

Success Factors in Structural Reform: The Australian Case

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Seminar at Lee Kuan Yew School, NUS, Singapore

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The age-old reform conundrum

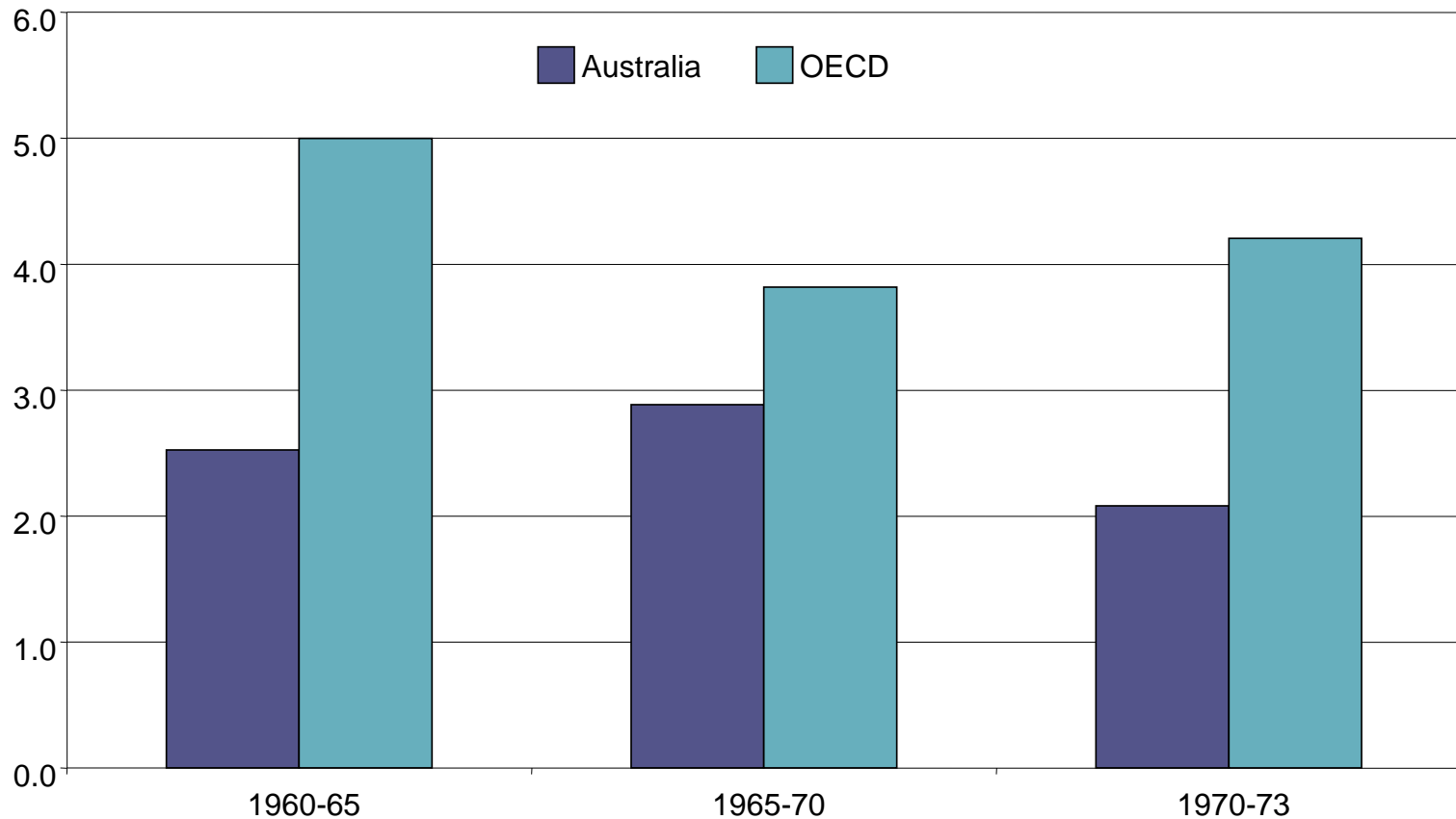
“There is nothing more difficult to carry out ... than to initiate a new order of things. For *the reformer has enemies in all who profit from the old order, and only lukewarm defenders in those who would benefit from the new.*”

(Niccolò Machiavelli; *The Prince*, 1513)

