs Strategies Group, Department of Education, Employment and Workplace Relations 2

PARKER, Ms Sandra, Group Manager, Workplace Relations Policy Group, Department of Education, Employment and Workplace Relations 2

ROBERTSON, Mr Craig, Group Manager, Strategic Initiatives Group, Department of Education, Employment and Workplace Relations 2

Committee met at 9.14 am

CHAIR (Mr Craig Thomson)—I declare open this public hearing of the House of Representatives Standing Committee on Economics for its inquiry into raising the rate of productivity growth in the Australian economy. To date the committee has received 27 submissions to the inquiry. Submissions have been comprehensive and have raised numerous issues. Today is the second public hearing of the inquiry and is to allow the committee to consider these issues in more depth. As part of the inquiry terms of reference, the committee will investigate the productivity growth trends in Australia and other OECD countries over the last 20 years, the adequacy of investment levels in physical capital and infrastructure, the level of resources devoted to human capital and research and development, and strategic reforms and measures that could be undertaken to lift Australia's productivity growth. We will also consider the appropriate measure of productivity growth.

Today we will hear from the Department of Education, Employment and Workplace Relations, the Australian Food and Grocery Council, Master Builders Australia and the Centre for Law and Economics at the Australian National University. Before introducing the witnesses, I refer members of the media who may be monitoring these hearings to the need to fairly and accurately report the proceedings of the committee. The committee has resolved on the motion of Ms Owens that from 12 pm, in the event that a full committee is not present, a subcommittee comprising me, Mr Andrews, Ms Owens and Mr Briggs be formed to take evidence for the remainder of the hearing.

[9.16 am]

CARROLL, Dr Nicholas Edward, Acting Branch Manager, Strategic Policy Group, Department of Education, Employment and Workplace Relations

DAWSON, Ms Sue, Group Manager, Strategic Policy Group, Department of Education, Employment and Workplace Relations

GRIEW, Mr Robert, Associate Secretary, Department of Education, Employment and Workplace Relations

KIDD, Ms Margaret, Group Manager, Jobs Strategies Group, Department of Education, Employment and Workplace Relations

PARKER, Ms Sandra, Group Manager, Workplace Relations Policy Group, Department of Education, Employment and Workplace Relations

ROBERTSON, Mr Craig, Group Manager, Strategic Initiatives Group, Department of Education, Employment and Workplace Relations

CHAIR—Welcome. Although the committee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission to this inquiry from you. I invite you to make an opening statement.

Mr Griew—Thank you for the opportunity to appear before the committee today. The committee has received our submission and I will make only a few comments. Our submission particularly addresses terms of reference (d) the contribution made by microeconomic reform to the improvement in the growth rate of productivity, (i) resources devoted to training and development of the labour force and (j) reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth. The terms of reference for this inquiry reflect the reality that productivity will be a function of a range of factors: macroeconomic stability, microeconomic reform, technological improvements, private and public capital investment, research and development, and training and development of the workforce.

The committee is meeting with a number of government agencies to gather evidence for this important inquiry. The focus of our department's productivity agenda is really concentrated in four domains: learning and education across the life course, which the Productivity Commission's 2008 work on the national reform agenda estimated could raise aggregate labour productivity by up to 1.2 per cent by 2030; participation, skills-deepening and labour mobility agendas; individual resilience, wellbeing and social inclusion; and the importance of a fair, well-led and innovative workplace. These areas are of course connected, not separate. UK researchers Wilkinson and Pickett in their recent and important work point to the importance of inequality within nations in inhibiting child wellbeing, education outcomes, adult health and a range of other factors intimately connected to productivity growth. Our department's agenda tends to be connected to productivity growth across the cycles. With some factors we focus on having very

important but longer term returns. We have, however, been very concerned about the impact of the global recession over the last year, especially its impact on vulnerable groups and regions within the labour market.

We have had a key role in the government's response, including supporting the macroeconomic measures led by the economics departments. Central for our department has been the implementation of the Building the Education Revolution component of the Nation Building for Recovery stimulus. We have also played a central role in implementing complimentary measures targeting vulnerable regions such as the 20 most disadvantaged labour market areas in Australia. In these we have been responsible for placing local employment coordinators, administering the $650 million Jobs Fund and supporting 20 Keep Australia Working forums with Lindsay Fox and Bill Kelty. These are all aimed at ensuring that local business and community leaders work together to ensure that as far as possible the job and training opportunities created by the various components of the stimulus benefit local businesses and workers in areas that might otherwise not be so well positioned.

The government has also made a number of other policy decisions that we have been responsible for implementing to minimise the impact of the global recession on vulnerable groups. These include: deciding that all entrenched workers will go straight into stream 2, attracting greater support within the new Job Services Australia system; that we would negotiate changes in the mix of productivity training places being delivered by the states to pick up more jobseekers at entry level; and that $100 million from the Jobs Fund would be devoted to a kick-start program for traditional trade apprenticeships over this summer.

The focus of the department's engagement in these measures has been in pursuit of the government's goal to minimise the impact of the global recession, given the tendency for unemployment to come down much slower than it goes up; to impact on lower skilled younger and older workers; to impact unevenly across regions; and to cause a collapse in trade training commencements, which take much longer to reach pre-crisis levels and can limit the supply of skilled workers in recovery.

Now there are encouraging early signs of recovery. Australia has done well, being the only OECD country to avoid a technical recession and having the second lowest unemployment rate. Our department remains committed to enacting the government's continued commitment to avoiding a sticky tail on unemployment, which is still expected to rise, impacting especially on vulnerable groups and regions. We will see through the local measures and the back end of our component of the nation building stimulus program. We also remain focused on the continuous elements of promoting productivity growth that I mentioned at the start. The focus on the Apprenticeship Kickstart is a good example of a measure that is both about social equity, supporting a pathway for young people the global recession has adversely impacted, and about supporting a key measure for long term productivity growth, the supply of tradespeople at the other end of their training.

Productivity growth and microeconomic reform are central to a substantial part of the reform agenda enacted by our department since its creation following the last election. Examples include: universal access to a year of early childhood education before school; a series of agreements with states and territories to improve teacher quality, literacy and numeracy outcomes and the effectiveness of low-SES schools, backed up by a provision of digital

education and a new transparency agenda based around national testing in schools; reform of higher education towards a demand driven system, with targets for improving both low-SES access and the proportion of Australians with degrees; an additional 710,000 vocational education places for both jobseekers and existing workers; a whole new Job Services Australia system collapsing seven programs into one and uncapping access for clients with higher levels of need; and a new workplace relations legislative regime based on the centrality of enterprise bargaining and creating a workplace environment that promotes a sense of fairness and solidarity between employers and employees—which, evidence suggests, will promote productivity growth in the longer term.

It is interesting and a tribute to the culture and institutional arrangements of Australian workplaces—to employers and to employees—that it appears that one of the reasons Australia has not experienced a greater growth in unemployment over the last year is that employers appear to have been keen to maintain existing workforces and that they have been able in large numbers to negotiate shorter hour working arrangements to protect jobs and their workforce for recovery. So our department's commitment to the human, learning and workforce dimensions of productivity growth is strong. This is an important inquiry for Australia's prosperity into the future.

I thought I might usefully finish by drawing the committee's attention to the areas our department, through its submission, would promote as important areas for further consideration related to the promotion of productivity growth. These would include: building on the momentum that appears among international economic thinkers about the importance of human capacity as a measure of the economic wellbeing of nations beyond previous measures of GDP and productivity—the committee may be interested to know that our department and Treasury have identified this as an important area for our future collaboration—further consideration of the coordination of related early childhood development, especially the important non-cognitive element in early years, which Heckman and others identify as a key to life learning; the importance of the wellbeing agenda through childhood and into adult life, as argued by Seligman, where schools can collaborate better with community and health services and vice versa; maintaining the substantial momentum, built in the reform of education at school and post school, towards maximising participation rates for young workers and for older ones too; linking skills and deepening labour mobility in response to growing areas of the economy re-emerging, for example, following the Prime Minister's announcement of the resources task force to be chaired by Parliamentary Secretary Gary Grey; supporting productive workplaces that are characterised by high-quality leadership and innovation and are effective at dispute avoidance and early resolution; and supporting firms well-equipped to innovate and build skills for high-tech, high-reward economic opportunities.

In particular, we would point towards the skills that will be needed for economic opportunities that will be provided by moves to greater environmental sustainability and as a result of the information technology environment of the future. Building on the first point about new and emerging measures of economic wellbeing, we think it is also important to attend not only to the evidence about the productive implications of inequality within nations and, in this light, the continuing importance of closing the gap, particularly for Indigenous Australians, but also to promote social inclusion for regions and groups that are disadvantaged as a measure to maximize the productive utilisation of Australia's future workforce as well as to promote a fairer and more

harmonious society. I thank the committee for its indulgence in allowing me to make those opening remarks.

CHAIR—Thank you for that. We will start off with some questions and I will kick off. We will also come back to some questions later on from Ms Jackson, who is not able to be here today through ill health. We will do that at the end after everyone else has had a turn. You spoke about the COAG reform agenda and the estimated 1.2 per cent growth in productivity by 2030. Could you give us an outline of what, in your view, the key reforms are that will bring about that productivity growth through this COAG process?

Mr Griew—That 1.2 per cent estimated return from the national reform agenda was work that the Productivity Commission did for COAG and includes modelling on implementing an early childhood development agenda, which would include a focus on early learning, access to high-quality early education and also support for maternal and child health and early development.

CHAIR—So it goes to those areas that you raised at the end of your presentation to us as being key issues.

Mr Griew—Yes, that is right. There is a comprehensive early childhood agenda they modelled. There is a school quality agenda and they were also modelling the return from improvements in the key life transitions for young people, including from school into training and into the workforce. There has been significant cooperation between the Commonwealth and the states and territories in those domains already. Of course, there is always more to do, but the national partnership agreements between the premiers and the Prime Minister—on teacher quality and low-SES schooling, literacy and numeracy, the universal access to preschool, which I mentioned, the youth transitions and some of the increased options in vocational education—are all intimately related to that estimated dividend.

CHAIR—Has there been any work done by the department in relation to international studies both of early childhood and also, more broadly, of money spent in the education space and its effects on productivity? You have given us an example of how Finland in particular has done so well in both. Is there work that you have done on that that you would like to elaborate on?

Mr Griew—I think it would be fair to comment that the department monitors the international evidence closely in all of those areas. It is very supportive of Australian researchers and lead practitioners. Yesterday we had a briefing from the collaboration between the Victorian education department and the Centre for Community Child Health researchers who have been undertaking for Australian governments the Australian Early Development Index work and a set of community studies looking at the current standing of Australian young people, their wellbeing at the point of entry to school and the antecedents in both community service and family factors. That is just one example of where—

CHAIR—But has there been any comprehensive study done? You are making the link, the Productivity Commission made the link, in saying that the big areas for us in terms of productivity growth are in terms of human capital and the resources we put into education, be they early education or education generally—and health. Has there been a comprehensive look at what has happened in other countries around the world to reach these sorts of conclusions, or is

it less scientific in terms of the way in which we have reached those conclusions? Have we done it by observation rather than study?

Mr Griew—I guess there are a couple of points there. We participate pretty actively in the OECD's work. We host OECD study groups, our lead researchers participate in and undertake OECD work around the world. That evidence base is pretty substantial and clear in its indications. The Productivity Commission's work was in fact commissioned by governments for exactly the point you are driving at, which is to harvest from an independent and high-quality source the best international evidence and to apply it to Australian conditions. That was a quite comprehensive piece of modelling. And we attend to the international evidence. I started by giving an example of a study, undertaken with our support, by an eminent group of Australian researchers. My advice to the committee would be that we are incredibly well served by the evidence here. It is much clearer than it was 15 years ago. The neuroscience and the implications of the neuroscience for policy for young children and the transitions into and early years of school are pretty much beyond refute. That is not debated really. There is very solid research on teacher quality and education as well.

CHAIR—You spoke about school participation rates and its contribution to productivity. Could you elaborate a little bit more on what effects greater participation rates at school—kids going through to year 12—have on productivity?

Mr Griew—Access Economics has actually put a number on it. If we increase the Australian average duration of schooling by, I think, 0.15 of the year—we will get you the exact figure—we will get a return of an estimated quantified amount in productivity growth. The link is apparent. More skilled workers on average earn more over a lifetime. They have jobs which have a higher productivity return and are more capital intensive. So if we can do that across a population then we will reap a return.

