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Banks slams failures in productivity

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Outgoing Productivity Commission chairman Gary Banks has damned Labor's reform agenda by calling for an overhaul of the Fair Work Act, an increase in the GST, and a winding back of industry handouts, including to car manufacturers, to revive Australia's lagging productivity performance.

Mr Banks suggested yesterday that Rudd-Gillard government policy initiatives in infrastructure, labour market regulation, and measures to control carbon emissions could hamper a productivity rebound, days after Labor's Asian Century white paper set an ambitious goal to make Australia one of the world's 10 richest nations by 2025.

He said a blurring of policy signals had prompted a "resurgence of rent-seeking behaviour'' from companies and industries under structural adjustment pressure from Chinese demand for Australian resources.

He presented a lengthy "to do'' list of Productivity Commission reforms that Reserve Bank of Australia governor Glenn Stevens called for at Prime Minister Julia Gillard 's economic forum in June.

Mr Banks suggested that workplace regulation should be a priority for reform because of its pervasiveness across the economy and because it affected the flexibility of companies and industries to adapt to structural pressure.

While reforms such as the shift from centralised wage fixing from the 1980s had been “no brainers", the Howard government’s shift to Work Choices had neither been adequately explained nor understood by the public.

Industrial relations is a ‘war zone’: Banks

“Industrial relations has been a ‘war zone’ ever since, with reasoned public discussion about fairness and productivity trade-offs the biggest casualty,’’ he said. “It would therefore be astonishing if those trade-offs had been properly accounted for."

The broader recommendations included cutting subsidies and import tariffs, ending closed shops for doctors and pharmacists, increasing funding to disadvantaged schools and privatising state-owned utilities. The privatisation call follows a recent report by Industry Australia which identified $200 billion in state-owned assets, much of it in the electricity industry, that should be sold to super funds.

Mr Banks noted the commission was sidelined by the government’s review of the Fair Work Act by industrial relations experts. Union leaders had condemned him for arguing regulation needed to be tested transparently, he said.

“The very hostility provoked by what should be an unexceptionable proposal may be confirmation of the desirability of adding it to the list," he said.

Workplace Relations Minister Bill Shorten said he respected Mr Banks but “people are not products". The Labor government did not believe in unbridled competition in labour markets where people were forced to compete for less and less, he said.

Mr Shorten has asked a government authority in his portfolio, Fair Work Australia, to take a greater role improving the quality of corporate managers.

Survival of the fittest

Mr Banks acknowledged the importance of management skills but said managers’ decisions were conditioned by government rules, taxes and spending. He said government should encourage businesses to be cost conscious and innovative by removing tariffs, subsidies and special deals for industries such as coastal shipping. Policies should not inhibit “better performers from prevailing over weaker ones", he said.

Transport Minister Anthony Albanese said in March that Australian shipping owners would not have to pay income tax on their core activities and would be able to write off their ships in 10 years rather than the previous average of 20. The move was designed to help industry compete against foreign ships manned by less expensive foreign crews.

The decision, which reduced competition, wasn’t subjected to a public interest test, Mr Banks said.

All investment in big projects should go through a cost-benefit analysis because of their huge cost, long-term drag on the economy and “optimism bias" which makes people think they will be more useful than they will be. Mr Banks didn’t name the national broadband network, which critics have complained was never analysed by the commission.

The Labor government has repeatedly rejected calls to stop spending billions subsidising the car industry and low-carbon technology. Mr Banks said the government should “terminate selective industry subsidies that cannot deliver demonstrable net social benefits".

“Taxpayer support for private sector businesses cannot even be loosely characterised as ‘co-investment’ unless this test is satisfied," he said.

Industry Subsidies cost $9bn a year

The government and the car industry describe government subsidies for Ford, General Motors and Toyota as “co-investment" to make it more politically palatable. The commission estimates subsidies for car makers and other industries cost $9 billion a year.

Mr Banks said the federal and state governments used too many inefficient taxes that needlessly raised business costs. “Making better use of the GST, by broadening its coverage and raising its rate as in a number of other OECD countries, including New Zealand, would likely deliver additional gains," to economic growth, he said.

The government excluded any discussion about the GST from the Henry tax review and a business working group on the corporate rate.

Mr Banks divided the changes into measures to boost capability and those to improve flexibility.

He said recent policy had favoured investment in boosting capability, such as building infrastructure and schooling, over making the economy more flexible, such as industrial relations changes and cutting subsidies.

Recent research showed that half to two-thirds of the recent slowdown in productivity growth was cyclical, reflecting the lag between investment in new mines and the start of production. He said investment under way for new mining would soon come on stream and start improving productivity.

Renewable energy target ‘unnecessary’

Recent large investments in the power sector and water utilities, including desalination plants, were unlikely to boost production much once they were delivered. The renewable energy target, which has triggered a boom in solar and wind farms, was made unnecessary by the carbon price, he said.

“Renewable energy targets are costly and can be counterproductive in seeking to reduce carbon emissions," he said.

Mr Banks’s speech was given to a conference organised by the Melbourne Institute.

The Productivity Commission is the government’s independent economic adviser and has often come under fire for its advice.

“There is no single thing that can do the job," Mr Banks said. “What is needed is an approach to ‘productivity policy’ that embraces both the drivers and enablers of firm performance and is consistently applied."