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Good processes underpin strong, innovative policy

by **Gary Banks**

Public policy in the 21st century has much to learn from Australia's experiences in the 20th century. From a promising start, based on abundant natural resources that the world highly valued, we progressively burdened our economy with policies and institutions designed to "spread the benefits", which merely served to erode our capacity for sustained economic growth. By the mid-1980s, our ranking on the world tables of per capita gross domestic product (GDP) had slipped from first to 18th.

The ensuing structural reforms and consequent turnaround of Australia's economic performance are well documented and have attracted international recognition. But have the lessons of our decline and recovery been sufficiently well learnt at home? At the start of this new century, Santayana's maxim that "those who cannot remember the past are condemned to repeat it" should give us pause.

The challenges confronting our economy and society this century, including globalisation and population ageing, are likely to be at least as great as those of the past. But whatever the future holds, this country's productivity performance will be crucial to our ultimate success. There are really only two ways that a society can achieve higher incomes over time: by producing more per person or by getting higher world prices for what is produced. The latter dominated for the past decade but, with our latest and greatest terms of trade boom at an end, productivity is once again the main game.

The productivity slump of the 2000s has been partly the result of structural forces associated with the boom itself. To some extent, therefore, it is likely to be temporary and there are indeed signs of recovery in the latest data. But the extent of any recovery remains in doubt and it is vital that policies support it.

The importance of a productivity strategy is recognised by both the federal government and the opposition. But the productivity agendas on both sides currently lack coherent policy frameworks and provide little clarity about priorities. The public accordingly remains confused about what is at stake. At conferences around the country, a question repeatedly asked is "What should governments do to raise Australia's productivity?" Such a question prompted Reserve Bank governor Glenn Stevens 's reminder at the Prime Minister's Economic Summit last year that there was a list of suggestions in Productivity Commission reports waiting to be implemented.

In considering what to do, a key policy insight is that an economy's productivity performance depends not only on the performance of the many individual enterprises that comprise it, but also on the better performers displacing the weaker ones. The market drivers of this are being blunted by various forms of government assistance, with protection against imports the most pernicious. Measures such as anti-dumping and local sourcing requirements, like tariffs, mainly serve to prop up an industry's least productive firms. These were curtailed during the 1980s and '90s, but have been steadily emerging again.

While market incentives are key drivers of productivity, how well firms respond depends on their capabilities and their ability to make changes that are needed to compete successfully. The capability side, especially skill development and infrastructure, has received the most policy attention recently but it is in the area of enterprise flexibility that some of the biggest reform challenges now lie.

The problem here is regulation. Red tape reduction has been a focus for most governments and may yield significant benefits. But regulations that inhibit the ability of businesses to innovate and adapt are more important in the long run. The most pervasive potential source are Australia's industrial relations laws, for which considered trade-offs between fairness and productivity are once again proving highly elusive.

The most costly policy failures over the course of Australia's short history have generally been in those areas where special interests or ideologies (or a combination of the two) have managed to trump the public interest. However, they have generally been aided and abetted by poor policymaking processes.

The reality is that bad policy is a lot easier for governments than good policy. Good process can be a bother. It requires the marshalling of available evidence. It requires meaningful consultation with those likely to be affected. And it requires effective institutions and processes to enable these things to be done properly.

All of this takes time. And in today's 24/7 world, time is at a premium. However, our own past tells us that time devoted to good policy process is time well spent. It not only yielded policies that have greatly benefited the community, it also engendered trust and brought electoral benefits to those governments that took the trouble. In short, good process makes not only for good policy, but ultimately for good politics too. Governments ignore this at their peril.

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