

# ‘Managing’ the reform process: what have we learnt?

**Prof Gary Banks AO**

The Australia and New Zealand School of Government

G20 Sherpa Meeting

Uluru, Northern Territory

28 March 2014

# G20 goals

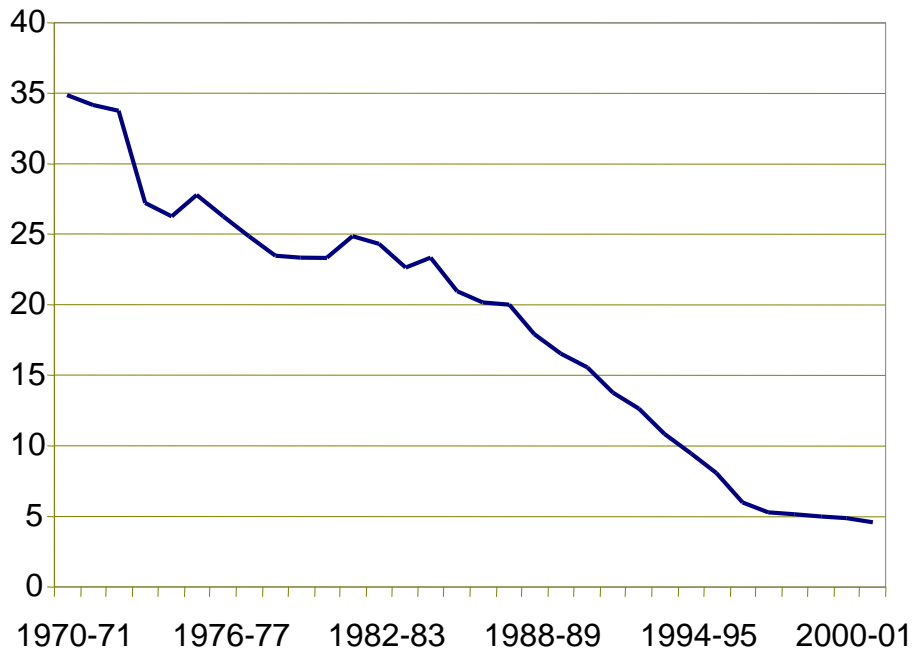
- ‘Strong, sustainable and balanced growth’
- 2 per cent (US \$2+ trillion) GDP dividend
- Concrete actions to:
  - increase *investment*
  - enhance *trade*
  - lift *employment*
  - promote *competition*

