

House Standing Committee on Economics

Inquiry into raising the level of productivity growth in the Australian Economy

Terms of Reference with brief responses from John Quiggin (*in italics*)

Increased economic productivity has been responsible for much of the improvement in Australia's living standards over the last 25 years. However, Australia's productivity has declined since the 1990's.

*Note: More precisely, the measured rate of productivity **growth** has declined since the 1990s, although growth has remained positive*

The factors responsible for Australia's current lower rate of productivity growth should be examined, with the objective of identifying key 'levers' which will assist in returning the Australian economy to a trajectory of robust growth in productivity.

The Committee will 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

Although much was made of the claimed productivity 'miracle' in the mid-1990s, these claims depended critically on the way in which the time series was divided into hypothetical 'productivity cycles'. The data is not strong enough to reject the hypothesis that the productivity 'surge' of the 1990s was a statistical illusion. I will submit a paper, published in the Australian Bulletin of Labour, supporting this contention.

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

Productivity trends in Australia have been broadly similar to those in other OECD countries, with the notable exception of New Zealand, which has experienced a sharp relative decline in all aspects of economic performance since 1980. On the other hand, Australia has been exceptional in maintaining positive economic growth, with only a modest interruption due to the GFC, since the severe recession of 1989-91.

c) the adequacy of productivity growth measures;

Need to be discussed individually

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;

As noted above, the extent of any contribution to productivity growth from microeconomic reform over the period since 1980 is too small to be distinguished from other fluctuations in the time series. The idea that the slowdown in productivity growth since the late 1990s can be attributed to a slackening in the pace of microeconomic reform is not sustainable. National Competition Policy, one of the central elements of the Hawke-Keating government's microeconomic reform program (agreed in 1995) did come into effective force until the late 1990s. The major microeconomic reforms of the Howard government, including the GST, privatisation of Telstra and other Government Business Enterprises, the replacement of the CES by the Job Network and a series of labor market reforms culminating in WorkChoices all took effect during this period.

Regardless of the evaluation of its past performance, the micro-economic reform agenda of the 1980s has been exhausted, and its scope to contribute to future improvements in productivity is negligible. The main targets of the micro-reform movement have been achieved almost completely, with the result that excessive attention has been focused on essentially symbolic issues such as

the few remaining tariffs and restrictions on trade, such as the parallel import rules for books. Moreover, the sectors of the economy to which micro reform measures have been applied with some success (most notably agriculture and manufacturing) are declining in their relative importance. Attempts to apply the 1980s microeconomic reform package in growth areas such as health, education, the financial sector and the information economy have been generally unsuccessful and in some cases actively counterproductive. The 1980s agenda paid only intermittent attention to environmental issues, the notable exception being water. A number of reforms (notably including electricity industry reform) now represent an obstacle to progress towards a low-carbon economy.

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

In the 21st century information economy, small and medium enterprises will play an important role. However, it is important to look beyond the enterprise sector and consider the role of non-profit enterprises and 'amateurs' in areas such as open-source software, new media and Web 2.0 technologies, which are an important source of new innovation

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

Physical investment levels have been high. The main concern is probably incentives for misdirected investment in the housing sector.

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

Concerns about financing have led to problems in some areas. The PPP approach, at least in its pre-crisis form, is obsolete. This increases the need to secure adequate returns on public infrastructure wherever possible, most notably through a system of road pricing. The Netherlands has recently proposed a comprehensive system of road pricing, and others will certainly follow.

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

Funding for research and development is chronically tight. However, as a publicly funded researcher, I would prefer to leave this topic to others.

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

This is one of Australia's most important failures. School completion rates and progression to post-secondary education have generally stagnated since the late 1980s.

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

Two main measures are vital

** An expansion of education with the objective that all Australians should complete both secondary school and some form of post-secondary training (university, TAFE or apprenticeship)*

** A reorientation of public policy from the concerns of the past towards the needs of a 21st century information economy. The work of the Government 2.0 Taskforce is an important example.*