Access Economics has estimated that lifting the year 12 or equivalent completion rates from 80 per cent to 90 per cent, which is now a goal of Australian governments, could increase productivity by 0.62 of a percent and participation by 0.48 of a per cent by 2040. They are another independent credible modelling agency. The logic is implicit in all the other research I have mentioned.

CHAIR—So what strategies do we need to put in place to help make that happen? It is a compelling argument for the direct effect it has on productivity. Rather than just set those targets, how do we make sure that we meet those targets?

Mr Griew—The view within our agency would be to draw attention to the linked-up nature of the early years and school agendas. For example, if we as a community are more supportive of mothers and young children in the community and through good service provision; if we ensure access to high-quality early learning environments for young children; if we manage the transition into school well, especially for children who are in some way developmentally vulnerable; if the quality of teaching in schools and the leadership within schools is of a high and increasing quality, especially in lower SES areas, then that will all contribute. And then there are a set of things that are important for kids as they go through the next set of life transitions from primary into high school and through adolescence, to ensure that we minimise the number of children who disengage from the protective structures of family and schooling. All of those

things are important. The government has been very committed to this area and through COAG has, of course, had a specific set of targets and partnership arrangements aimed at increasing the school retention rate. This includes thinking somewhat laterally perhaps, compared to the past, and making trade training opportunities available in schools. I think there is also an agenda here about increasing the extent to which schools focus on the wellbeing of young people as well as their learning.

CHAIR—You are here making a submission to us, so this is an area that you would want us to concentrate on towards making recommendations if we are looking at increasing Australia’s productivity.

Mr Griew—Absolutely. We think that is absolutely key and it is why we are pleased within our agency to have colleagues from the early childhood space, the education space, as well as the vocational training and higher education and employment areas and, indeed, workplace relations.

CHAIR—I started with some questions about COAG. Obviously, those arrangements are crucial to this, given that public education is run by the states.

Mr Griew—And the health and early learning services for families.

CHAIR—Essentially, is it about putting more resources in?

Mr Griew—A lot of extra resources have been put in by the Australian government, but COAG is a council of states and territories as well. We would acknowledge that there has been considerable extra effort at the state and territory level as well. There is also an extent to which we all recognise that services can be better joined up, that the quality agenda within services is crucial, and that supporting our professionals is a key. Not all of this, by any means, just comes back to extra resources. The government has been unapologetically pursuing a transparency agenda which is about lifting quality but is also about involving the community and parents. That is an agenda that is important too.

CHAIR—I think the Productivity Commission and you, in your submission, spoke about Australia potentially having a long tail in some of the educational areas. For example, in my electorate, we have high schools with retention rates in the 30 per cents and the best are in the 50 per cents. We have an average of around 44 per cent. This is clearly an example of the long tail. How do we address those areas—the many schools and communities which are a long way off the 80 per cent, let alone the 90 per cent mark? What sort of programs do we specially need to look at in focusing on that particular aspect of our education system?

Mr Griew—There are no magic answers. As you say, there are long-term solutions to some of these things. The national partnership arrangements—various agreements between states and territories—have focused on improving leadership in schools. For example, under those arrangements some of the states have provided incentives for high-quality teachers and educational leaders with good track records to move to more disadvantaged areas and lift the quality of schooling. There are a range of strategies and this in mind for education ministers. I might invite Mr Robertson to say more about this area.

Mr Robertson—Earlier this year the Prime Minister, through COAG, reached agreement with states and territories under the training and youth compact, which is also known as the learn or earn strategy. Essentially that had a number of components. The first one was to set some targets for encouraging young people to stay in school or to participate in a training program of an equivalent status. Then there was also encouragement to pursue further training for people who had left year 12 and were not in work. States and territories signed up to essentially guaranteeing an education or a training place to support those students. The Commonwealth also provided assistance in terms of income support for some of those young people. In addition most states and territories are in the process of implementing changes to their policy settings or legislation settings to encourage these people to stay in school or in training.

Essentially that is a rolling strategy. Some components started on 1 July and the other component, for people who have left school and want to participate in further education or training, starts on 1 January next year. The Commonwealth also entered into a national partnership with states and territories to provide assistance for those young people who may well struggle with transition, either as early school leavers into work or as early school leavers into further study and training. That is in the process of being negotiated with states and territories at the moment. You could say there has been quite a significant joint effort to try to encourage people to stay till year 12 or an equivalent pathway.

CHAIR—This is my last question on this topic. Although staying in school is not the end in itself, it is a means to an end, so the child becomes more productive and has more capacity to gain employment in new industries. The AEU have spoken consistently over many years about reducing class sizes, and the kind of education that is given in schools. Are these important issues that need to be addressed directly as well as in terms of improving productivity?

Mr Griew—Teacher quality, the quality of education, is undoubtedly absolutely of key importance in this area. There are a range of factors that the evidence points to: probably most importantly the quality of teacher skills and teaching practice, educational leadership and the learning environment—in our view those would be the key most important factors.

CHAIR—The educational standard of teachers? There are moves in other jurisdictions for teachers to have master’s degrees as minimum standards. Are those types of things what we need to consider?

Mr Griew—There was comment in the media about giving power to headmasters to select quality teachers in their areas. Like any domain, there is a lot of evidence and probably some diversity of views about which are the most important factors. We pay close attention to the evidence from some of the countries with really strong results. In the national partnership arrangements which are oriented towards improving teacher quality, particularly in schools in disadvantaged areas, there are a range of factors which governments have agreed the states will look at in their implementation plans. Those would include factors like the engagement with higher education providers in improving teacher training and quality; improved performance management and continuous improvement within the schools; improving pay dispersion to reward quality teaching; improving rewards structures for teachers and education leaders who work with disadvantaged, Indigenous, rural and hard-to-staff schools—we talked about that a bit earlier—improving teacher workforce data; as you just mentioned, increasing school based decision making to improve recruitment and staffing mix; and community engagement. All of

those are factors that there is certainly evidence to support. Our view is that they are all worth exploring and there is no magic bullet here.

Mr BRIGGS—On the education aspect of your department: there were several programs mentioned in your comprehensive statement at the beginning. In particular, I am interested in what research you have looked at in relation to a couple of programs in your department and their impact on productivity. The first one is the laptops in schools program. What does the evidence say about how that is helping the education outcomes and, hopefully, our productivity? Has it been researched? Are you doing research?

Mr Griew—I will take that question on notice and ask the experts in that area. We do not have an expert from that particular area here today and I would not want to risk misleading you. There is certainly plenty of evidence about the capacity of the workforce to engage in the digital world.

Mr BRIGGS—I understand that.

Mr Griew—Let us see if we have some specific research. I am sorry; I simply do not have someone here who is an expert in that area.

Mr BRIGGS—That is all right. Secondly, a more well known program—it has been discussed a lot more in this place and in the media recently, and you mentioned it in your opening statement—is the so-called ‘Building the Education Revolution’. In particular, there is the $16 or $17 billion—whatever the figure is today—on school halls. Is there detailed, specific research that the government or your department has done into what bang we are getting for 17 billion bucks?

Mr Griew—I would make two points about that. The first is that Building the Education Revolution is a core part of the economic stimulus, so its primary performance indicator is the speed with which it has been implemented. I can give you some figures on that. At this point, the number of Building the Education Revolution projects that have been approved is in the order of 24,000, which represents just under half of the total approvals within the infrastructure parts of the stimulus. The number of project commencements is in the order of 18,000, which represents over 75 per cent of the commencements. So in terms of the key driver of Building the Education Revolution, which is a stimulus program, it has been implemented incredibly quickly and effectively, and the OECD has commented on Australia’s success in this.

On the question of whether improving the quality of school buildings and learning environments has an impact on the quality of teaching outcomes, there is actually evidence to support that. For example, there was a PricewaterhouseCoopers study in the UK that showed statistically significant gains in education outcomes that resulted from improved learning environments. Those two comments might help on that matter.

Mr BRIGGS—Again, I make the comment that I am after specific detailed research on whether this program—the $17 billion that has been spent—has a direct impact on the productive capacity of the country. This is an inquiry into productivity challenges in the future. These are presumably buildings that will be there for a substantial period of time. Has there been analysis done which shows that they have an impact on our productivity performance?

Mr Griew—I would make the comment that, as I said, the primary purpose of the Building the Education Revolution program was to be a part of the economic stimulus and the strong reason for enacting the stimulus through a school building program was the government's recognition—and the recognition of state governments as well—of the need for improving the durability and quality of school building stock.

Mr BRIGGS—I am sure state governments are saying that.

Mr Griew—I think that would be a view that we would share.

Mr BRIGGS—The answer is no. Is that what you are saying?

Mr Griew—No. I would not accept that.

Mr BRIGGS—Have you done research in the department about the impact on the productivity rate into the future of the $17 billion being spent on these buildings?

Mr Griew—Let me draw the causal connection here. As I said, there is international—

Mr BRIGGS—I do not want a drawing of connections. I want an answer to the question: is there specific research?

Mr Griew—When I answered the chair's question initially about how we engage with the research evidence in all of these programs, I made the point that there is an international weight of evidence to which we closely pay attention. There is good quality research data that points to the importance of school learning environments and in the context of the economic stimulus this is a major program to improve the quality of school learning environments.

Mr BRIGGS—So the answer is, in a sense, no. You are not doing any research into the impact. Given that this is a productivity inquiry, and we are looking at the productive capacity of our economy into the future, that is what my question is specifically about.

Mr Griew—Let me try your question from a different angle. The productive capacity of the economy into the future is clearly related to the quality of school outcomes. I think we have all accepted that today and this contributes to that.

Mr BRIGGS—My next group of questions relates to workplace relations, Ms Parker. We had evidence last week from the Productivity Commission, ACCI and others that the changes in the 1990s to the labour market environment were factors in the productivity surge that we had during that period. I think they called it the 'low-hanging fruit'. What analysis have you done in relation to the changes that were made last year which began earlier—I guess on 1 July—and are continuing, about the productivity impact of those changes into the future?

Ms Parker—There have been a number of pieces of work that the department has done in relation to the Fair Work Act and the related legislation, and they certainly go to economic and productivity-related impacts of the changes. We have done, for example, two submissions to inquiries. One of those was in relation to the transition to forward with fairness bill. We examined economic and social impacts of the abolition of individual statutory agreements, the

impact on employment, inflationary pressures, potential for industrial disputation, and we looked at productivity and sectors that were reliant on individual statutory agreements—

Mr BRIGGS—Like? Which sectors are they?

Ms Parker—There are a number of sectors that used individual statutory agreements more than others—such as hospitality, retail and those kinds of sectors—

Mr BRIGGS—Mining?

Ms Parker—Yes, correct. We also made a submission in relation to the Fair Work Bill itself in February last year. Again we looked at the economic impact of the bill. We looked at how the reforms will support agreement making and the impact of the changed safety net. We also looked at flexibilities that the bill offered around what the government was describing as a 'simpler workplace relations system'. We have also undertaken two regulation impact statements. As you would know, we need to do those as part of introduction of bills, so there was one for the Fair Work Bill itself and there is a bill in the Senate at the moment—the Fair Work Amendment (State Referrals and Other Measures) Bill 2009—which is in relation to states creating a single national workplace relations system. We did two regulation impact statements for those. The department complied in full with the government's best practice regulation requirements. The Prime Minister granted 'exceptional circumstances' from preparing a regulation impact statement at the decision stage for the Fair Work Bill 2008. The Prime Minister and the Minister for Finance and Deregulation agreed to include a regulatory analysis in the explanatory memorandum to the bill. The regulation impact statement for the Fair Work Amendment (State Referrals an Other Measures) Bill was assessed by the Office of Best Practice Regulation as being compliant.

The regulation impact statements are obviously on the public record. There is a fair bit of detail in there around how the new system will improve productivity. The Fair Work Act itself is very focused on productivity. In the sense of the six areas, including bargaining, agreement making, the awards objectives, minimum wages and things like transmission of business, all of the areas within that have as a key object improving productive capacity. So I think the government is very aware of the issue of productivity and the need to ensure that. As I said, we have done quite a lot of analysis through submissions and regulation impact statements.

Mr BRIGGS—You mentioned that you looked at specific sectors and the impact it would have on changing their access to individual arrangements and so forth. What did that research show in relation to productivity?