# Australia's policy regime retarded productivity

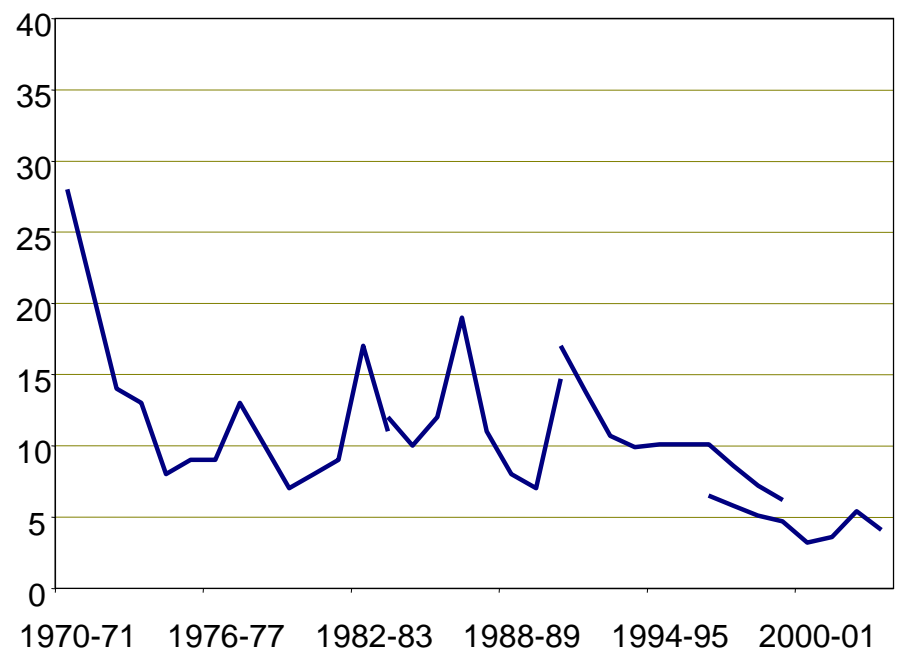


# Import barriers were greatly reduced

## Net assistance (%)



Manufacturing

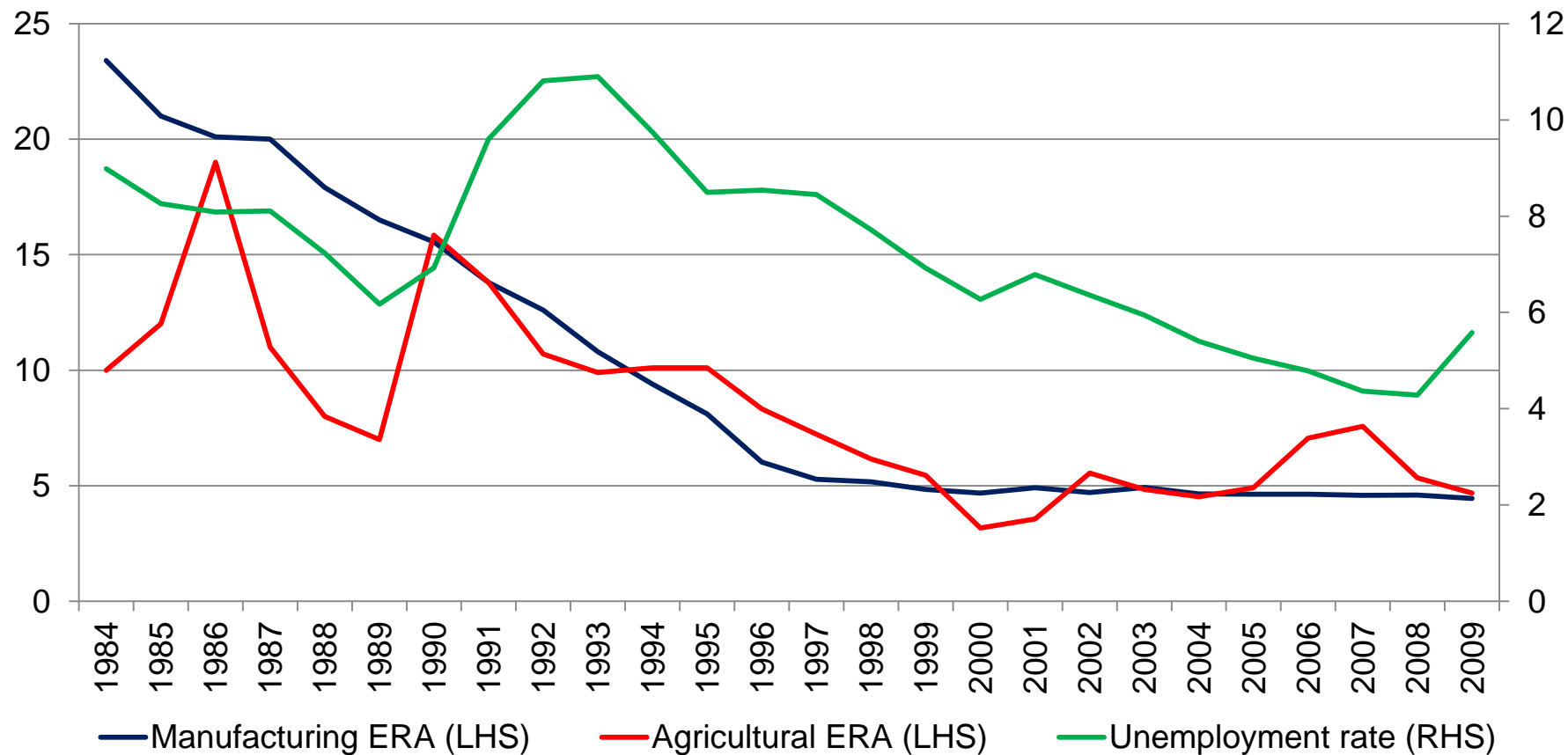


Agriculture

# Domestic reforms yield largest gains

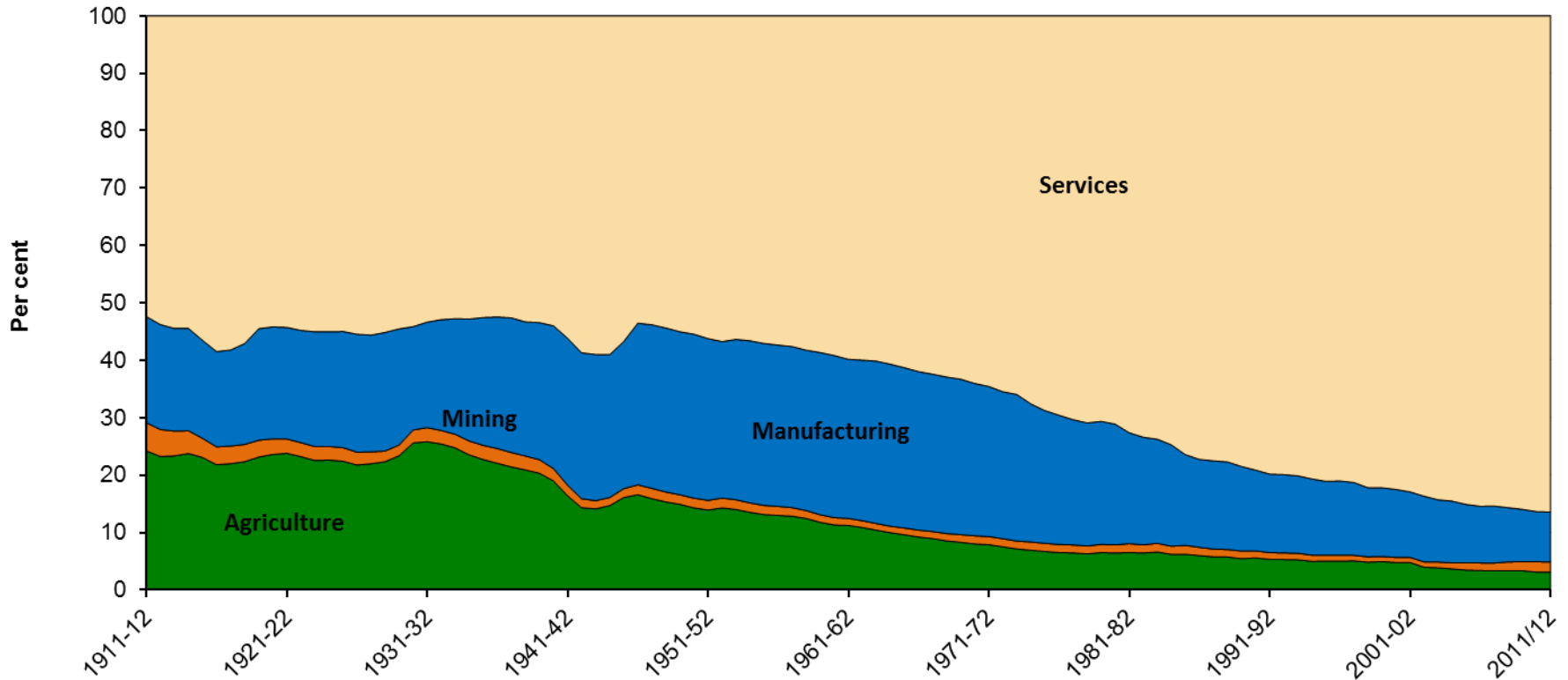
<i>Simulation: tariffs to zero</i>	<i>GDP-Australia</i>	<i>Share of potential world gain</i>
	Per cent change	Per cent
T1. Australia-small country <sup>a</sup>	0.054	5.7
T2. Australia-large country	0.117	12.4
<b>T3. Australia unilateral</b>	<b>0.559</b>	<b>59.5</b>
T4. Stylised APEC	0.862	91.7
T5. World	0.940	100

# Unemployment fell with import protection



Data source: ABS

# Changes in sectoral employment shares



Data sources: ABS (2012); Foster (1996); Withers, Endres and Perry (1985). 2011-12 year to date.

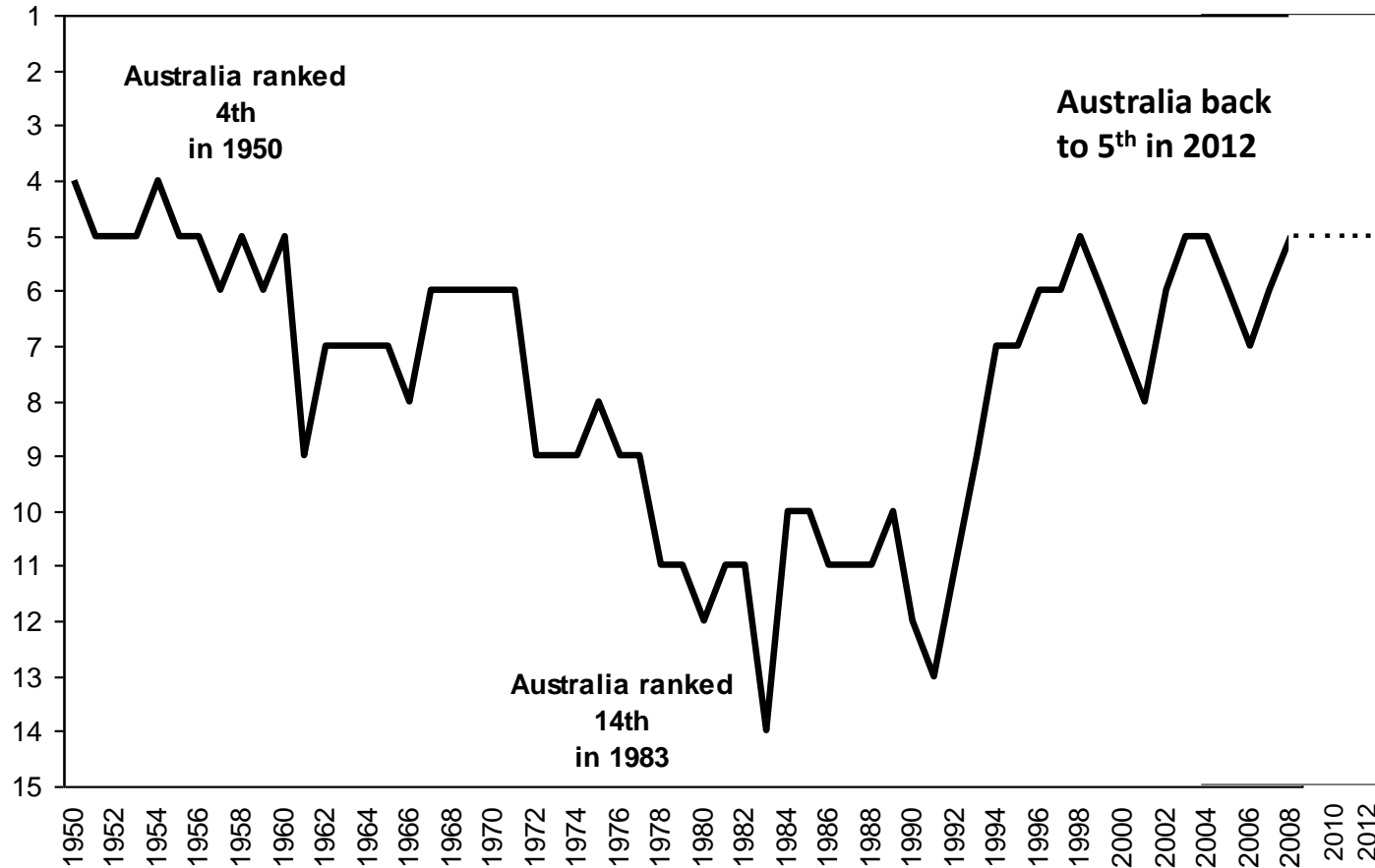
# Wide-ranging pro-competition reforms

- Trade liberalisation (from early 1980s)
- Capital market liberalisation (from early 1980s)
- Pro-competitive infrastructure reforms (from late 1980s)
- Labour market 'deregulation' (from late 1980s)
- A coordinated 'National Competition Policy' (from 1995)



