Not 'wasting the Crisis'

Gary Banks

It is becoming a cliché to say that we should not waste the opportunity for reform presented by the COVID crisis. The logic behind this, and the similar 'burning platform' analogy used by the OECD, is that a crisis leads people to think differently about policy trade-offs and to become more receptive to changes in the status quo.

While there have been various examples of this internationally, there are also plenty of instances of crises *not* leading to reform; or worse, resulting in further policy deterioration.

Australia's own response to the Global Financial Crisis is a case in point. While opinion remains divided on the merits of the demand stimulus measures, few would deny that when it comes to the economy's supply side – from which productivity and per capita income growth largely derive – we have been through a dismal decade for reform.

Lessons from the past

Support for reform is hard to achieve without agreement about the problem in the first place. The National Competition Policy, which was essentially the culmination of a microeconomic reform program inspired by Keating's Banana Republic, passed this test, whereas its post-GFC successor, the National Reform Agenda (NRA), arguably failed. Ironically, the fact that Australians were spared much pain from the GFC may have worked against reform.

From that perspective at least, prospects would have to be a lot better now. There would be few families in Australia not touched by unemployment, or greatly concerned about their future. Many people will have lost their businesses. Many more are finding themselves dependent on welfare for the first time.

But achieving sufficient support to secure particular reforms (consensus rarely being possible) still requires a compelling case to be made. We know from experience that policies that are not well founded or properly explained will always struggle.

A further lesson from the past is that seeking to move on too many fronts can weaken the capacity for progress on any. Overly ambitious strategies can soon fall apart, as happened with Rudd's NRA. And, while putting 'everything on the table' can be a useful opening gambit, without clear objectives and commitment a government may soon find (as did the Turnbull administration) that there is little left.

It is a no brainer that the absolute policy imperative is getting people back into productive work as soon as possible.

Job creation will need to take place mostly in the private sector, since public sector employment is still at record levels. While manufacturing interests clearly see an opportunity for government preferment, the reality is that jobs will be required mainly in the service sector, where smaller enterprises have borne the brunt of enforced 'hibernation'.

The capacity of such businesses to employ people will depend not only on the state of the market for their products, but also on their ability to adjust and compete (without government support) in a post-COVID world.

This shifts the spotlight from well-worn macro instruments to stimulate demand, to regulations and other policies that inhibit the ability of firms to adapt, or that unduly raise the unit cost of labour. Governments must make it easier, as Reserve Bank Governor Philip Lowe recently put it, "to expand, invest, innovate and hire people".

This in turn puts the emphasis back on a structural reform agenda to do with incentives and flexibility, as opposed to the recent focus on public sector service delivery. That the so-called 'old' agenda has to become new again, reflects both the nature of our present economic predicament and the fact that policy areas integral to efficient adjustment and job creation have regressed over the past decade.

Which reforms?

The reforms that are most needed right now are ones that can support job creation in the short term, while simultaneously contributing to higher productivity growth in the longer term.

When asked by journalists to be more specific about his 'growth and productivity agenda', Governor Lowe echoed the sentiments of his predecessor in suggesting governments needed to read the 'multitude' of reports they themselves had commissioned. He went on to nominate taxation, infrastructure, training, industrial relations and regulatory impediments to innovation as key areas.

In devising a new 'to do list' of reforms that would best meet the dual objective of early job creation and sustained productivity growth, two of those areas stand out.

The first is regulatory impediments to innovation. This encompasses not just technology adoption, but enabling investment and enterprise adjustment generally. There is a host of specific reform proposals from public reviews over the years (including the PC's just released draft on resource sector regulation) that would ease undue restrictions and delays, and make business recovery at this critical time much less arduous.

The second area deserving priority attention is what Lowe refers to as the problem of 'flexibility and complexity' in the industrial relations system. Australia's idiosynchratic and highly prescriptive system for regulating workplaces, impedes firm adjustment and job creation in ways that have become too costly to ignore. Unfortunately, the historic opportunity for reform presented by the PC's 2015 inquiry fell flat. In part this may have reflected mixed messaging in the report itself. Though (faintly) praising the system as not wholly 'dysfunctional', the Commission's report nevertheless identifies 'major deficiencies' that need addressing. If thoroughgoing reform remains a bridge too far, the Government should at least draw on those recommendations that would ameliorate the worst of the system's flaws. If not now, then when?

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