Ms Parker—In relation to specific industries, what I have is some general advice on that rather than specific industry advice. An example of that is that we have some broader research which says that organisations who have collective agreements, for example, reported higher levels of labour productivity relative to competitors.

We have research by Tseng and Wooden that talks about firms where employees were on enterprise agreements and had nine per cent higher levels of productivity than comparable firms where employees relied upon conditions specified in an award. The Productivity Commission in 2000 showed that collective agreement making is good for productivity. It claims that history has

shown that keeping wage increases in line with productivity improvement helps to contain inflation.

Mr BRIGGS—That is a fair statement.

Ms Parker—As you would be aware, the act does allow for individual flexibility arrangements—underpinned by a safety net, obviously—but it means that within a collective agreement individuals can negotiate arrangements that suit their specific needs.

Mr BRIGGS—Do you check those? Is there official vetting of those agreements?

Ms Parker—Yes. They are checked by Fair Work Australia.

Mr BRIGGS—The individual arrangements?

Ms Parker—I am sorry. No, you are right. The actual clause in the agreement is approved by Fair Work Australia—the wording of it. But we do not check. Individuals and the employer can get out of the arrangements, if you like, by giving notice if they are not happy with them.

Mr BRIGGS—Have you looked at the impact of lower rates of industrial action on productivity performance and, obviously, higher rates of industrial action and the impact that will have?

Ms Parker—We have looked at industrial action in relation to the act itself, in relation to what is allowed and not allowed, so I can answer in broader terms. Obviously, industrial action has an impact on productivity. Our analysis is that the Fair Work Act is quite clearly strict on industrial action. It does not allow industrial action outside the life of an agreement and industrial action is protected only in those circumstances. There are quite strict requirements that are quite similar to the previous Workplace Relations Act around industrial disputes, industrial action and the treatment of those.

Mr BRIGGS—My point is that there is a link between increased industrial action and lower rates of productivity. Is that a fair statement?

Ms Parker—I think that is a fair statement. If people are on strike there is not much productivity happening.

Mr BRIGGS—The last issue I want to deal with is something I know you had a bit to do with in the past: the building industry and the impact of the recent changes in the specific industry legislation and also the ABCC. We have the Master Builders before us later today. I am interested to know whether there has been any analysis done in the department about the increases in the productive performance of that sector since the beginning of this decade.

Ms Parker—I would need to take that on notice. It is not an area that I work—

Mr BRIGGS—Let me put it another way. They have been outside companies, Access Economics or Econtech,—

Ms Parker—That is correct, yes, for the ABCC.

Mr BRIGGS—Which suggests that it has had an impact. I am interested in your department's view as to whether you would agree with that analysis.

Ms Parker—I would need to take that on notice. The research was undertaken by the ABCC, not the department. I am not aware that the department has made any statement on the research. The government has but not the department.

Mr BRIGGS—Thank you.

Ms OWENS—There are a lot of sectors in the economy that are not included in productivity measurements: education is one and health is another. I want to talk to you, as a group of people who measure one of the areas which is not included, about how you measure outcomes. I noticed that when Mr Briggs asked a question about building you automatically talked about outcomes, not outputs, which is one of the big differences between the productivity measurements and the non-productivity measurements. These questions might be a bit patchy because it is a very difficult area for me, but it seems to me that one of the inputs into the outcome of education is the ability of the market to receive it. You are clearly doing work on things like early intervention, which improves the capacity of a child to receive the education services. How do you measure that as an input into education? Or how do you measure its outcome?

Mr Griew—It is certainly the case. I think you have evidence from Treasury before you that indicates the challenges of measuring productivity in different sectors. In terms of what I think the specifics of your question are going to, it has certainly been a big interest within the education and early childhood worlds in the last several years to get a handle on the effectiveness of not just service delivery but community factors in the readiness of children to learn at the point of entry to school and of key transition points through school.

I mentioned earlier the Australian Early Development Index built on a Canadian piece of research, the early development instrument, that is in some ways an attempt to measure the readiness of populations of children in different geographic locations at the point of entry to school and to give us very useful information about the factors that contribute to resilience or vulnerability at a population level. We certainly regard that work as groundbreaking in giving us guidance about factors that are most important at a community level, which would then guide action to improve the graduating class of preschoolers into the school system and beyond. I know that, lest you fear that is just a piece of abstract research, it has been used in the pilot sites—several of which I made a point of visiting in a previous job—by principals in order to act on the information they were getting and improve the relationship of their school community to early childhood groups and services in their area, in order to improve the readiness of their population of children to learn.

Ms OWENS—Again, I know that education is not included in productivity measurement but the inputs or the causes of productivity—technological advance, accumulation of human and physical capital—when it comes to things like education, is the capacity of a market to receive also an input?

Mr Griew—I think the short answer to the question is yes.

Ms OWENS—It is just interesting because there are other areas that are included, like technology which also depends on how well you can use it. It is an interesting area because it is outside of it. In your submission you also talked about motivation, discipline, resilience, et cetera, as perhaps as important as skills in the capacity of a person—it was page six of your submission. It was quite interesting to me because there you are talking about the capacity of a person to use what they have received.

Mr Griew—I am sorry if I am not grasping the detail of your question but the general point here is a point I made in my opening remarks about our interest with Treasury in exploring the questions of measurement here.

Ms OWENS—I was going there next.

Mr Griew—It is that productivity measurement is incredibly important. There is an increasing movement of international economic thinkers pointing us to the importance of a wider measure of capacity as a measure of the aggregate capacity of an economy and the wellbeing of the society, rather than simply as a measure of outputs over inputs.

Ms OWENS—Is that discussion with Treasury at very early stages?

Mr Griew—Yes, it is very early stages but it is work that we have both been attending to. What we have identified is the worth of working together on this.

Ms OWENS—You have not found examples of that elsewhere?

Mr Griew—There are a number of international writers to whom I have referred—Stiglitz or Amartya Sen or Fitoussi—whose work certainly points a direction here. How we might use that in Australia would be a focus of the work that I think Treasury has indicated to you they are interested in, and so are we.

Ms OWENS—Does the department do a cost-benefit analysis on education: these are the inputs and these are the outcomes?

Mr Griew—What we do is participate in the OECD and other organisations. As I said, we are very active in the international collaborations around education measurement, and in comparing our investment and the progress we are making in terms of educational outputs. So there is a whole history through PISA and other measurement collaborations.

Ms OWENS—You said outputs then, not outcomes. So the measurement is outputs?

Mr Griew—I fear to walk into highly technical space here, but I think one could almost describe the measurement in those areas as being outcomes in an educational sense.

Ms OWENS—Okay. Thanks.

Mr Griew—An expert—my colleague—is affirming that yes, we would venture to say that these would be outcomes.

CHAIR—As I said at the start, Ms Jackson, who has been ill for most of this week, is not able to be here, but she did email me some questions that she wanted us to ask. The first is that Treasury and the Productivity Commission have conceded the current measures of productivity growth have limitations—no account of the value of unpaid labour, such as in the work of carers. Do you agree that there is the problem of limitations on the current measures? I think you have actually said that in your opening statement.

Mr Griew— We are basically in agreement, yes. That is not to understate the difficulty of the challenge, nor to say that we would be interested in replacing the measures that we track because, while there may be deficiencies in it, measuring productivity is incredibly important with our current tools as well.

CHAIR—The second question, which you certainly have not had, is that the increase in labour force participation by women has led to increased productivity, and we have had evidence of that. Does it follow that the government should have a high priority to combat barriers to women's increased participation in the workforce?

Mr Griew—The answer to that question would also be yes. There are a number of things that the government has done in this space, including making available training allowance for—for women in particular—classes of job seeker and trainees, and legislating the paid parental leave scheme from 1 January 2011. There are a number of measures continuing to support Australia's high quality childcare system that are all aimed at responding to the aspirations of women generally to participate in the workforce. Also, there is a strong economic argument here, especially given the challenges that we face in participation levels with an ageing population, to make sure that we are not losing public investment in the skills of a big section of our workforce.

CHAIR—I think Ms Jackson, from recollection of the questions she was asking at the last hearing, was concerned about there sometimes being a short-term cost to productivity with some of these programs but that the long-term benefit was one that was worth pursuing. I am interested in your view on that.

Mr Griew—We would agree with that. There is research that I am aware of—at least back to the 1980s—that would strongly support that sentiment. There was a piece of work that Professor Bob Gregory did and published in 1987 or 1988, attempting to calculate the job-creating impact of, for example, public childcare investment. He was looking at the long-term economic outcome from investment in a publicly funded childcare system.

CHAIR—Thank you, and thank you for your attendance here today. It has been a very thorough presentation and we really do appreciate that. There are a couple of issues that you have taken on notice. If you can forward that information to the secretary, it would be most appreciated. You will be sent a copy of your evidence from Hansard. If there are any errors or omissions, can you get on to them so they can be corrected. Once again, thank you for your participation here today.

Proceedings suspended from 10.15 am to 10.33 am

ANNISON, Dr Geoffrey, Deputy Chief Executive, Australian Food and Grocery Council

CHAIR—Welcome. Although the committee does not require you to give evidence on oath, these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission from your organisation. I invite you to make an opening statement.

Dr Annison—Firstly, I offer my apologies for being a few minutes late. I got stuck at the entrance. However, I am here now and am grateful for the opportunity to talk to the committee today. The Australian Food and Grocery Council made a submission to the inquiry, and we were very pleased to do so. The issue of the productivity of Australia's industries, particularly the manufacturing and the food and grocery sectors, is of great interest to us. The committee may be interested to know that since we made that submission we have managed to update some of the facts about the industry that were presented to you. We made the submission in August, and in the last couple of months we have been doing a significant amount of work. We have been trying to get much more definitive information about the size of the food and grocery sector. Only on Wednesday we released our *State of the industry 2009—essential information: facts and figures* report about the industry. I will leave copies of that with you so that you might read it. We also launched this week another document called *A growing and sustainable industry*. In that, we took the information within the *State of the industry* report, put it into a more succinct document and talked about the importance of the industry to Australia. I might make a couple of comments about that and link it back to the Australian Food and Grocery Council.

The Food and Grocery Council represents food and non-food grocery manufacturers in Australia, the latter being manufacturers of groceries of the type that you often find in the supermarket: personal care products such as toothpaste and soap, house care products such as detergents and cleaning aids, and also things like pet care products. On the food side, we represent major manufacturers that you would be very familiar with, such as Kellogg's, Unilever and Nestle at the larger end of the spectrum, and small companies, such as Harvest FreshCuts, Cantarella Brothers, Patties Pies and so on. In the grocery sector, we represent companies like Johnson and Johnson, SCA, Kimberly-Clark and so on.

The reason why we represent both the non-food and the food grocery manufacturers is that many of the issues, particularly in the way the products are moved for import and/or manufacturing down to the consumers, are the same. They share the same supply chain, basically. They go through the same distribution centres and are faced with the same challenges. They are handled through just-in-time supply chains. They are manufactured to very high quality specifications. They are the types of consumables that consumers rely upon every day and purchase almost every day not only to help them with their health in the case of foods and other non-food groceries like suncreams, for example, but also for convenience in the case of cleaning products and so on. So there are many similarities, notwithstanding the fact that there are obviously some specific issues around food, and we do represent a very large part of the food industry. In fact, we represent approximately 80 per cent of the food industry.

I might go on and make a few comments about the industry itself. The size of the industry is significant. In fact, in the document that I will leave you, we have estimated the industry to have

an annual turnover of about $100 billion a year. That makes it Australia's largest manufacturing sector, representing about 28 per cent of total manufacturing in Australia. We directly employ about 315,000 people, and a significant number of those are in rural Australia—almost half, at 152,000. We are a major exporter of value added products—about $25 billion year. We are a significant investor in our own industry. About $3.8 billion was spent on capital expenditure in 2006-07. If you add up all of the expenditure on R&D, it is in the region of $500 million year.

The reason we did this work and brought this together—and you would have read this in our submission—is that we are a major player in the Australian economy, not only in the manufacturing sector but overall, as a major contributor to GDP. We have also made the point in our submission that, despite being a major player, we are, unfortunately, not represented. Neither the Commonwealth government nor government at the state or territory level has a comprehensive food and grocery policy. In fact, one of the reasons for producing the document was to present the case for a food and grocery policy.