# Recovery of Australia's global economic ranking

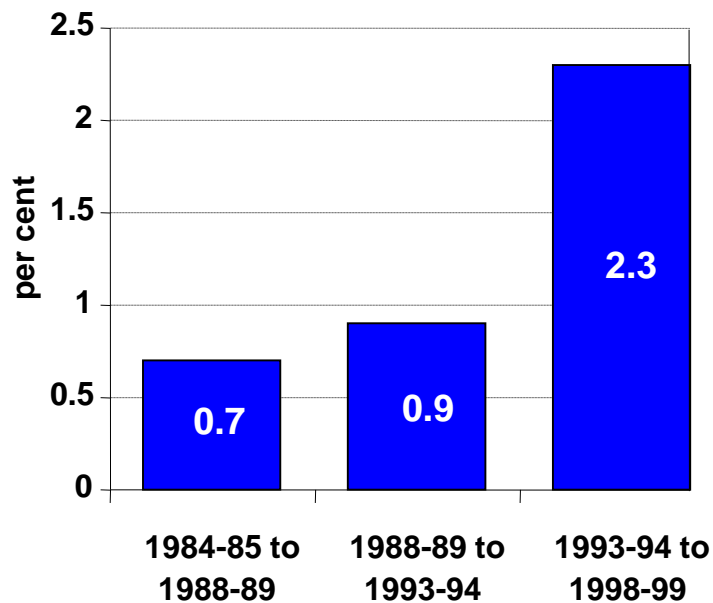
## Per capita GDP ranking in OECD



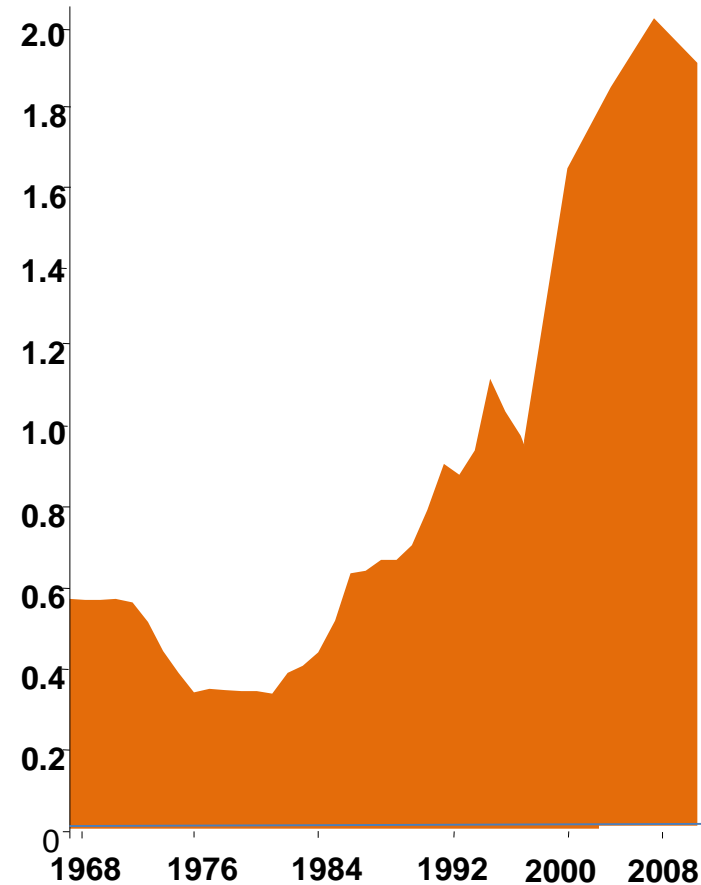
■ Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009

# A surge in productivity and innovation

Average MFP growth

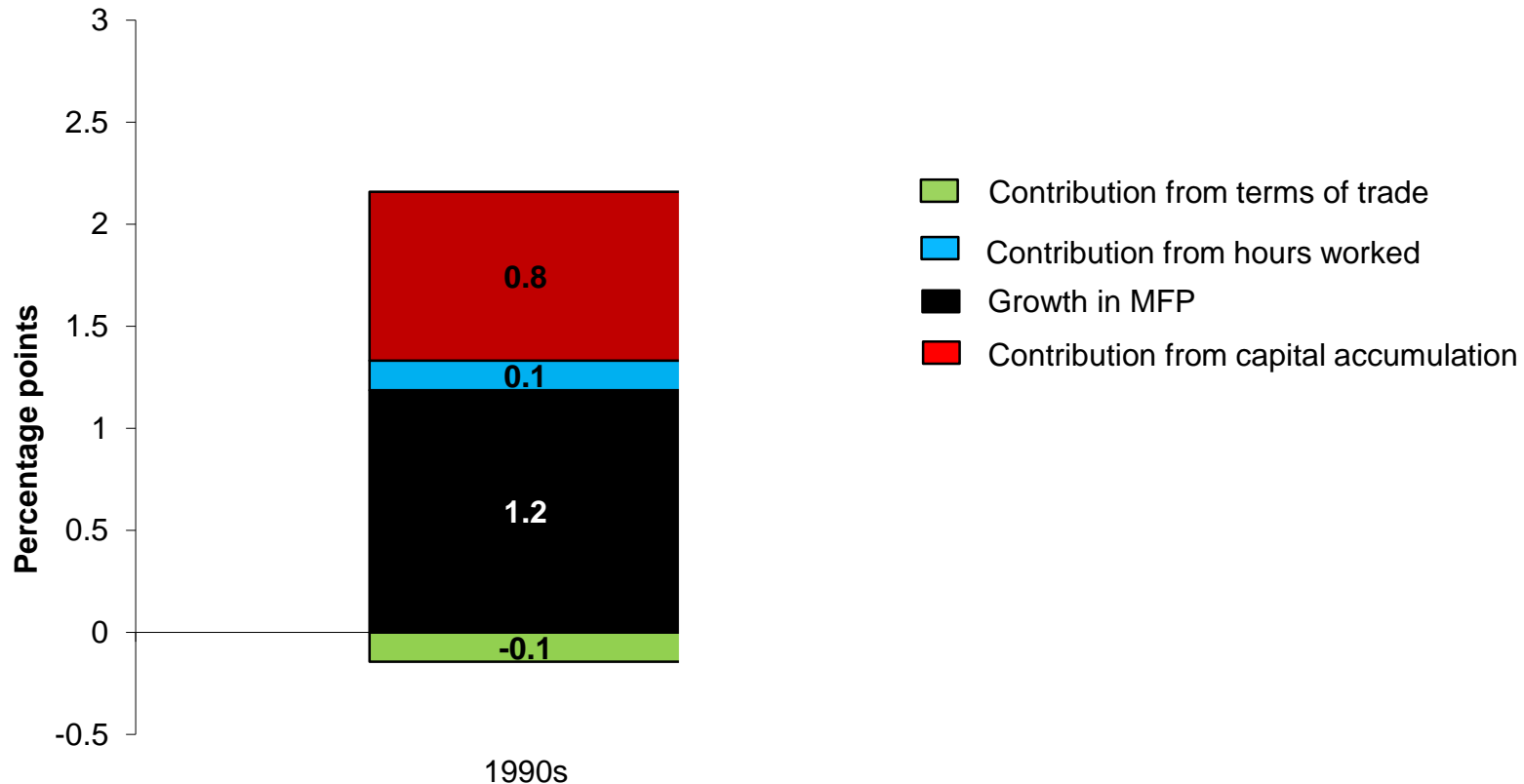


Business R&D share of market value added

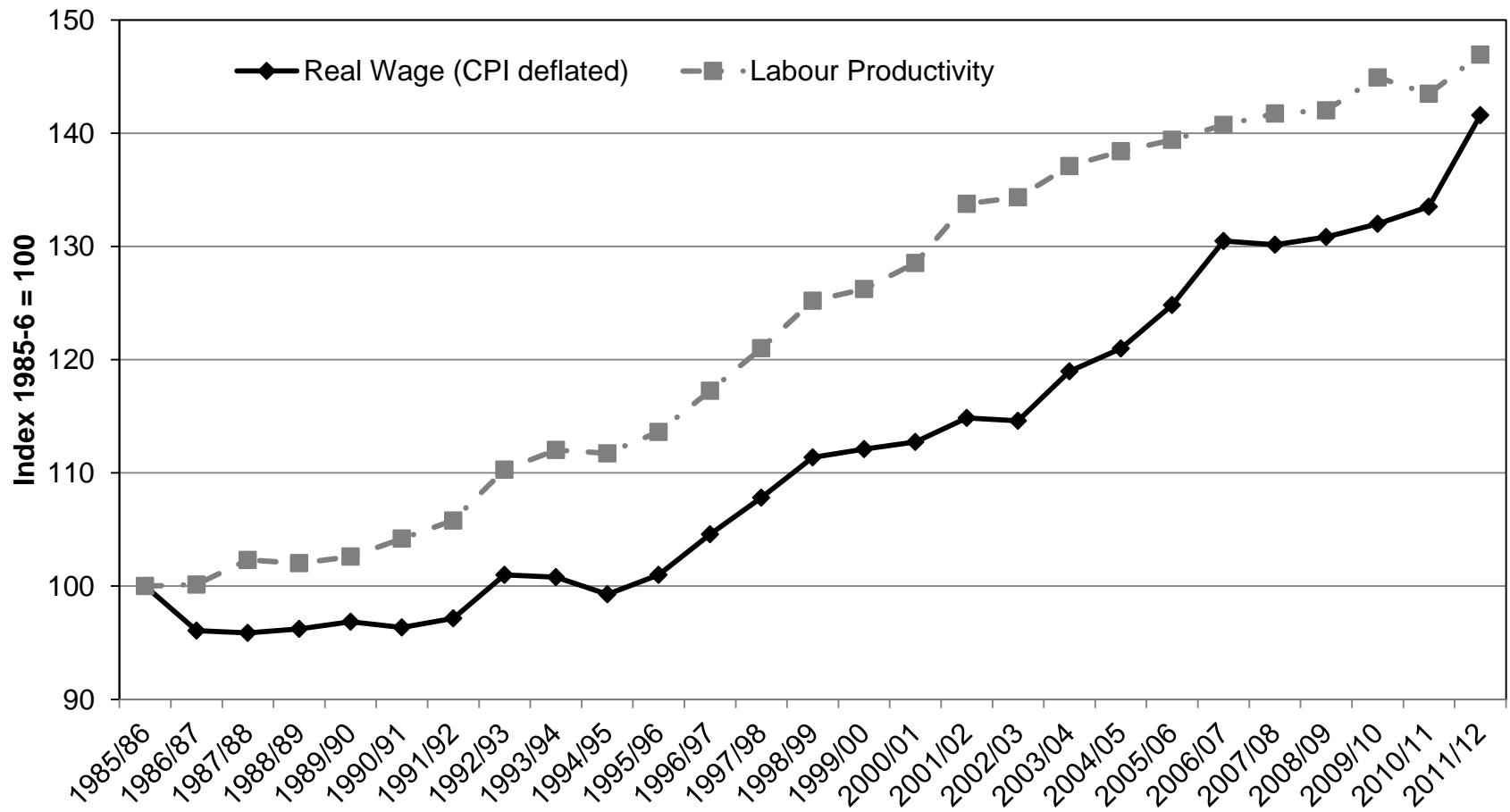


# Productivity (MFP) accounted for over half per capita income growth in the 1990s

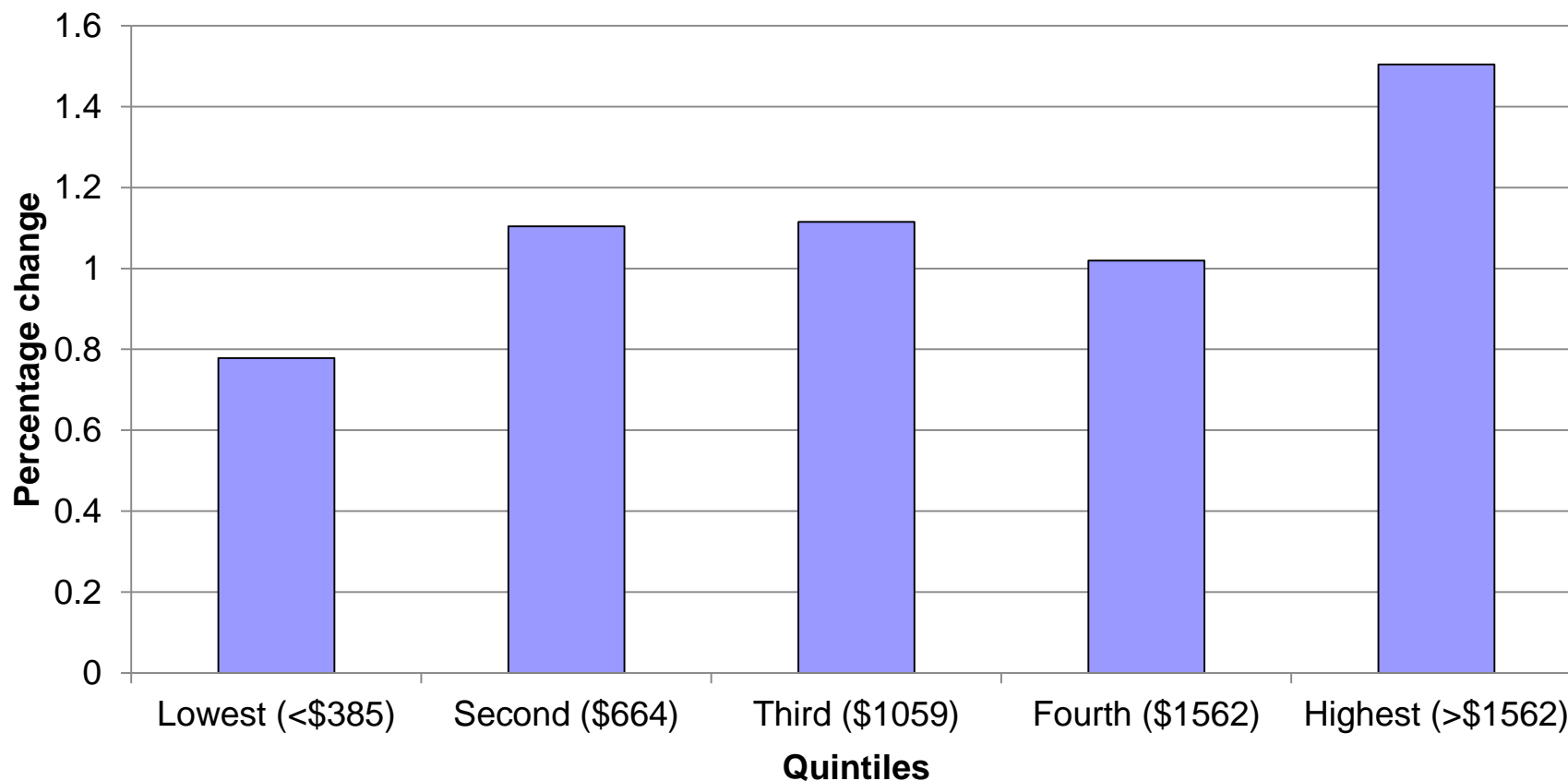
## Contributions to GDI per capita growth