You will be aware as much as the next person that the economy is moving into a period of uncertainty, with issues like the global financial crisis and the impact of climate change. The food industry is also faced with those challenges. The food and grocery sector has proven to be remarkably resilient through the global financial crisis. The reason for that is that the types of products we produce are consumed every day and there is an inelastic demand for them, particularly food. There have been some changes in consumption patterns, although most of the evidence is anecdotal. For example, there is evidence that people have been moving from premium goods, particularly in staple foods, to non-premium goods—there has been a bit of a drift to house brands. There has been a growth, however, in things like chocolates and ice-cream, the reason being that if people are unable to go out and buy a new car, at least they can console themselves with a Mars bar or an ice-cream.

More seriously, perhaps, there is some evidence that there has been some pressure on capital expenditure by food companies. This is not a direct result—at least we do not think so, and this is a conjecture, which I will underscore—of the economic downturn here. Rather, a number of our members—food companies and non-food-grocery companies in Australia—are subsidiaries of international companies and are being asked to make a greater contribution from Australian operations to help bolster what might be happening overseas.

Nevertheless, the sector is strong and resilient, and we would like to think that we played our part in helping Australia dodge the worst of the global financial crisis. But we are moving into an area of uncertainty. I will concentrate on food and climate change as an issue. We are well aware that climate change is a reality in the sense that the data is there that suggests that the climate is changing. We do not have the expertise to comment on what the drivers of that may be, but we recognise that the climate is changing and that the government or governments around Australia will produce policy responses. These lead to uncertainty in terms of climate change. We are uncertain about the impact of climate change on production in Australia's agricultural sector and therefore the availability of resources for Australian food manufacturing.

Approximately 90 per cent of the content that goes into Australian food packages comes from Australian produce, so we are highly reliant on production in Australia to meet the needs of the food manufacturing industry. There is uncertainty there in terms of both the direct impacts of climate change and where government policy will finally take us. There is also uncertainty in the

areas of water management for exactly the same reasons: we do not know the long-term implications of climate change on water availability and we do not know what government's overall policy response to that might be. Having said that, the food and grocery manufacturing sector is not a large consumer of water. In fact, we are not a large consumer of energy either, and we are not a large emitter of energy, by and large, compared with other sectors. But there will obviously be flow-on effects of government policy and absolute levels of carbon energy and water available in the economy.

As a result of that, we have faced volatile input prices and those prices have been volatile for a number of reasons; it is not just due to climate. There has been speculation in the commodity sector and there have been other drivers such as biofuel and production overseas which can influence the commodity prices in Australia. Within Australia, also, the manufacturing sector has faced a great deal of price pressure coming onto margins from the retail sector. The retail sector is somewhat concentrated in Australia, as you know. We certainly would not claim that there is any overt market power abuse there and in fact the ACCC in its recent inquiry did not find any evidence of that. Nevertheless, there is significant market power, in the retail sector, which puts pressure on manufacturers' margins and makes it difficult for companies to reinvest in plant and processing and so on and so forth.

I have mentioned that we are a major innovator in the sense that we have a large R&D spend. Notwithstanding that, there are concerns in the council about the level of support from government that is available for R&D. We noted in this document here that the Food Innovation Grants scheme of the previous government was cut back. It was replaced under the current government by the Regional Food Producers Innovation and Productivity Program. That was a smaller amount. We are also concerned about the fact that that granting scheme is focused on technology design, adaptation and adoption and less on real creative and innovation at the research level. One of the flow-on effects from that has been a reduction in resources committed to the sector by CSIRO, with the concomitant flow-on effects to the ability of food companies to access R&D expertise in Australia. So we have been concerned about that. In response, we have been working closely with the primary industry sector; for example, where the Primary Industry Ministerial Council has been conducting, as you know, an overarching review of R&D strategy, and we have been talking about the possible role of the food industry within that context.

I have talked to you broadly about the challenges the food industry faces. I will just move on and talk about some other specific issues that we have: where we see the role of government in creating a conducive business environment.

CHAIR—Particularly as they relate to productivity, because that is the focus of this inquiry.

Dr Annison—Certainly. This is very pertinent to the issue of productivity because, of course, we are talking about productivity of the economy of a whole and the pieces interact. In order for the Food and Grocery Council—in fact, any manufacturing industry—to be highly productive and to be as profitable as it can, the impact of government through regulations is important. Regulation imposes costs on the manufacturing sector and it imposes costs on the food and grocery sector. We do not dispute the need for the sector to be regulated but there is a lot of evidence that the current regulatory system is not serving the food industry well. We have made that clear in a number of submissions to government and, indeed, government is responding through its business regulation reform agenda through COAG.

We do wish to underscore to this particular committee that no matter how productive the manufacturing sector is in purely economic terms—in other words, its efficiency of resource use and so on—that is to no avail if the outside economic conditions created by the responsible government are not also highly aligned with the objectives of improving productivity within the food and manufacturing sector or indeed any sector.

We have mentioned a number of other things in our submission, such as trade barriers, but I will not go into those in great detail. We are a trading nation, and the Food and Grocery Council is an exporting sector. We are highly supportive of both this government's and the previous government's commitment to free trade, and we will do everything we can to support your future efforts in that regard. We mention a few things about other issues affecting the industry, such as waste management, and those are not only in this document that I mentioned but also in the new documents that we are producing. I might finish my opening comments there in the interests of time and of giving you an opportunity to ask some questions—which, of course, I will be happy to answer.

CHAIR—Thank you for that. Before we go on, if you are going to formally table that—

Dr Annison—Yes, I certainly will. I will be leaving these documents with you.

Secretary—Do you have your amendments to the submission here today?

Dr Annison—The submission has not been amended, but the figures in there are now updated and are presented in this document. So we were not intending to amend this one.

CHAIR—That is fine. Is it the wish of the committee that the additional submission by the Food and Grocery Council dated 30 October 2009 be received, accepted as evidence and authorised for publication?

Dr Annison—Would you like us to present it to you as a formal submission?

CHAIR—No, that is fine. We can have it as an exhibit, so let us try and deal with it as such. There being no objection, we will take that document as an exhibit. We will move on to some questions. My seat has a large number of food manufacturers. Sanitarium, MasterFoods and Sara Lee, for example, are within Dobell. There has been an increase in employment in that sector recently, which is a good thing. One of the difficulties that those food manufacturers speak to me about and that you have highlighted in your submission is in relation to a skilled workforce and the difficulties in attracting the right sort of people with those sorts of skills. Do you want to elaborate a little further on some of the challenges that are there and on what we need to look at doing to meet those challenges?

Dr Annison—Certainly. The Food and Grocery Council has been wrestling with this issue for a number of years. We think that until very recent times the problems that the Food and Grocery Council faced were a symptom of the overall skill shortage which was talked about in Australia. We think that the attractiveness of the industry for graduates, either at the university level or for those doing courses in TAFEs, was not as great as it could have been for a number of reasons. Other sectors were able to provide greater remuneration, so we were competing for workers with the mining sector, for example. I am sure you are all aware of the stories about the types of

remuneration that sector was able to offer. Historically the food industry has not offered high remuneration at any particular level. Notwithstanding that, I think the comments I made previously indicated that the food and grocery sector has been very stable and still is stable. So we believe it does offer opportunities for stable careers within manufacturing—and not just manufacturing but other careers that are common to the food and grocery industry and other areas, such as careers in marketing, finance, operations, IT and so on and so forth.

The Food and Grocery Council, working with the Australian Institute of Food Science and Technology, tried to get a better picture of what the industry was experiencing in terms of recruiting a skilled workforce. They were able to play back that it was difficult to recruit, particularly into middle management in technical areas. So there is definitely a shortage of food science and technology graduates who are coming into the program with the right amount of skills. I should say that these are food science and technology, and particularly food technology, graduates. Australia witnessed almost an explosion of food science courses in the university sector in the 1990s, but many of these courses were offered by universities in conjunction with other disciplines, such as nutrition and so on, so they were not really training a large body of graduates that had a full range of skills across the traditional food technology areas.

To be honest, when we quiz food companies on this we also get mixed messages. Some companies are very good at attracting graduates, particularly the large multinationals with very sophisticated career structures within the companies. They have good relationships with the universities. They do student placement programs and give students an opportunity to work within their companies. To be honest, we do not have too many concerns about that end, but I think there is an issue—and I cannot remember whether this is in the submission or not. There are about 7,000 food manufacturing companies in Australia. Most of these companies are very small- to medium-enterprise-size businesses. It is much more difficult for those businesses to attract graduates from the food technology disciplines and food science disciplines into their workforces. There is no doubt about that.

CHAIR—Is this skills shortage having an effect on productivity in this industry? Is it holding it back?

Dr Annison—I think it almost certainly is, but it would be very difficult to document. I think companies are relying more and more on their own resources to train in house. Rather than taking graduates or people from TAFE who are able to come into the food company and immediately, or at least very quickly, come up to speed on what they are required to contribute, they are going through training periods within the company to bring them up to scratch. We have also had evidence—and this is anecdotal—that some companies are bringing back older staff who had previously left the business, because they had been unable to find younger staff to do the sorts of roles that need to be done. There is a difficulty bringing people in at the beginning of their career and if people leave the company for some reason towards the end of their career—and they leave for lots of reasons, obviously—then it is difficult to replace those senior managers even internally. Notwithstanding that, it is an international industry and there is also a lot of evidence that food companies are recruiting from overseas.

Mr ANDREWS—In the section of your submission on climate change it is stated:

The current model does not adequately recognise the impact of an inequitable increase in costs and the consequences for the global competitiveness of the sector.

Have you been able to estimate what that impact is in dollars?

Dr Annison—We have not worked out a direct dollar impact because, as you know, no absolute decisions have been made about the way the new legislation might work. However, we were concerned about the flow-on impact on consumers. We have made some estimates of an impact of between three and five per cent on overall grocery prices, depending really on the impact on our input costs. The input costs from any emissions trading scheme that puts a price on carbon will obviously come through the energy supply in the embedded costs of energy in our products.

Mr ANDREWS—Is that three to five per cent across the board on products manufactured by your sector?

Dr Annison—Yes.

Mr ANDREWS—Have you made any proposals for any specific changes that should be made to remove that impost?

Dr Annison—We are particularly concerned with the impost. Clearly, if it is an impost across all food and grocery products that are available in Australia then it does not affect one particular sector more than another. However, our particular concerns were that the industry is trade exposed. In other words, when we made those comments on the proposals that were being put forward it was not intended, or at least it did not seem to be intended, that imports of food and groceries would have the same cost impost that food and grocery manufactured in Australia would have. That would make imported food and groceries more competitive in the domestic market and home-manufactured goods less competitive. By the same token, it would make our products less competitive in export markets where the same carbon costs were not being incurred by manufacturers.

So it is a case of the industry being concerned about its trade exposure. If you look at the statements we have made—in our press releases, for example—we talk about that as a major issue. We recognise that any legislative arrangements or policy arrangements that attach a cost to carbon—and ultimately that is what all of the debate is about—in order to address the greenhouse gas issue, obviously those costs are going to be spread across the community, the manufacturing sector and the economy one way or another. We would hope that it would be as equitable as possible, but we are particularly concerned if we see proposals put forward that do not recognise that we operate in a global market and our borders are very porous to imported food goods—we do not have natural protection against those, so we rely upon any measures such as the CPRS to be levied on domestically produced goods in the same way they would be on imported goods.

Mr ANDREWS—So you are looking for neutrality in terms of treatment.

Dr Annison—Yes.

Mr ANDREWS—On the same subject, have you made any assessment or had any assessment made of any potential inflationary impact that that increase in the cost of groceries would lead to?

Dr Annison—Only in the sense that we made some preliminary estimates, which I have already referred to. Of course, inflation is an ongoing concept, so we recognise that the imposition would produce an initial increase in prices. As the cost of carbon goes up—and that is what it is predicted to do—there will be flow-on effects on the costs of all products throughout the economy. That is what I would imagine, but I do not claim to be an expert in that particular area or an economics expert.

Ms OWENS—There are some sectors, and food and groceries is not one—making T-shirts is one and washing machines is another—which go though one cycle: the goods hit the market and that is really the end of the cycle. But with education and with food—it is not just your sector where we look at productivity—there is a flow back into the productive capacity of the country in terms of, for example, health—both good and bad—through nutrition. Does the industry consider the impact of the endless cycle that takes place in the productivity circle? And what do you do about it?