# Labour productivity supported real wage growth



# Distributed income growth in the 90s

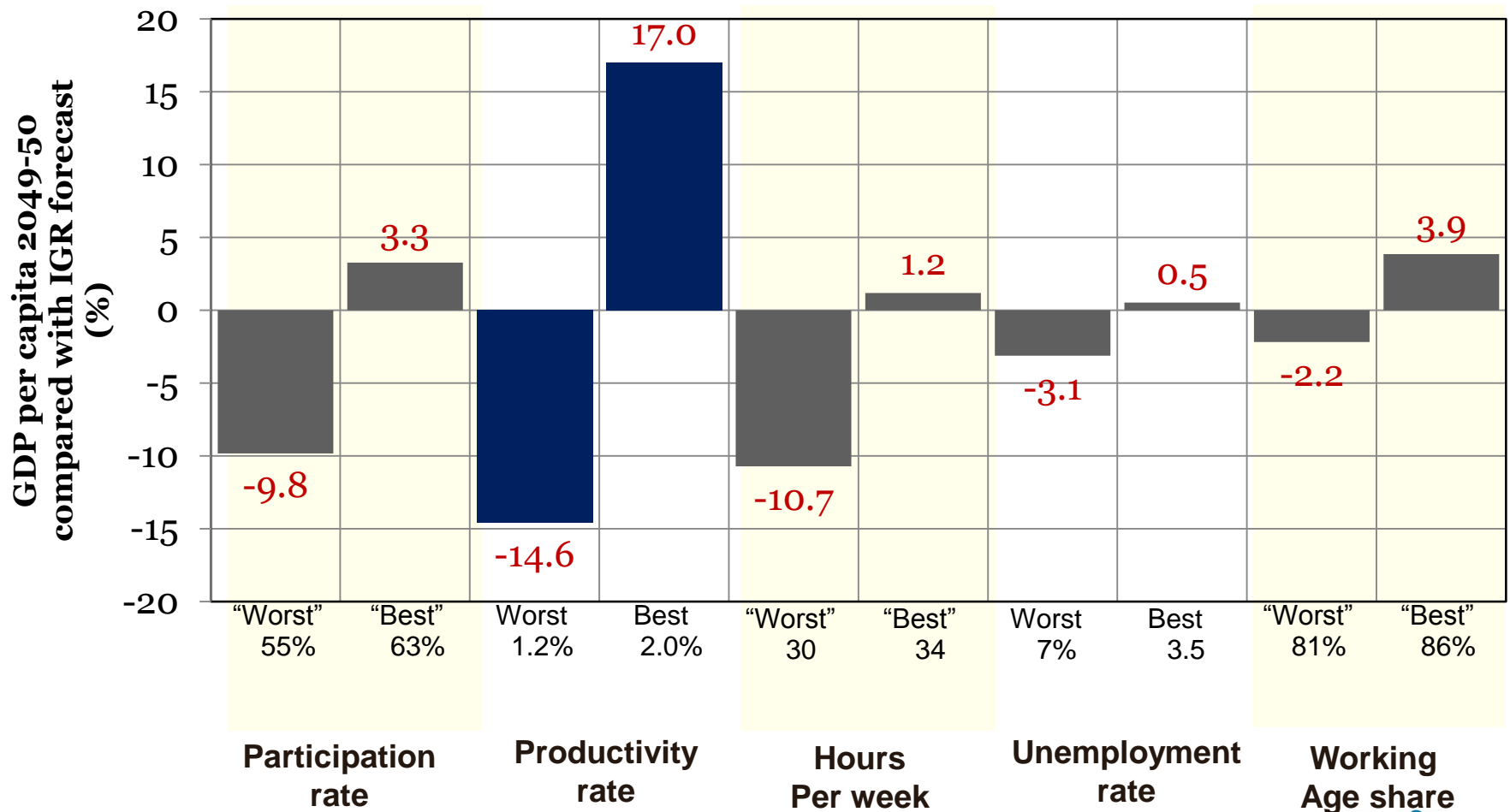


Data source: Commission estimates

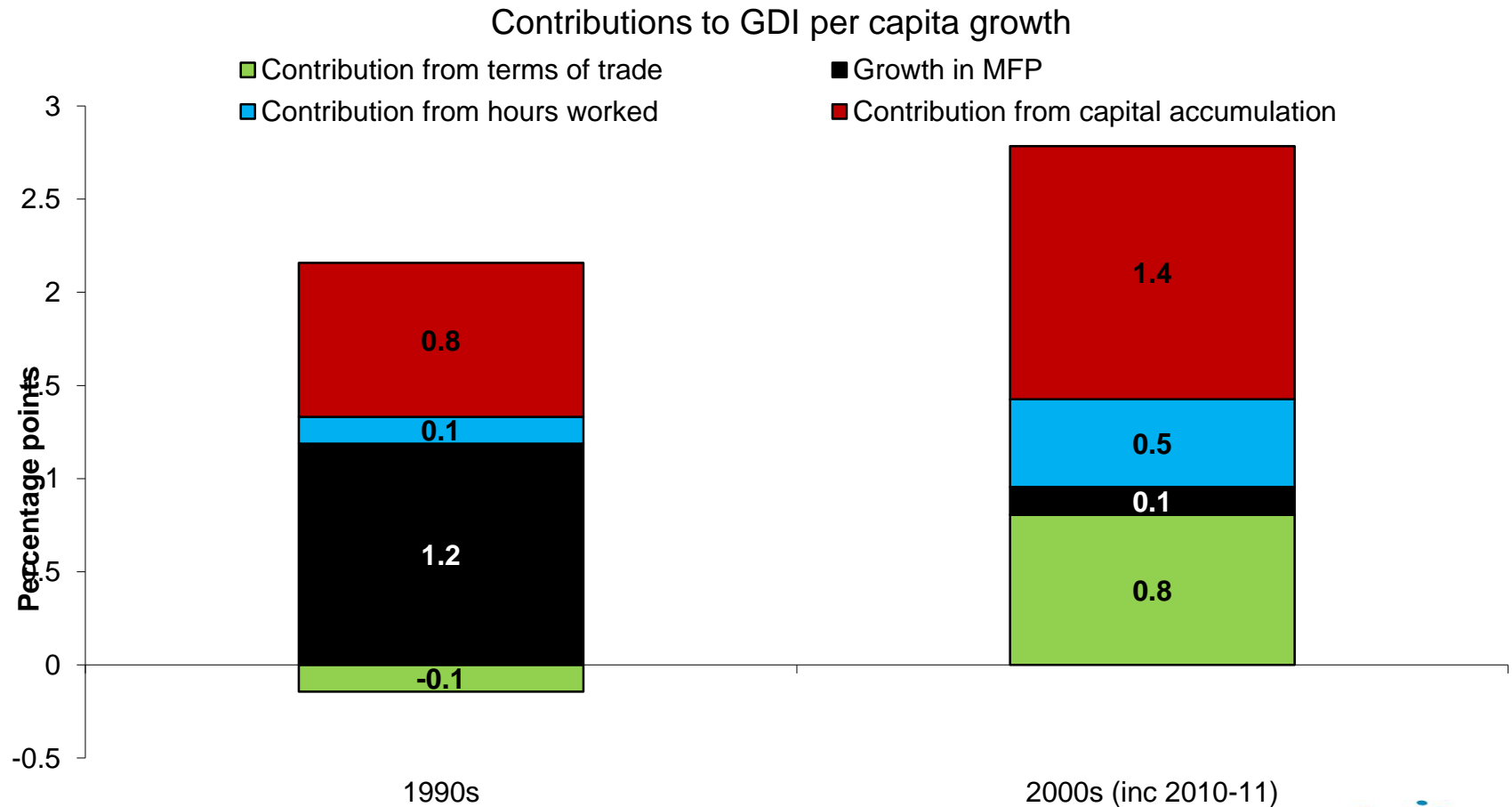
**“Productivity isn’t everything, but in the long run it is *nearly* everything.”**

Prof Paul Krugman, MIT

# Intergenerationally, productivity matters most

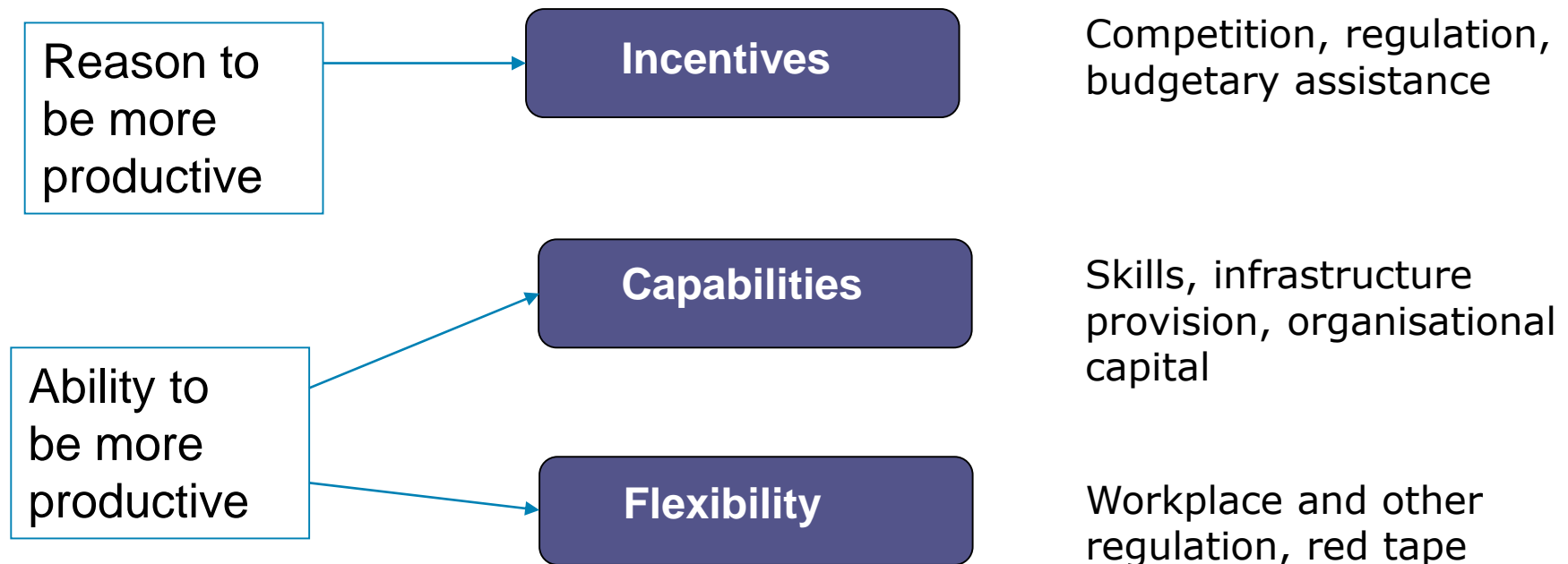


# Growth in per capita income: contrasting decades





# Policy drivers and enablers of productivity



# The age-old reform conundrum

“There is nothing more difficult to carry out ... than to initiate a new order of things. For the reformer has enemies in all who profit from the old order, and only lukewarm defenders in those who would benefit from the new.”

**(Niccolò Machiavelli; *The Prince*, 1513)**

# A skewed political environment

- Reforms involve ‘losers’ as well as ‘winners’
  - costs are usually more ‘concentrated’ within the community and come ahead of the benefits
- Vested interests are therefore better informed and better organised than the rest of the community -- and can block reform
- Government’s own administrative structures can compound the difficulties
  - fragmentation and ‘sponsorship’ lead to focussing on *parts* of the economy, rather than the *whole*

# Australia's experience on 'mechanics' of reform

- Sequencing was crucial
- 'One big step at a time' had benefits
- Also calibrating the pace of change
- And paying attention to adjustment needs (of workers)

# Conditioning the political environment

- Alleviating the inherent bias against reform necessitates *information* to:
  - analyse problems and identify solutions
  - raise public awareness, and motivate ‘coalitions of support’
  - support political leaders in their advocacy.

# Institutions can help remedy 'information failure'

- Research bodies, think tanks -- to generate evidence
- Public reviews and inquiries -- to engage the 'public'
  - special 'taskforces'
  - Ad hoc or standing 'Commissions'

# Three core design features of Australia's Productivity Commission

- Independence
  - *Government funded, but arm's length from the Executive*
  - *underpinned by Act of Parliament (role, tenure)*
- Transparency
  - *public processes (submissions, draft reports)*
  - *published outputs*
- Economy-wide perspective
  - *'to achieve higher living standards for the Australian Community'*

# The contribution of independent public inquiries

Robust, public analysis of costs and benefits of policy reforms can help with:

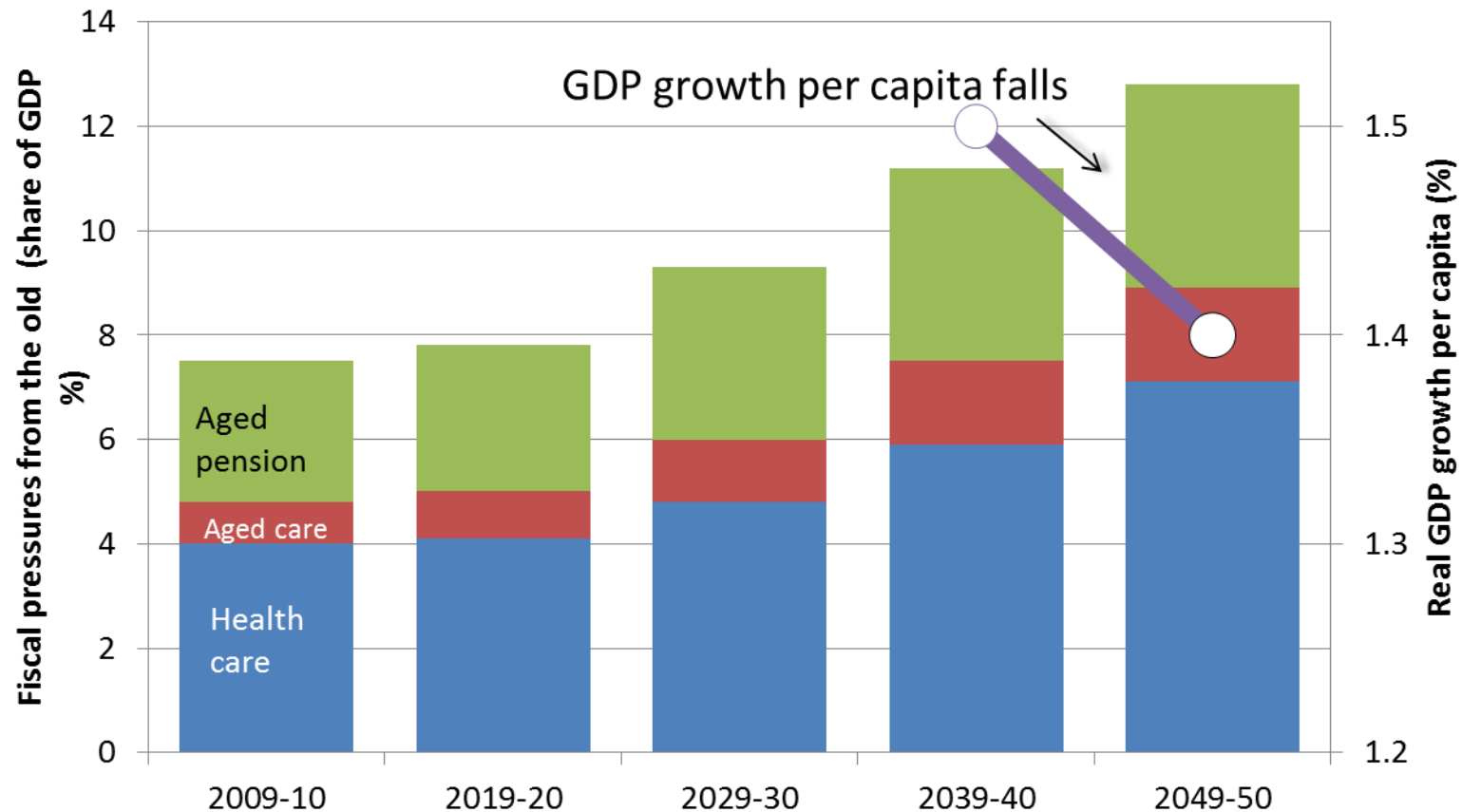
- *better informed government*
- *ammunition in 'selling' reform (or countering opposition)*
- *informing potential industry winners*
- *educating the wider community about tradeoffs*
- *opportunities for government to test public support and assess the 'politics' of options*



# Institutions can help remedy 'information failure'

- Research bodies, think tanks, to generate evidence
- Public reviews and inquiries to engage the 'public'
  - special 'taskforces'
  - standing 'commissions'
- Agencies to benchmark performance and monitor reforms
- Review committees at the political level, to bring whole of government consideration of the political and economic tradeoffs

# The demographic challenge: growth falls, 'social' spending rises



# Some general principles in successfully 'managing' reform

- Build an evidence base to establish the *case*
  - Credible institutions are key
- Explain to the public and potential beneficiaries the consequences (costs) of *not* reforming
- Consult all 'stakeholders' on reform details *before* implementation
- Pay attention to both the sequence *and* the pace of the reform program