Dr Annison—Would you mind explaining a bit further what you mean?

Ms OWENS—The food industry exists in its own right. It considers its productivity and becomes more profitable and more productive in the way it does things. But once the food hits the market and is consumed, it contributes to good health or poor health. That then flows back into the productive capacity of the economy, so it is a cycle.

Dr Annison—Absolutely.

Ms OWENS—That does not happen with washing machines. It does not happen with every sector, but it does happen with food.

Dr Annison—Okay. I think I understand the point you are making. We are extremely aware of that. I have not had it put in quite those terms before, but I think we are very aligned with that concept. I would like to explain why I am saying that.

The documents which were tabled today are the end result of a significant period of introspection within the council. We did some work last year where we went out to our members and other stakeholders and surveyed them not only on how they perceived the Food and Grocery Council but also on what they perceive the food and grocery industry to be. The feedback from that led us to produce a good deal of work and a number of documents. One of the documents that we have internally describes what we are trying to do—create a vision and then have some platforms for it, so the vision broadly—and I did not bring a copy of it with me today—talks about a robust and vibrant manufacturing sector. It talks about it producing clean, green and healthy products; it talks about empowered consumers; and it talks about an appropriate regulatory framework to underpin that.

We are critically aware of the role of food in health, particularly in the current preventive health debate. We have long been talking about food and the food industry being a part of the

solution to the health challenge that the nation faces. If you look at individual food companies and individual food products, there is a plethora of examples of product variants that are specifically designed to assist consumers to select healthy diets. You are very aware of them yourselves. They are the polyunsaturated margarines, the high dietary fibre cereals, the low-salt baked beans—those types of products.

Notwithstanding that, we still have the dilemma that there is a lot of evidence that many consumers are not eating in a manner which is appropriate to their good health, so we are moving more closely and working with government in a number of areas to specifically look at how the food industry collectively rather than at an individual company level can make changes to the food supply that make it even easier for consumers to select healthy diets. We are looking at categories of food and working out if there is a way overall that we can, for example, move down on the salt levels because, as you know, high salt intake is a risk factor for cardiovascular disease. We are taking those sorts of steps. We are doing it because we think it is good for the industry. Ultimately, we want an industry which is exactly what I said before, robust and vibrant and one which meets the needs of consumers because we are a fast-moving consumer goods industry. The companies live and die on their ability to produce products that people come back to, consume and eat, so repeat purchase is the name of the game.

Notwithstanding that—and this is reflective not just of the food industry—we are very aware of the concept of corporate social responsibility and ultimately of the longer term impacts of our products not only on the people who immediately consume them but also on the environment. For example, recycling of packaging waste has been going up significantly and food companies also look after their workforce. There are examples, particularly amongst the bigger multinationals, of companies training people in rural areas of developing countries, recognising that in the longer term those people are not only going to be helping to produce the food that the companies use but that they are also going to be consumers of the food. A productive workforce is a healthy, vibrant, fully engaged workforce and we recognise that food products have a role to play in that. Is that the short answer?

Ms OWENS—Thank you. It is a very significant role.. You also mentioned in your submission that the industry is working very hard to promote Australia as a green, safe food provider. Is that related to productivity? Does the perception of a consumer fit into productivity?

Dr Annison—It fits into productivity in that we are not only seeking the assistance of government but that we are also creating an environment that allows the food industry to flourish and be robust and vibrant. In order to do that, first and foremost we have to meet the needs of consumers because no matter how productive or efficient you are in producing a good, if it does not have an appropriate consumer value proposition it will not sell.

The two things of economic efficiency, productivity in the narrow economic sense, and producing consumer goods are very much aligned. I would also say that in meeting consumer needs and the sorts of things that we are specifically referring to—for example, clean and green—we need better quality control systems. We already have safe green food in Australia effectively, but there is still some work that can be done to improve our quality systems. Improving quality systems is about reducing waste, for example; and that is waste not only because the manufacturing plant is not working properly but waste in making sure that you produce only the product you can sell. That is about not just about the value proposition but also

making sure that product is not going out to the market if the supply chain is compromised in terms of use by dates and that type of thing. So it is about demand forecasting at different times of the year, and it does go up and down seasonally as you would appreciate. There is a range of things that are connected.

Maybe this reflects the fact that I am not an economist—I have a reasonably good understanding of productivity from the economic point of view but I am also acutely aware of all the other factors that feed into the industry—but my view is that ultimately if the job is not done right, if it does not create the value proposition for consumers, then the product does not sell. At least, it will sell once, but we need to sell it more than once.

Ms OWENS—I am not an economist either, which is why I am asking the question really. Most of the theories of productivity that I have read ignore the perception of the consumer and the ability of the consumer to understand, which raises value—

Dr Annison—Let me give you an example. It is said within the industry that 90 per cent of new product launches fail, although this figure is probably not up-to-date. Why do they fail? It is probably because the science of predicting what will work in a market is not as fine as it should be. If we could reduce that failure rate by 10 per cent that would increase the overall productivity of the business.

Ms OWENS—Thank you.

Mr BRIGGS—I have one more question. One aspect of the supply chain issues you mentioned which would impact on your industry is the infrastructure related to getting the produce to and from market. Do you think that the recent infrastructure spending by the government for the long-term productive capacity of the economy has been focused on the right places?

Dr Annison—We probably have not developed a comprehensive view on that. We certainly support reinvestment in Australia's road and rail infrastructure. We are also critically aware that there are problems with the movement of goods through ports, for example. Certainly at that level we support the concept. We also support the concept of a national broadband network, for example. We live in an information age and anything that transfers or enables the transfer of information rapidly can only be of benefit. In fact, to go back to the previous question about quality, we are critically aware that lot of the very advanced quality systems that are being brought into manufacturing processes now critically depend upon the exchange of information up and down the supply chain. So it is not just the movement of goods up and down the supply chain but the movement of information up and down the supply chain. We are very supportive of investment by government, or indeed by any part of the economy, and of anything that makes the movement of goods, services and information more efficient.

Mr BRIGGS—In respect of roads and so forth, which I imagine would be a very important—

Dr Annison—Roads are very important. I heard a figure quoted yesterday—but I cannot quite remember what it was—about the amazingly large number of trucks that are on the road that are actually carrying food and grocery products. It is more than 50 per cent. They are not shipping mobile phones around; they are shipping grapefruit, tinned peaches and sides of beef.

Mr BRIGGS—Would it be fair to say that an important area where government can assist the food and grocery industry is investment in infrastructure in relation to roads and transport? Would that be what you would describe as a high priority area?

Dr Annison—Certainly it is a priority area to make sure that goods and services can move freely through the economy, yes.

CHAIR—Thank you for your evidence here today and your very comprehensive submission. The secretariat will be in touch with you about some of the issues we raised earlier with the exhibit and whether we update your original submission.

Dr Annison—Thank you very much. It has been a pleasure talking to you.

[11.16 am]

HARNISCH, Mr Wilhelm, Chief Executive Officer, Master Builders Australia Ltd

JONES, Mr Peter, Chief Economist, Master Builders Australia Ltd

CHAIR—I welcome representatives of Master Builders Australia to today's hearing. Although the committee does not require you to give evidence under oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission from you. Are there some opening statements you would like to make?

Mr Harnisch—Thank you. We will make a very short opening statement to perhaps allow for a more extensive dialogue.

CHAIR—I know Mr Briggs has got a lot of questions he is very keen to ask you.

Mr Harnisch—I will make a couple of statements, though. We welcome the inquiry and the opportunity to appear here today. Raising the level of productivity growth is fundamental to Australia's global competitiveness and domestic economic wellbeing but more importantly to Australia's social wellbeing, because in the end the economy exists to help its population. Maintaining Australia's productivity level is not something that can be relaxed. Competition globally and domestically is relentless and, as Dr Ken Henry said in a recent speech, 'The task of economic reform is ongoing and must continue.' It is not one of those things that one must do once in a while. The reform is ongoing and the review for reform must be ongoing.

Our focus in our submission is the role of the building and construction industry. It is a major driver of the Australian economy. It makes an enormous contribution to the wealth and welfare of this community. Gross value added by the building and construction industry is around 7.5 per cent of GDP. It generates about 950,000 jobs or nine per cent of employment. Master Builders has projected that the cumulative task over the next decade for the building and construction industry—recognising there are short-term volatilities, particularly today—will result in around $2 trillion worth of work done, requiring a workforce of around 1.2 million plus.

It is a huge task ahead and it is a huge investment. This projected level of investment cannot be stifled by barriers to productivity. Our industry have identified key areas for lifting productivity, and that is set out in section 3.1 of our submission. Certainly, industrial relations has been one area. I refer the committee to sections 8 and 9 of our submission. The point we make is that while productivity generally has declined to 0.3, compare this to the building and construction industry over the same period in the last few years, where there has been an increase of one per cent. Had it not been for the building and construction industry's contribution to that productivity, there would have been a worse outcome for the overall Australian economy.

I would refer the committee to a study that we undertook that was prepared by KPMG. Their conclusion was that the reforms in industrial relations for the building and construction industry led to a:

10.2 per cent outperformance in construction industry labour productivity compared with predictions based on historical performance …

It also concluded that there was:

… an ongoing economic welfare gain to the community of $5.5 billion per annum.

This is, obviously, a positive contribution and we would like that to continue. Any winding back of those industrial relations reforms would be, we believe, a negative.

The other points that are equally important key drivers for lifting productivity growth are building regulations and tax reform. We have made a submission to the Henry review of tax of the key drivers that we believe are important. We do deal with that in our submission. The whole issue of housing affordability and that we do, as part of the lifting our productivity growth, have affordable housing is important. In that regard the whole area of public housing is important. The issue of continuing need for investment in global infrastructure is important. For us, skills formation and training of our young people are equally important drivers.

The essential message from us to this inquiry is that factors driving productivity growth in the building and construction industry should not be stifled and should be allowed to continue for this industry to make a positive contribution to Australia's economic and business competitiveness, employment opportunities and obviously, as an overarching objective, social wellbeing.

CHAIR—Thank you for that. I have questions in two areas, one of which I know Mr Briggs will go over in more detail but probably from a different perspective. Firstly, skills and training: there have obviously been large investments by this government in terms of productivity places, and the Building the Education Revolution program has an aspect of apprentices being put on. How important is that, with Australia coming out of the global downturn, in making sure that we do not have these skills bottlenecks in the future?

Mr Harnisch—It is critical, but you have got to understand the context of why that is critical and therefore welcomed by the industry of master builders. We have a structural deficit in skills, which is masked by the low level of activity at the moment. But the reality is that the economy will recover. The building and construction industry will be one of the key drivers. Those skill shortages will manifest themselves in high labour costs and delays in delivering vital construction projects, including infrastructure. What have been very important are the government's measures to allow the existing young apprentices to stay in the workforce and to encourage employers to maintain them in employment to make sure that we do not end up with the generational loss of potentially 20,000 apprentices exiting this industry. So those measures are very important as a short-to medium-term measure.

CHAIR—I have one other question, and it is in relation to industrial relations. Clearly a workforce is not productive if they are on strike or there is industrial activity. No-one can argue with that. You would have to concede, though, that in industrial relations there is always a trade-off between the issues of fairness and the rights of association, and purely market-driven strategies that are there. We are in a western democracy and, by its nature, workplace relations

are impediments that are always there in front of business; that is part of the mix of trying to get that fairness and balance right. Would you agree with that general proposition?

Mr Harnisch—As a general proposition we would support that. We have always supported that and we are on the public record as doing so. The debate, of course, will be about the degree to which that is fair. Obviously we support the safety net. I suppose that for this industry, unless you want to extend the debate—

CHAIR—I am sure Mr Briggs will!

Mr Harnisch—there have been some unfortunate and unusual circumstances which have actually driven down productivity.

Mr BRIGGS—Like a royal commission.

Mr Harnisch—Therefore, the reforms that have been made in industrial relations are important. We do not believe that we have stripped workers' rights in any sense at all. We would argue to the contrary—that in fact there have been other negative effects. Given that this hearing has an economic focus, unless people want me to elaborate, I will stick to the economic argument that the industrial relations reforms have lifted productivity significantly and have generated a significant welfare gain to the community.

Mr BRIGGS—You will not be surprised that I have some questions in relation to the last issue you mentioned, Mr Harnisch. There are two aspects of the industry-specific reforms that you are well aware of that occurred in 2003 and 2005. The first is the industry-specific laws that dealt with recommendations from the royal commission. The second is the establishment of the ABCC, the industry-specific regulator. In your submission you outline the Econtech report into this industry and the productivity increase because of the laws. I am interested in your views on the impact of the ABCC in particular and the focus on your industry by that agency and how that has helped or hindered your industry's productivity performance.

Mr Harnisch—There is a short answer, but I will end up putting it into some context. The short answer is that it has been very positive. It has restored industrial peace. It has restored lawful behaviour. We have a situation where, for the first time, employers and employees are actually working constructively together in putting together workable arrangements that suit both the contractor and the employee in terms of how we put a building together. There has been incredible industrial peace. The reports I am getting from my members are that not only their senior managers but also their workers—

Mr BRIGGS—Do you have particular figures which show the drop in the level of industrial activity in the sector?

Mr Harnisch—Perhaps Peter has the exact number, but the ABS statistics quite clearly show that industrial disputation has gone from record highs to almost zero days lost due to industrial disputation. That obviously must be a huge improvement in productivity and savings to the community.

Mr Jones—The only thing I would briefly add to that is that the figure is something like a ninefold reduction in industrial disputation in the last few years as a result of the industry reforms.

Mr BRIGGS—With your economic background, I presume you would agree with the evidence we had from the department and Ms Parker, who I am sure you are familiar with, that it was quite obvious that, if you did not have industrial activity, you had higher productivity because people were working.

Mr Jones—Totally.

Mr BRIGGS—So that ninefold decrease would therefore be a huge productivity boost.

Mr Jones—There are substantial benefits to all involved and the overall economy. Just to reiterate Mr Harnisch's introductory remarks, as a result of the reforms and the improvement in productivity, the KPMG and Econtech bottom line results suggested there was an increase in output for the Australian economy, a reduction in inflation and benefits to the community in terms of consumer welfare of an ongoing $5.5 billion.

Mr BRIGGS—For the committee, I think it would be worthwhile to remind us of how big a contribution your industry makes to the Australian economy.

Mr Jones—In terms of output it is 7½ per cent and over nine per cent in terms of the workforce. It is close to one million employed: 980,000.

Mr BRIGGS—Just turning back to the first question, which was in relation to the ABCC; we talked about the two aspects of the reforms. What do you see the dangers are of any policy which seeks to remove the industry-specific role of the ABCC?

Mr Harnisch—In an economic context, the big risks—and we are already starting to see those risks coming to fruition—are greater disputation, higher labour costs, just generally less productivity and the return of a culture of fear and intimidation that has, unfortunately, been prevalent in this industry. Those are all stifling factors.

When you talk about the so-called welfare gain, you have to understand what that means in real terms. If you look at it from the community perspective and, therefore, taxpayers' dollars, we now can build more hospitals, more schools and more medical community services with less taxpayers' dollars because of the productivity gains. Given that this nation and this government, quite rightly, have intended to undertake significant reform and investment not only in our urban infrastructure but our other economic infrastructure—and there is also social infrastructure—which all will involve construction in one form or another, we are asking if it can be justified that one group of people are effectively holding the Australian community and the economy hostage because of what we see as unjustifiable and unlawful behaviours.

Mr BRIGGS—You mentioned at the start of that answer that you were starting to see it already from, I presume, the indication that the policy is about to be changed. Do you have specific examples of where this is starting to increase industrial activity and, therefore, reduce the productive capacity of our economy?

Mr Harnisch—Yes. In new rounds of EBAs the unions are asking for significant increases in wages. We are getting anecdotal reports—because no one is prepared to put it on the record—that unions are becoming far more emboldened in their relationship with contractors—I have said it publicly. They are making friendly overtures to contractors, reminding them that the industrial relations game has now changed and they are seeking the contractors' cooperation in terms of this new industrial relations environment. That is a polite interpretation of what is actually being said on construction sites.

Mr BRIGGS—If you remove the ABCC, who I presume have been there to enforce the law, you are opening that connection: if the ABCC goes and is taken off the building sites, then it will return to the culture that Cole royal commission found?

Mr Harnisch—That is the uniform view I am getting from all the contractors. That is the fear, and that fear is not just a fiction; it is already happening now, but they are very reluctant to report it for the fear of retribution. We are seeing a return to the code of silence which, unfortunately, was a characteristic of this industry prior to the Cole royal commission.

Mr BRIGGS—Just more broadly on workplace relations changes over the last 12 or so months: how do you think the changes in relation to the Fair Work Act and the bargaining provisions—particularly the good faith bargaining provisions—will impact on the productive performance of the economy going into the future? Specifically, the ability of third parties to intervene into agreement making—how do you think that change in Australia's law will impact?

Mr Harnisch—In part you would have to say it is too early to tell because, obviously, it does not kick in until 1 January. You could argue that, in part, it is going to be speculation. The test that we would put across it is that, in going forward, labour productivity must be one of the key drivers in making sure that Australia's economy remains strong. What that means is that there needs to be flexibility for contractors, for employers and for employees to negotiate outcomes. There has to be a situation where there is no bullying on worksites and that is a commitment that unions and governments have made. We recognise that the electorate has voted in a Labor government and we accept that. That is good Australian democracy at play. We respect the right that the Labor government has to change the industrial relations regulations. We accept that there is a different emphasis, but our point that the Prime Minister and the Deputy Prime Minister have always emphasised the importance of productivity still holds. The degree to which the new industrial relation law adds or detracts from productivity is what we will be testing from 1 January 2010.

Mr BRIGGS—The last issue I wanted to deal with is OHS. That is a big part of your industry because it is a dangerous industry. The work conducted is at times hazardous. There has been movement through COAG and by other means over several years to develop a national OHS system. How do you see that playing out for your industry? Do you see dangers or opportunities for the productivity performance of the building industry?

Mr Harnisch—We are on the public record as being strongly committed to improving the safety performance of this industry. It is inherently hazardous in that sense. Our policy is quite clear: we must move to zero deaths. That should be the objective. But we are also of the view that this has to be a cooperative approach; simply to mandate a safety outcome is not the right way. It has to be an appropriate mix of regulation and education, because what is important in

achieving improved safety outcomes is a culture of safety. Regulation cannot achieve safety outcomes by itself, so we are working very closely with the Office of the Federal Safety Commissioner, DEEWR and other government agencies to ensure that we have a positive culture within the industry that leads better safety outcomes. If that is part of the national harmonisation approach of this government then we will support it, but if the outcome is that, as the unions would say, the only way we can get safety outcomes is for the unions to drive that agenda then we do not agree with it.

Mr BRIGGS—In relation to safety: how do you think the ABCC and the Federal Safety Commissioner have impacted the industry in recent years? Of course less time off due to injury means higher productivity.

Mr Harnisch—It has been very positive. Because of additional compliance, it has raised awareness. Through the accreditation of the Office of the Federal Safety Commissioner the standards have lifted. The industry admits that. While they may have begrudged it in the beginning, they do not begrudge it now, because they see the positive outcomes of a safer work environment. So it have had a positive impact. The CFMEU has claimed safety outcomes have bee made worse. There are no statistics that prove it. You understand that in terms of the safety statistics we have to disaggregate what are deaths and injuries caused on a building site from deaths and injuries that have been caused by off-site incidences.

Mr BRIGGS—So would it be fair to say that the ABCC has had a positive impact on the safety performance of the industry?

Mr Harnisch—Yes, it has, in conjunction with the Office of the Federal Safety Commissioner, which is an integral part of the BCII Act.

Ms OWENS—In your submission you touched briefly on the issue of inefficiencies in the development approval process. Could you expand a bit on that and on what suggestions you have?

Mr Harnisch—Development approvals have been the perennial concern for this industry. We are concerned by the multiple layers of the approvals process, not only at the state government level but, increasingly, at the local government level. That has meant that projects are held up for an extraordinarily long period of time. There is a huge holding cost. In an industry which is highly cyclical, to apply for approval only to have it granted in a downturn, when you have expensive holding costs, in the end only leads to decreased housing affordability. We have made representations elsewhere in terms of how approvals processes could be streamlined.

Ms OWENS—Could you outline those here, briefly?

Mr Harnisch—Certainly there needs to be clarity in the approvals process. We have argued for the adoption of new IT technology, where development approvals can be lodged electronically. That is certainly one. We have also argued that certain projects should be exempt from complex approvals processes because they are minor in nature and do not have a significant impact. We have argued about the proper role of third-party objections in the approvals process, the problem of the length of time that local governments take and the increasing practice of some local governments of not wanting to make a decision, because they

see it as highly controversial, and referring the matter to a court for decision. I can understand why they would want to do that for political reasons: they can come back to the community and say, 'The court made us do this.' These sorts of impediments have led to a lot of delays in approvals.

Another major manifestation is in the area of land releases. That can be delayed inordinately through the complexity of the process and the introduction of specific levies that local governments impose. All this adds up to considerable increases in upfront costs for land, and obviously that gets translated into lower affordability. Unfortunately, increasingly we will see first-home buyers locked out of the market.

Ms OWENS—You also talk about the developer charges as a hidden tax and argue that they are at the nub of the problem of housing affordability. Can you outline some of those problems and explain them a bit more?

Mr Harnisch—I might get Peter Jones to talk about that. We have lodged a major submission to the Henry tax review on this particular matter, and I am happy to table that submission, called 'Infrastructure charges'. We recognise that local governments are under increasing pressure to deliver a whole range of urban infrastructure services. But increasingly they have done that by imposing more and more developer levies without accountability. We understand the pressures that local governments are under, so the focus of our submission is the fiscal arrangements between the Commonwealth, state and local governments. We believe it is not productive for the industry to simply complain about the developer charges. In our submission we have looked at the underlying fiscal problems facing local, state and Commonwealth governments in delivering affordable housing in terms of infrastructure charges. We are saying that this needs to form part of the Henry tax review, that is, focusing on housing affordability. So we have made 13 recommendations for change to deal with those structural problems rather than dealing individually—for example, rather than saying, 'Let's reduce infrastructure charges or cap them to X per cent of a development approval.'

Mr Jones—We need to make reference to the Governor of the Reserve Bank's recent comments that it would be very disappointing if the strong demand and population growth that we have had and are having translate over the next few years more into increased prices than increased houses. My belief—and Master Builders has been pointing to this over a number of years—is that one essential difference over the past 10 or 15 years in terms of the cycles we see in housing affordability is a structural issue associated with increased taxes, charges and infrastructure levies. This is one seriously important component. Whilst the evidence is a little bit patchy, we only need to think of the cost of allotments in Sydney in the early 2000s and the way that underpinned a big increase in the price of houses. The paper that we have produced talks about developer charges and notes that they have been one of the fastest-growing taxes in the past few years, as evidenced by a number of organisations, including the Productivity Commission. We try to steer a pathway for the future. We have some solutions in a series of policy proposals to try and make sure that those charges become more transparent, to limit the ability of councils and state governments to impose economically harmful developer charges, to enhance the accountability and transparency of the process and, as Mr Harnisch alluded to, to expand the capacity of governments to raise revenue through more rational meets.

Mr Harnisch—The proposition that we have put in our paper is in the headline 'Infrastructure charges, where bad taxes beget more taxes'. In other words, what is going on in terms of developer charges just leads to a greater drain on the tax system. Let us get back to basics so we do not have a situation where the current government, quite rightly, is investing a whole lot more money seeking infrastructure reforms, compensating local governments for their infrastructure costs and investing more money in social housing to alleviate housing affordability. It would be far more efficient to look at the current tax system, where existing taxes are leading to a deterioration in housing affordability, requiring the Commonwealth government to use even more taxpayers' dollars to try and offset or subsidise those increases. In other words, the community is probably paying three times for something that they should not have to pay for.

Mr Jones—In a sense, there is a vicious cycle developing here that we are trying to point out. There is a high level of developer charges at state and local government level. That leads to lower housing affordability and lower supply, which encourages the Commonwealth government to increase taxes to fund affordability programs.

Mr Harnisch—It does not make sense. In the end, the whole community pays not only in terms of fewer available taxes to do other things but also in terms of taking out a mortgage and the like. Like I said, it is a triple whammy.