# ‘Managing’ the reform process: what have we learnt?

**Prof Gary Banks AO**

The Australia and New Zealand School of Government

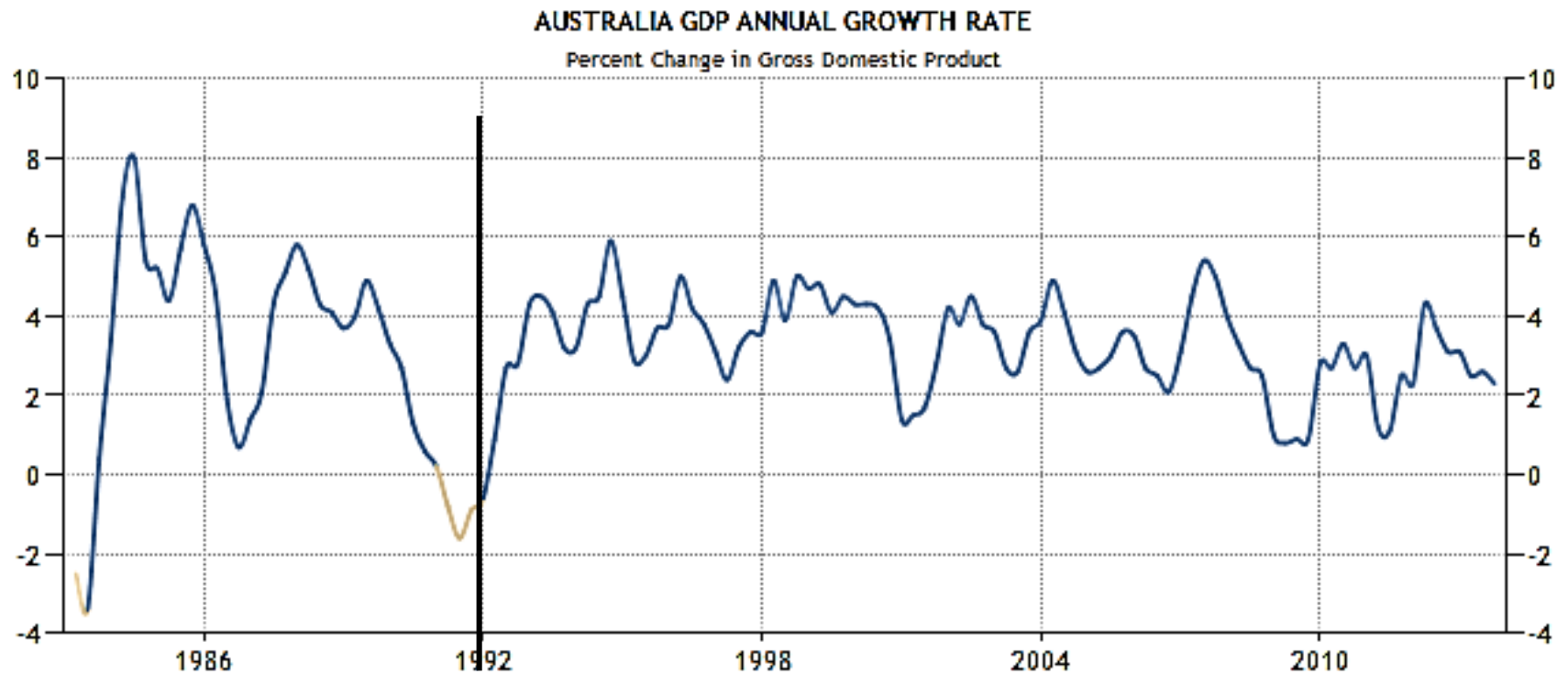
G20 Sherpa Meeting

Uluru, Northern Territory

28 March 2014

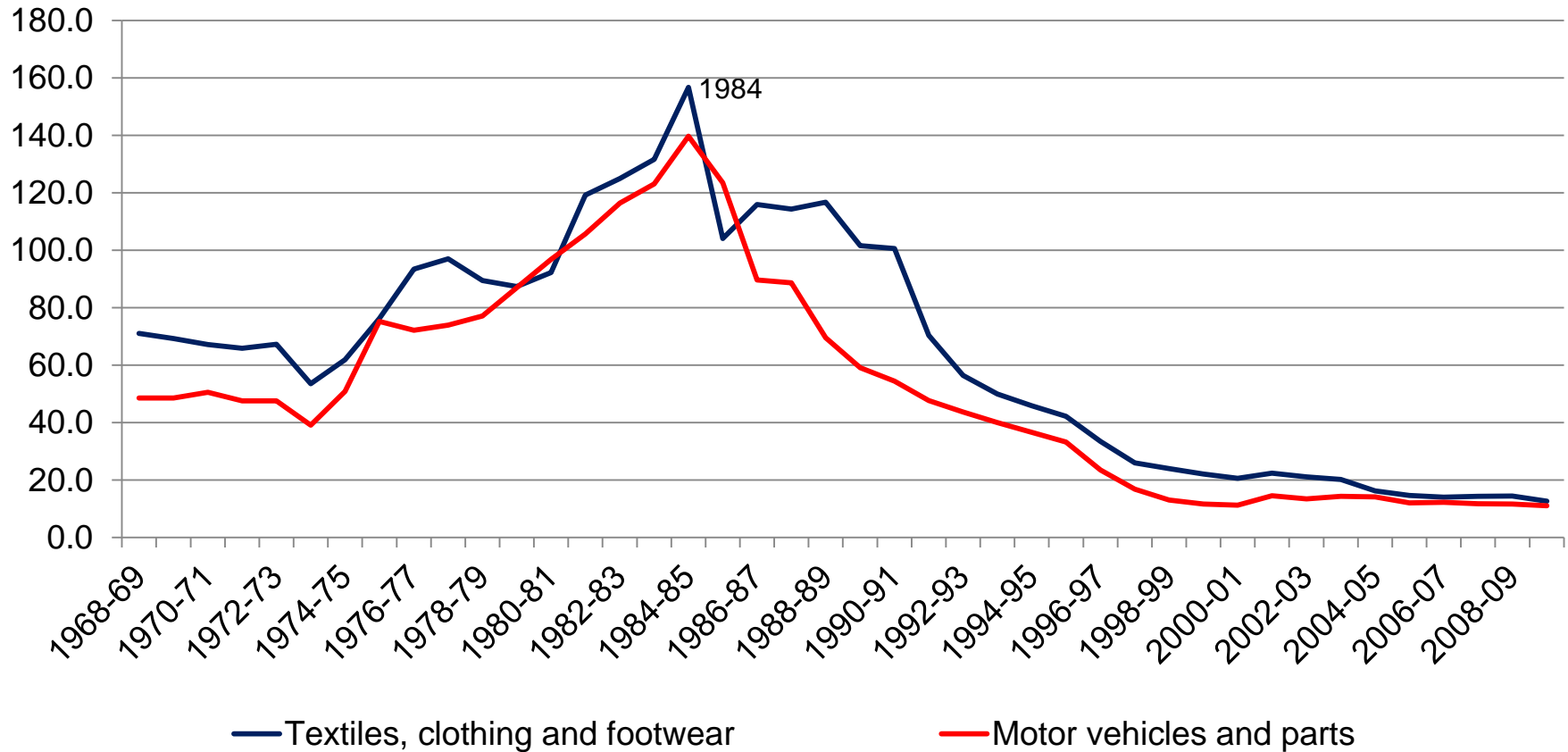
# Selection of additional charts

# “22 consecutive years of growth”



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | AUSTRALIAN BUREAU OF STATISTIC

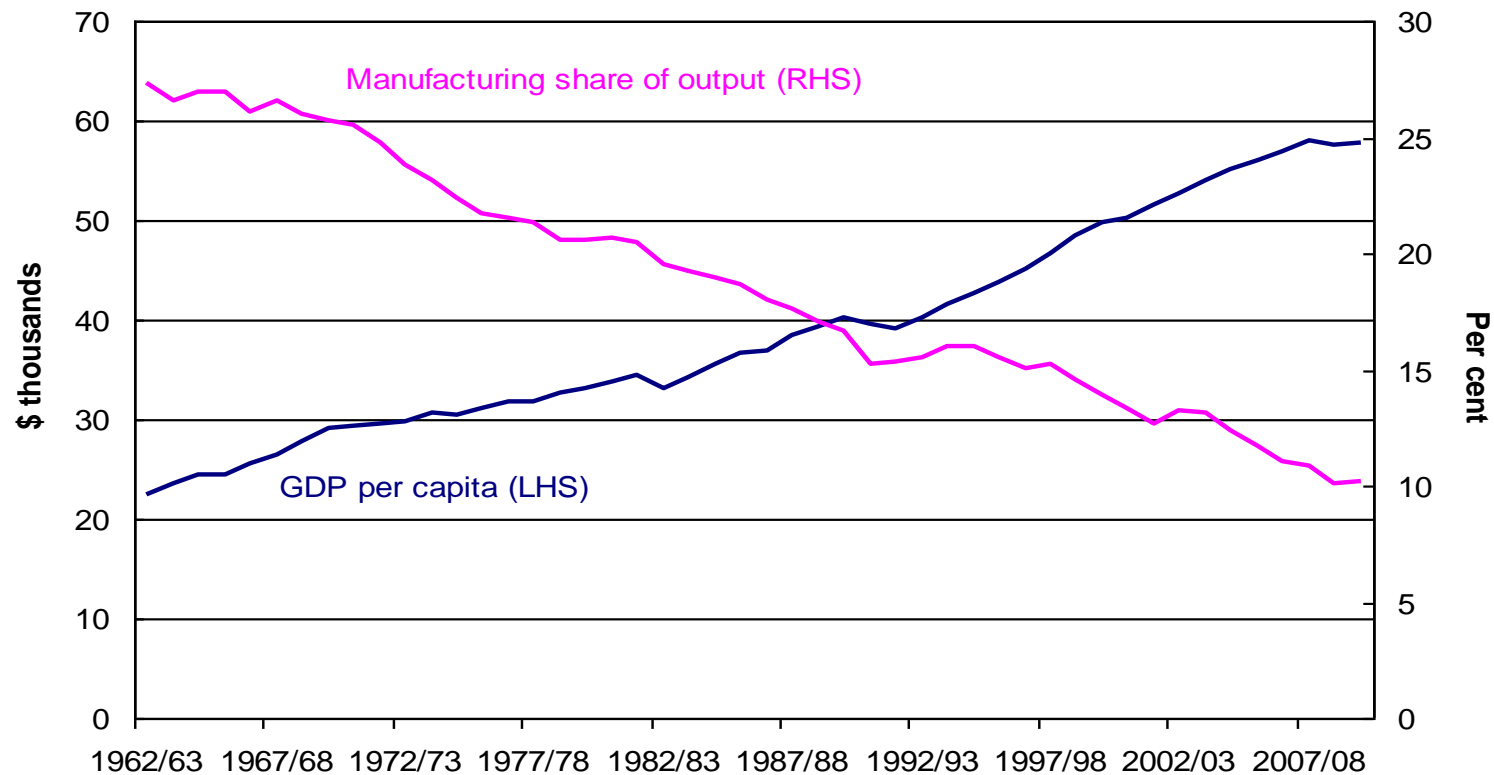
# Assistance rates for cars and clothing



Data source: Commission estimates

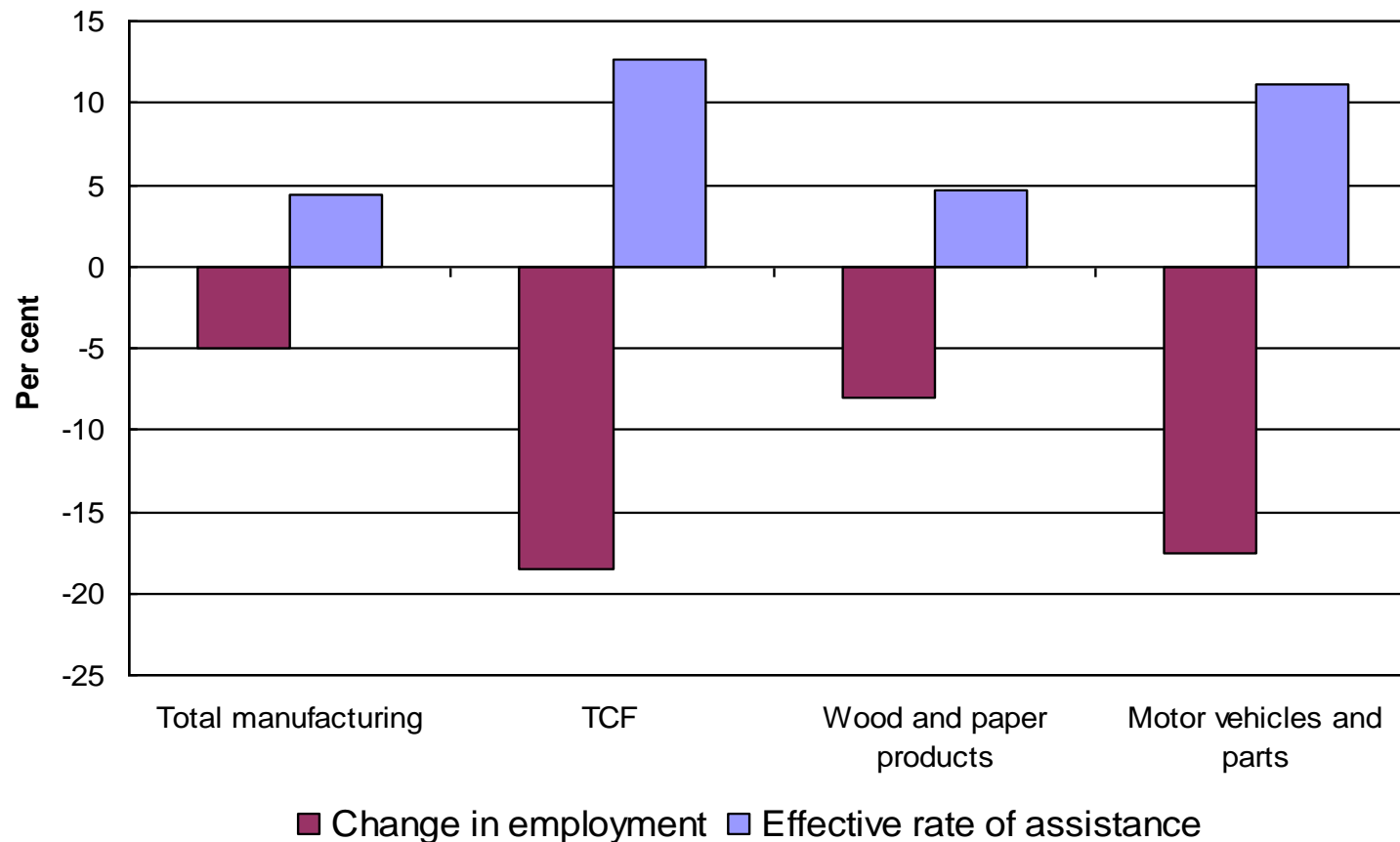
# Declining manufacturing, rising incomes