CHAIR—Thank you. Is it the wish of the committee that the document prepared by the MBA for the Treasury tax review be recorded as evidence and included in the committee's records as exhibit 8? There being no objection, we will move ahead with that. In my electorate, we have had 10 years of attempts to build Warnervale; there has been a constant battle between the local council and the state government over development levies, and nothing has moved ahead. So from my point of view I have a lot of sympathy with the type of submission you are making there. I have a couple of follow-up questions arising from some of the questions Mr Briggs was asking you. You spoke about the illegal activity on building sites. In your evidence you said that that was anecdotal and that you do not actually have any direct evidence of that to put before this committee or any other committee at the moment.

Mr Harnisch—In what context are you asking that question? The Cole royal commission had lots of examples, as did the ABCC in its work in terms of its prosecutions.

CHAIR—I am going to the particular question that Mr Briggs asked about what has happened since the Labor government has been in office. You made some comment that anecdotally you have heard things but you do not actually have any—

Mr Harnisch—Yes, I do, and they have been on the front page of the Melbourne *Age*. The cases involve the West Gate Bridge and the new hospital in Melbourne. There are other examples in other states, including in WA. So there are public examples of that. There are also public examples in the cases that the ABCC has taken to court or that are currently under investigation. So the evidence is there.

CHAIR—Where there are those illegal activities, they are being prosecuted through the current arrangements.

Mr BRIGGS—By the ABCC, which you are getting rid of.

Mr Harnisch—Yes, they are, and through the courts.

CHAIR—What is your response to changes to the IR system or the workplace relations system having an effect on labour costs? That seemed to be the primary concern that was there. You believe in the market, though, don't you?

Mr Harnisch—When I am talking about a market, I am not talking about an unregulated market, because the reality is that Australia has never had an unregulated market. I think none of the Western countries have ever had an unregulated market. The proof of the pudding is there. Markets have worked, so we believe that the markets should be allowed to work, because they are the best mechanism whereby you can get an efficient allocation of resources—recognising, of course, that from time to time there may well be justification for regulation, where there are genuine market failures, to address those market failures.

CHAIR—There are two things that we can highlight and that have been highlighted in our discussions today that affect the labour market. One is the availability of the labour itself, and you made some comments about labour costs being forced up if there is not the investment in skills. I take it that the other is the role of unions in aggregating the concerns of their members and the effect that that can have on the market in terms of the bargaining power they have with your members.

Mr Harnisch—Yes, certainly unions are part of the equation, but obviously industrial relations legislation itself is another important determinant of productivity.

CHAIR—Do you have evidence that collective agreements in your industry are creating higher labour costs than in other industries in Australia?

Mr Harnisch—The testimony we have put to you and this committee is that, if average wage increases in the construction industry are higher than in other sectors, I think you can draw a fairly strong conclusion that it does increase the labour cost. Labour costs are also increased if there are restrictive work practices that are not normal in other industry sectors. So it is not just the wage rate; it is then the whole issue of how work practices are either flexible or inflexible and obviously how that then impacts on the total cost of labour.

Mr Jones—If I may contribute one small observation, which is, hopefully, a useful example. We talked about the building construction industry-specific reforms and talked about the evidence from KPMG Econtech of a 10 per cent outperformance in construction industry labour productivity over the last few years. To put that in the context of the economic stimulus package, the building construction industry-related components of the packages amount to something approaching $30 billion. If you did not have the benefit of the industry-specific productivity-enhancing reforms, then presumably you would have $3 billion less output for the community as a result. This is a counterfactual example of the benefits of productivity-enhancing reforms.

CHAIR—In a very simplistic look at productivity, if you reduce your inputs your outputs are going to be greater and there is greater productivity. We understand that. I am looking at the importance, in your submission, of dealing with this industry differently from every other industry. I do not think anyone here supports illegal actions and those sorts of activities but I am trying to just focus on those sorts of arguments in terms of that proposition.

Thank you for your evidence today. We will get a copy of what is now exhibit 8 from you, which I think will be very important for us as well. You will be sent a copy of the transcript of your evidence. If there are any errors or omissions, could you please get back to the secretary. Thank you again for your attendance here today.

[11.57 am]

BARKER, Dr George, Director, Centre for Law and Economics, College of Law, Australian National University

CHAIR—Thank you for making yourself available slightly earlier than was originally scheduled. Although the committee does not require you to give evidence on oath, I should advise you these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. You have provided us with a written submission. Are there some opening comments you would like to make in relation to that submission?

Dr Barker—I would very much prefer to respond to the committee's interest in the area but I will give you an overview and an opportunity to reflect, perhaps, and consider what we have done here. My PhD is in economics from Oxford University, so at the Centre for Law and Economics we look at the economic consequences of law and policy. Within that we have three research programs. One is on competition, industry and business regulation; another is on public law and international law and regulation; and the third is on what we call social policy, law and regulation, which covers health, education, welfare and labour.

As part of the competition, industry and business regulation program, we have been trying to examine the effects of the microeconomic reforms on productivity and on law and policy generally. In that context, because the reforms were in large part coincidental with the growth of the internet—from about '94—as with any economic analysis to isolate the effects of legal and policy reforms one needs to control for other factors that might be working at the same time. For that purpose we teamed up with Professor Len Waverman. He was, at the time, at the London Business School. He is now dean at the business school of the economics faculty at the University of Calgary, Canada. We also teamed up with Mel Fuss, who is probably one of the top econometricians in Canada and who is at the University of Toronto. We put together a study based on some theoretical work that Len Waverman had done, trying to understand how the communications technology industry—the internet generally, computers—affects productivity.

His theoretical insight was that, as Robert Solo pointed out in '87, computers were everywhere but in the productivity statistics. Computers came online with the first IBM personal computer in 1984 but they did not show up with a productivity effect for a long period. The insight was that it is not stand-alone computers that may contribute most to productivity but the networking of computers. The core idea in here is to try and test this hypothesis with empirical data. The results of the research are going to be published by Cambridge University Press next year in a book called *Network Computer*. The funding for it in Australia came from an Australian Research Council grant. I think it is a very timely and positive reflection on that program that we were able to offer these research results, which were only just completed last year, to help the committee.

Essentially, we can use the results to explore how the trends in productivity in Australia have tracked, what have been the determinants of those trends and compare them to other countries. The two key differentiating aspects to our research, compared to, say, the Productivity

Commission and other research you will see, is that we alone have got an 18-OECD-country database, with Australia as part of it and with data from 1980 to 2005, which is 25 years. This enables us to study the effect of changes over time in policy, law and investment of capital on productivity. Many of your studies may only look at productivity in Australia or in an industry, or be able to look at productivity as statistic against America or Europe.

The second aspect that takes our research even further is that we are able to control for the multiple factors that influence productivity. We have collected a database from Groningen in the Netherlands. The data set goes through until 2005, where our research ends. We are able to calculate the effect of ICT capital on productivity and non-ICT capital. We know that the productivity of labour, using that as a measure of productivity, depends upon the capital it has available. We break that out into the ICT, which is basically the internet, and the non-ICT, so we can look at how differences in labour productivity between countries over a 25-year period are explained by differences in investment and capital of those two types.

With this model we are then able to also control for reverse causality: the problem that as a country gets richer it uses more computers, so maybe the causality is going the other way—that productivity and wealth, therefore, is influencing the growth of computers, not the growth of network computers influencing productivity. Our conclusions show quite clearly that the spread of ICT capital and differences between nations are major drivers of productivity.

In summary, on page 3 we summarise the results, where maybe as much as a third of the differences in productivity between the US and Australia are explained by differences in ICT capital. In actual fact, in 2000, 44 per cent of the difference in productivity was due to differences in ICT capital. That fell then because of increased investment in Australia relative to the US, explaining 28 per cent of the differences in ICT capital.

What I think is important is the story about how microeconomic reform interacts with the spread of the internet. This becomes clearer in Europe. When I was doing my doctorate in Oxford in 1988 I would send an email to a friend in the room next door. The email would go via Dayton, Ohio. Europe and the rest of the world, to the extent that they were using the internet in the early days, were sending everything to the US to be transmitted back to them. There was a big debate about pricing, because the US telecom firms were charging so much. I think what most economists then saw was that through the process of privatisation and deregulation of telecommunications in Europe—with British Telecom, Deutsche Telekom, France Telecom and others being deregulated—the incentives and capabilities of the managers of those firms increased. The access to capital markets increased and you saw a spread of the internet in Europe. You have seen some catch up in Europe with the US, but when you compare Australia to Europe we are still lagging on productivity. However, the difference is quite different; where Europe is ahead in non-ICT capital, we are ahead in ICT capital.

The point is that the reform process came into play by creating the incentives and capabilities to invest in ICT, and it gave rise to a lot of the productivity growth that we have seen. Computers and the internet by themselves do not lead to the productivity effects. You have got to have a framework of law and policy that creates and supports the adoption. Where we stand is probably not behind on telecom investment, which is another surprising result. A lot of the debate is actually about telecom but when you look at the differences between Australia and other countries it is not telecom but IT penetration. Personal computers are not as widespread in

Australia as they are in other nations. There is maybe a suggestion that the focus on telecom might be slightly displaced and that more attention to other factors may be more important.

CHAIR—What effect do you think the National Broadband Network will have on the public investment in terms of its effect on broadband speeds and the ability to encourage a larger utilisation of computers throughout Australia?

Dr Barker—In terms of productivity, you would be looking at firms for most of the productivity effects. Most firms are located in cities, and most firms already have access to reasonably high bandwidth speeds. Any effect of this broadband rollout is going to be marginal relative to what we have got, so part of that story will be that effectively, with the existing platforms, the gains may not be as great as otherwise. But also, when you ask the question, 'What will be the effect?' it also depends on what the counterfactual might have been. We cannot say, relative to standing still, that something would have changed even if you did not do it.

One of the counterfactuals and other options is obviously spectrum regulation reform, which is an area we have worked on. I am chair of the public policy group of DySPAN, which is the international electrical engineers association. One of the things we are looking at is how spectrum can enable broadband, always connected, always on, computer networks at very low cost. The problem that we face there as an alternative is that a lot of the spectrum is locked up in many countries within government. Martin Cave did a study with us, and he led the treasury study in the UK, which showed that billions of dollars worth of spectrum rights were being retained by government departments which, if released into the market, would probably facilitate the spread of network computers more quickly and cheaply.

Secondly, the way in which the incentives are created for people to trade in spectrum rights is very important. Spectrum rights get allocated to the parties that value them the most. At the moment, even with the parts of the spectrum that are in the marketplace, some of them are locked up in specific uses and are not tradeable. The ability to use spectrum more intensively is growing. My point would be: the productivity effects are going to exist, but they may be not as great as we would think, because we are working from a margin where a lot of firms already have access to the internet. Secondly, you have got to consider what the alternative policies might be and therefore the effect of the policy net.

CHAIR—In terms of looking at where we reform this area, it is in the area of spectrum that we should be putting greater focus?

Dr Barker—I think that spectrum reform is certainly an area in the ICT sector where you could see considerable contribution is to growth at low cost. I think that after the fiscal stimulus package we must be looking for regulatory options, which are lower cost, to achieve our objectives, and so that may shift relatively the position of the spectrum versus fixed-line to the door fibre.

There is a lot at play here on the policy side. If we move on to the question of what the key levers are, I have some thoughts there. I have mentioned the spectrum issue and, staying with ICT, I think that what is in there is a reform that is a quite outstanding feature of the 20th century that Australia led the way in—that is, the creation of property rights in an otherwise unowned resource. The rest of the world copied Australia and New Zealand in that initiative and it has

unleashed huge productivity growth. If you look at the Third World, they do not use landlines; they use mobile networks to communicate. That is how you can network computers very efficiently and at a low cost. That is why they are doing it. That idea of creating, enforcing and respecting property rights is a more fundamental key lever. From a law and economics point of view, that fundamental principle is underlying investment expectations. The ability to appropriate a return from an investment is logically the only reason why people will invest in something. So that fundamental insight from law and economics plays into every industry in a specific way. It plays into the ICT industry by saying that you need to ensure that more tradeable property rights are created in more of the spectrum. At the moment, it is still largely owned as a national asset that has not been privatised and made available to markets to use. That is a possible constraint.

The other way that you would want to worry about it would be in utility regulation, where regulatory authorities or interventions are used to constrain the prices of infrastructure firms or in other ways affect their management decision making and freedoms. That can basically constrain the property rights of the typical corporate and will restrict their ability to raise capital to invest. Creating new property rights in areas that do not exist and protecting existing property rights are kinds of proactive and reactive ways to defend the productivity growth of Australia.

You have got to defend often misguided attempts to limit the abilities of firms to price and devise contractual and other solutions and investment strategies that are profitable because they look big and successful. Moving on to another major area identified in our research, we are a small country and 17 to 20 per cent of the difference in productivity between us and the US is because we are smaller and do not have the economies of scale. With a smaller economy, inevitably you are going to have big, dominant firms in telecommunications. I think there is an inevitable popular distrust of large firms. So protecting the business property of large firms, although often unpopular, is a key contributor to economic growth. We have seen that through studies of many countries around the world and it plays out in the ICT space.

Staying with the ICT space, another issue that I think is important as a key lever is that property rights have been weakened by the internet. People are failing to see that there are always costs and benefits and the internet is having adverse affects on intellectual property rights. We see that in the music industry. They are like the road kill of piracy. Industry’s revenues have fallen by 50 per cent. With copyright, artists and creative works, if people can get stuff for free, they will not pay for it. If they take it for free off the internet then it will not appear in GDP, so it will not appear in our productivity statistics. It will then end up not showing up as an incentive for investment either, so there will be less investment in artists and creativity.

The other prospect is that, if we spread broadband around like they have in Korea, other creative industries are going to have the same effect. The film industry is basically losing ground rapidly in Korea because they have a ubiquitous broadband network built by the government. Now you do not have to rent a program or get pay TV; you just download it. The minute a movie is released in any form, it is on the internet somewhere through peer to peer. Actually protecting intellectual property rights in the digital economy is a fundamental issue, and that requires international agreements. Eight of the 10 bittorrent sites are actually now in Canada because they have a weaker copyright law than Australia.

That is the discussion of how, essentially, law and economics and the enforcement and creation of tradable copyrights plays out in the internet market in three key ways: (1) spectrum as an alternative to broadband investment; (2) existing infrastructure firms being able to rely on their copyrights going forward to facilitate their investment decisions and (3) intellectual property rights protection. I think those three things are very important. I could talk about non-ICT areas, but I think there is enough to talk about just on the ICT space.

Ms OWENS—As a non-economist—in fact, I am a piano player—one of the interesting things about productivity is its focus on outputs. In each of the areas, which are both sectors in their own right and which feed into productive capacity, a lot of the discussion is actually about outcome—as you are talking about, the outcome of a proper IT strategy as a feed in to productive capacity. Do we have a framework that looks at productive capacity—the capacity to grow productivity—or do we simply look at it in retrospect?

Dr Barker—Yes, I think with the framework of economics and the law. Law and economics provide that framework. It is very simple to understand the fundamental importance of property rights if you consider what happened during the Dark Ages in Europe. When the Vikings turned up at harvest time and took the crops, people stopped planting. So what drives productivity is investment and what drives economic growth is investment. It is foregone consumption in this period for benefits in the future. If you cannot appropriate the benefits in the future, you are not likely to invest as much.

The first point is that the real mechanism is the institutional structures around decisions in relation to investment. You have to get those decisions made in a way so that investment resources, which are scarce and have other uses, are allocated to the highest value opportunities then, once they are released to the market, that they are used most efficiently. That story around investment is a fundamental part of the mechanism by which productivity arises. Our study shows that, because we do a statistical analysis where we look at productivity as an outcome and we ask, ‘What are the factors that drive it?’ We know a tree grows because of sunlight, water and soil—lots of factors in other words—but what is really driving the growth of productivity in Australia?

We are finding that capital is very important, of course, because labour without capital is not very productive. Non-ICT capital, however, appears not as important as ICT capital; but, in any event, we know that not only the level of investment in capital but the effectiveness with which it is used depends upon the decision maker’s incentives, their flexibility to make the right decision, the information they have got available and their capabilities. You have got to look at institutions governing decision making on investment as critical to achieving growth in productivity. The mechanism is that through investment in capital—human capital, non-ICT capital and ICT capital—you get productivity growth in the future.

The other part of the story—the second major lever—is the framework governing contracting, or markets. This is the idea of tradable property rights, that it is really investment and exchange that drives GDP. GDP actually measures the amount of formal market exchange in the economy. Basically, if you have got a framework of law governing contracting in markets, then that is going to promote exchange, cooperation and better utilisation of resources.

The mechanism is that investment creates the assets and exchange creates the cooperation that supports the investment, but that also enables them to be used efficiently. Both trace back to the ability to rely on the fact that firstly, if you invest in something you own it, and can earn the return from it—otherwise you will not invest in it; and secondly, on cooperation, if you cooperate with someone and promise to do something in exchange for their promise they will keep their promise. That is contract law. To the extent that we can rely on property law and contract law to shift decision making back to where the information is and to create a framework where people have incentives to pursue economic advantage then that is more likely—and demonstrably shown in the 20th century—to generate economic growth and productivity than an approach that takes decision back to a central planner, like the Soviets tried, or which moves it out of a commercial environment, particularly where these activities involved can be governed by commercial relations.

When we are talking about internationally tradeable goods, the first thing you would want to do is open the economy up and get rid of the tariffs that we have on automobiles, textiles, clothing and shoes; make it possible to exchange with foreign nationals for goods they can make cheaper than we can; and get rid of that barrier to exchange—a legal barrier to exchange—because out of that we will be able to use the resources freed up from those areas to invest in more productive activities.

Secondly, in areas that are not tradeable, such as gas, water, electricity and telecommunications—it is very hard to export gas and electricity, and no-one exports water; these are all done within a country—you need to create a framework of law that again promotes property rights and exchange relationships in those markets to reveal the prices so that we know where there is scarcity, in water or something, for investment to occur. That is the second area of domestic non-tradeable activity. That is perhaps the majority of the economy that, if you govern it by proper property law, contract law and decentralised decision making and markets, would generate huge productivity gains. That is proven; I do not think there is any argument about that in the 21st century.

There are two areas where there is more debate. One is core government services, things that only governments can do. We know about defence, but there are other things as well. In that area we need to enhance productivity and we need to think about how we create innovative public sector management systems, public finance systems and accountability systems that enhance the productivity of the public sector, both because they are often delivering outputs to people—like health, education and welfare—as final consumption goods and because they are providing inputs to other firms.

CHAIR—Treasury made a similar observation in their submission last week. That is exactly the same point as they made.

Dr Barker—Essentially you have a market within government where people, without realising it, basically provide outputs, like hospital beds or an hour of schooling. Getting the public sector more productive is a challenge: how do you align the interests of people who work within the civil service to the national interest?

There is a fourth area, and I will run through the others again: firstly, for the tradeable sector, opening the economy up and getting rid of tariff barriers; secondly, in the domestic market

economy, creating competition, property rights and a contract for governing commercial activities around things like gas, electricity and water; and, thirdly, enhancing the productivity of the state sector where it exists. The fourth area is the human capital issue, the skills of the nation. In the late 1970s, countries like the UK, Australia and New Zealand—typically Commonwealth countries—had very low skill development. Maybe only 10 per cent of the population was attending tertiary education. In the US, a lot of people were undertaking education and their university sector was vibrant.

That was a by-product of the fact that we protected our economy; we were subsidising inefficiency and unskilled labour. Why go to university and upskill when you can get a job as a builder's labourer, a textile manufacturer or an automotive worker for nothing more than your basic standard 15? My brother got a very good university entrance mark but did not go to university because he could make more money in the building industry in the 1970s when house prices were going up so much because monetary policy was so loose.

So we need to create a structure, particularly in the human capital area. Early childhood education is an area that we know has much better returns to investments than even most of our physical capital. Rather than build a broadband network, we would probably be better off doing much more childhood education—I am just speculating and saying the work probably needs to be done—in areas where large segments of our population are not getting early childhood education. Most families care about their children, but they are limited by their budget. That means that I am having to make decisions affecting my child's welfare today and I am limited by my current budget, whereas, if an extra dollar were spent on a child who is from an Aboriginal or other disadvantaged background, we know that the return from that extra dollar in those first five to 13 years would generate more than a dollar in the future. The problem is bringing that productivity from the future to today to spend on and invest in them. I think that is the challenge.

Ms OWENS—I guess that is what I was trying to get at: that, if you want to assess Australia's capacity for growth in productivity within its population now compared to five years ago, there is not a mechanism to do that without a lot of research, is there?

Dr Barker—A mechanism for?

Ms OWENS—If, for example, you wanted to measure the future productivity that is held within the population because of its skill level, its early childhood education, its IT capacity—looking at where we are today and what that can generate for the future—can we model that? It will change depending on how we invest. Do we have any models that measure that?

Dr Barker—To respond to your point that we need more research: I am a researcher so of course I support that idea. On the human capital story, that is one of our research programs. Basically economics has—thanks to Gary Becker, who won this Nobel prize—invented this model for thinking about how people's capabilities and skills are developed which brings it back to decisions that they make. You forego consumption in this period to invest in something that can increase your income, and therefore consumption, in the future. The problem with those investments is that, unlike physical assets, there is no collateral. So you cannot go to a bank and say, 'I'm going to increase my future income by a million dollars and I'd be willing to pay interest of $300,000.' They cannot make you go to work when you are up-skilled. You may be worth a million dollars if you went to work but having got the skill you might choose not to. So

the bank has no security, no collateral. That is why the loan scheme was developed. Economists were thinking about the problems in the late 19th century that people like John Stuart Mill discovered—poor people without education. The cause or the mechanism underlying that was a capital market failure. The only capital poor families could draw on was the capital in their family. They could not get money from the bank to invest in their kids. What was needed was, somehow, for the money that could be created in the future—by having more productive children in the future—to be brought back to the investment today.

That is what the student loan scheme tries to mimic. You take out a HECS grant, you get an education, you get an income and pay back the HECS grant. You do not have to get it from your parents or from the bank. The bank cannot make you work for interest but the government can because it has taxation. So it collects it at source. It collects your repayments at source. You cannot avoid it. It is an enforceable contract with the government.

There may be scope of thinking about similar kinds of schemes for early childhood education where you could, at low fiscal cost maybe—because the prospect is that there will be returns on these—write, essentially, loans for education. There is a question: why would you go beyond a loan skill? It might be that you are trying to get cash into the hands of people who have particularly low income and you want the loan scheme to run on a proper, stand-alone commercial basis. These mechanisms on policy are well explored in the economics literature on human capital.

We can even use longitudinal databases to try to estimate what the return to each dollar would be, because we can observe, historically, how much extra people have earned as a result of early childhood education. It is still backward looking, but it is better than nothing as a basis. You would have to say that there is going to be a major radical change and therefore go looking for reasons why, in the value of human capital investments in the future, if we cannot rely on past returns to early childhood education, which are very high. It seems proven that early childhood education has very high returns. I do not see any reason why it would fall in the future. If anything I think it will increase, because we are going to be competing with more unskilled economies where people have no skills and there is plenty of them.

I guess those four things are important. The final thing, though—and it is probably the top priority at the moment—is sound macro economic fiscal and monetary policy management. Coming off the back of the financial crisis and the major stimulus packages the real challenge is going to be to exit from that without damaging growth, because it is not sustainable. We know from the seventies, when there was the oil crisis shock and the economy had major productivity problems, that simply spending money to stimulate the economy does not, in the end, lead to a more productive economy. So we have to get out of that. We may have cushioned the blow—and even been able to buy resources when they were cheap, and so do some public investment when it was a good time to—but we have to exit that and think more about the international barriers to trade: the domestic sector, particularly the gas and electricity stuff that is run by the states, which in many companies could be much better managed. Most would admit that, even today.

The transport sector, coastal shipping and aviation are others in that area that could be a priority. In the public sector we need to think, 'What does the government own that it shouldn't own?' as we were talking about before with regard to spectrum. How could it own and manage things that it does own and manage better? Human capital is another issue. How can we

reorganise the existing budget rather than spending more? Most economists would say reprioritising money from tertiary into early childhood education would work. All of those five areas in macroeconomic policy boil down to legal and regulatory instruments being managed by some agency, and that is what we study at the centre.

CHAIR—Thank you for that. Yours is a different perspective to that of some of the government agencies, so it is very welcome. A number of the issues which you have raised are common to some of the other submissions, which is useful. Thank you for your attendance and your contribution.

Dr Barker—Thank you very much for the opportunity, and good luck with your inquiry.

CHAIR—Thank you.

Resolved (on motion by **Ms Owens**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.31 pm