Real GDP per capita and manufacturing share of output



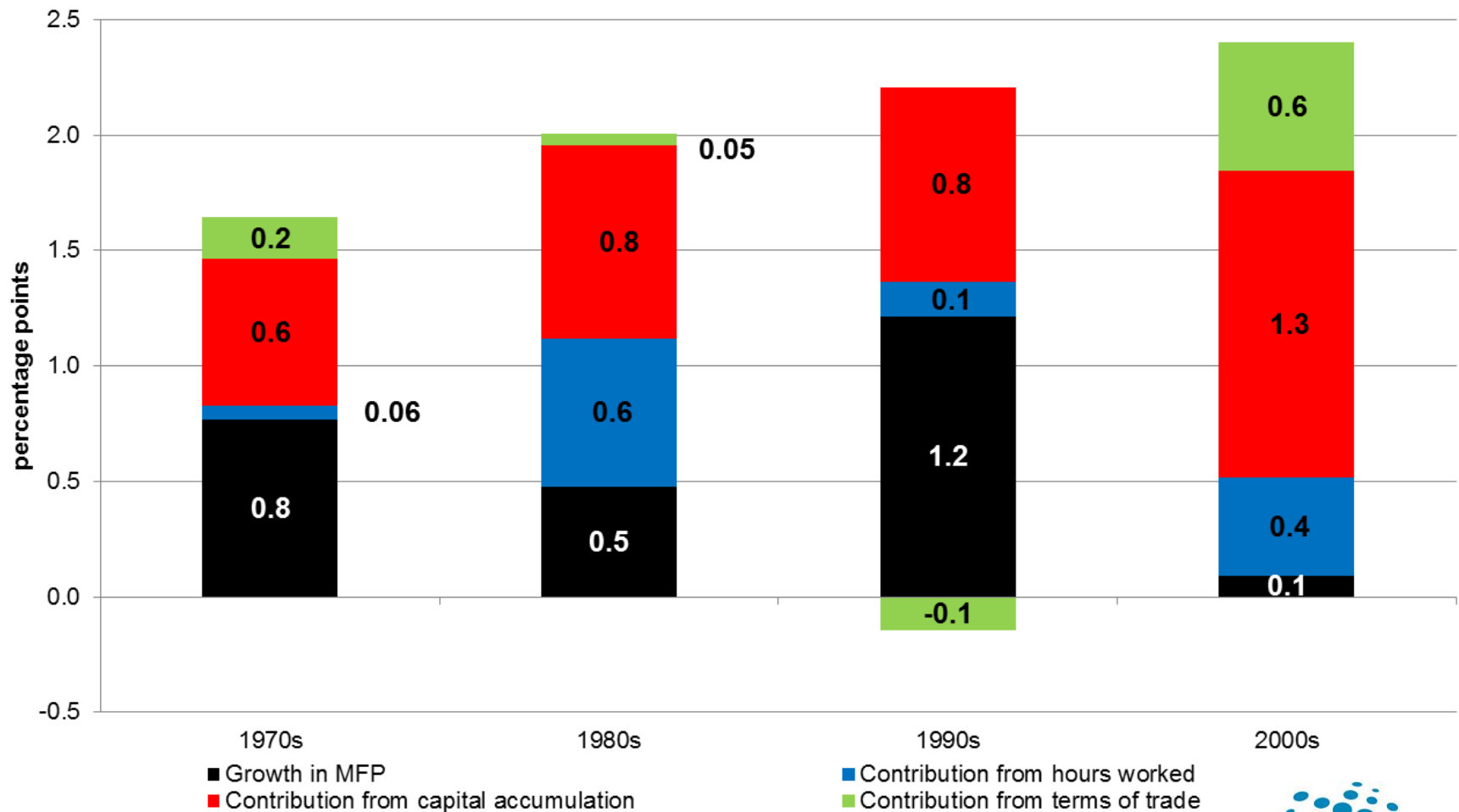


# Manufacturing job losses have been concentrated



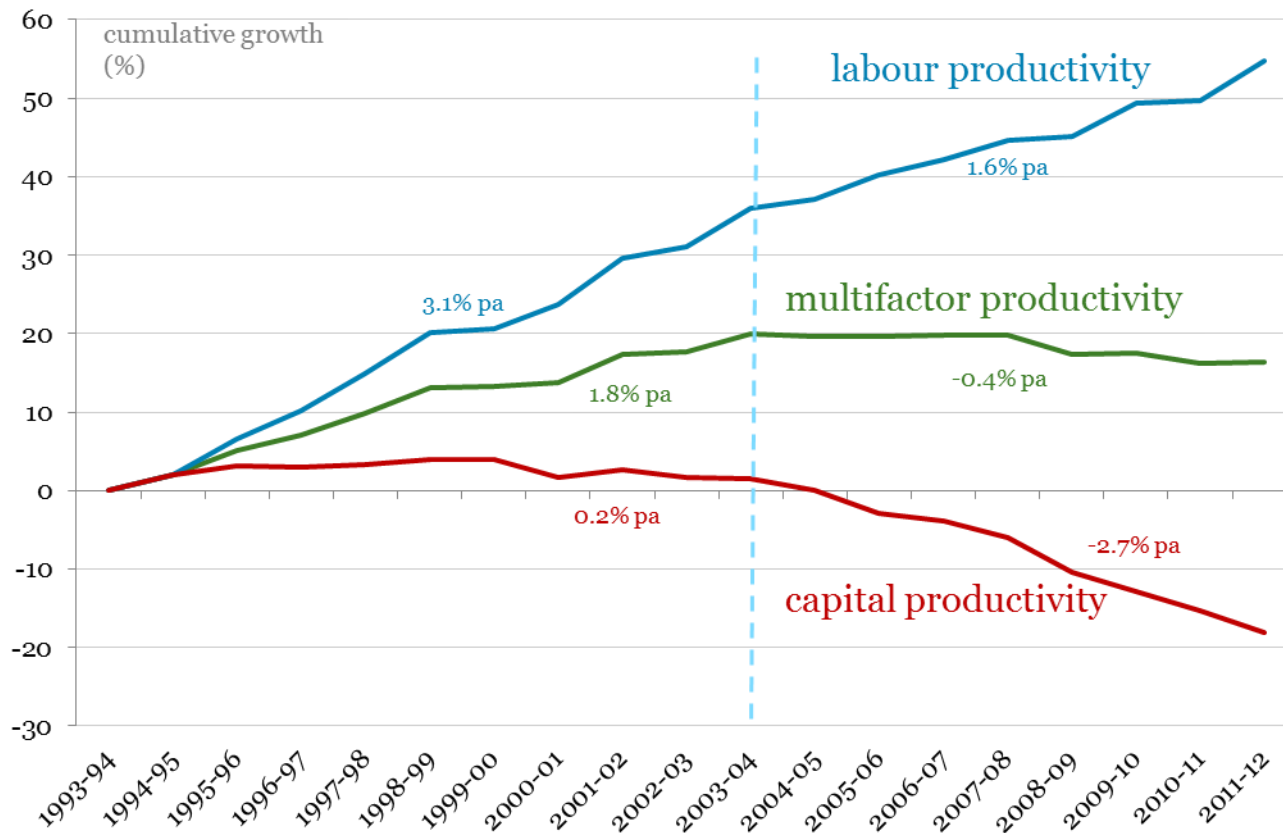
Data source: ABS; Productivity Commission estimates

# Contributions to growth in GDI per capita



# Australia's productivity slowdown

35



# Projected benefits of National Reform Agenda (2007+)

<i>Reform area</i>	<i>GDP per capita</i>
	<i>% change</i>
Competition, regulation & Health service provision	2.1
<hr/>	
Human Capital	
Workforce 'participation'	6.1
Workforce 'productivity'	2.7

# Steps in the Commission's Inquiry Process

Reference from Cabinet



- PC calls for submissions
- Initial consultations and Issues Paper
- First round of hearings or roundtables
- Draft Report publicly released
- Second round of submissions and hearings/roundtables
- Final Report to Government (subsequently publicly released)



- Cabinet submission by relevant Minister
- Decision and implementation