Australia's economy *needed* reform

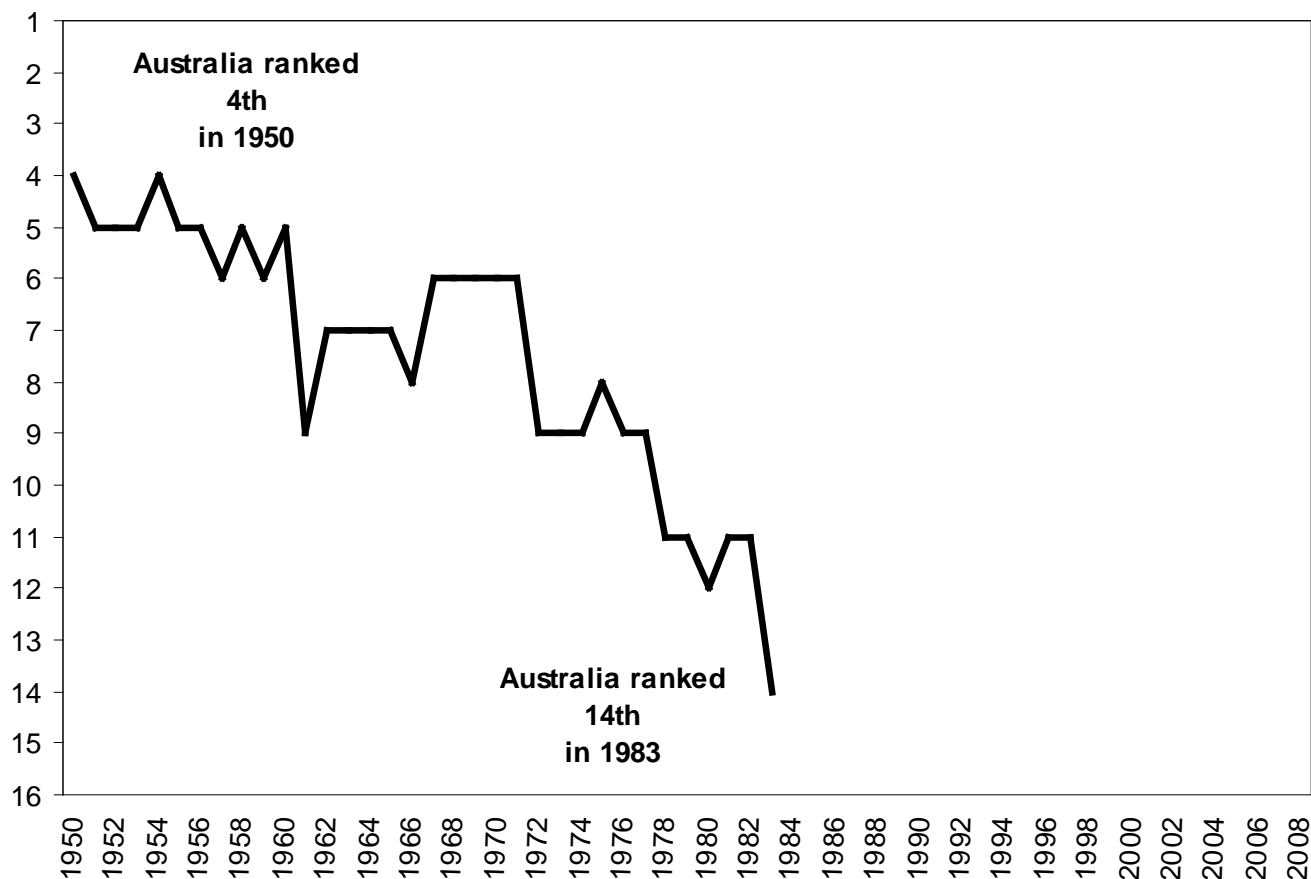
- High import protection
- 'Closed' capital markets
- Inefficient public utility monopolies
- Restricted labour markets
- Pervasive anti-competitive regulations and 'red tape'
 - commodity markets
 - retail sector
 - professional services
 - etc

Australia's policy regime retarded productivity



Fall of Australia's economic ranking

Per capita GDP ranking in OECD



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

Harsh advice from Singapore!

“Without economic reform, Australia risks becoming the ‘poor white trash’ of Asia.”

Lee Kuan Yew, 1980

Two routes to higher per capita income

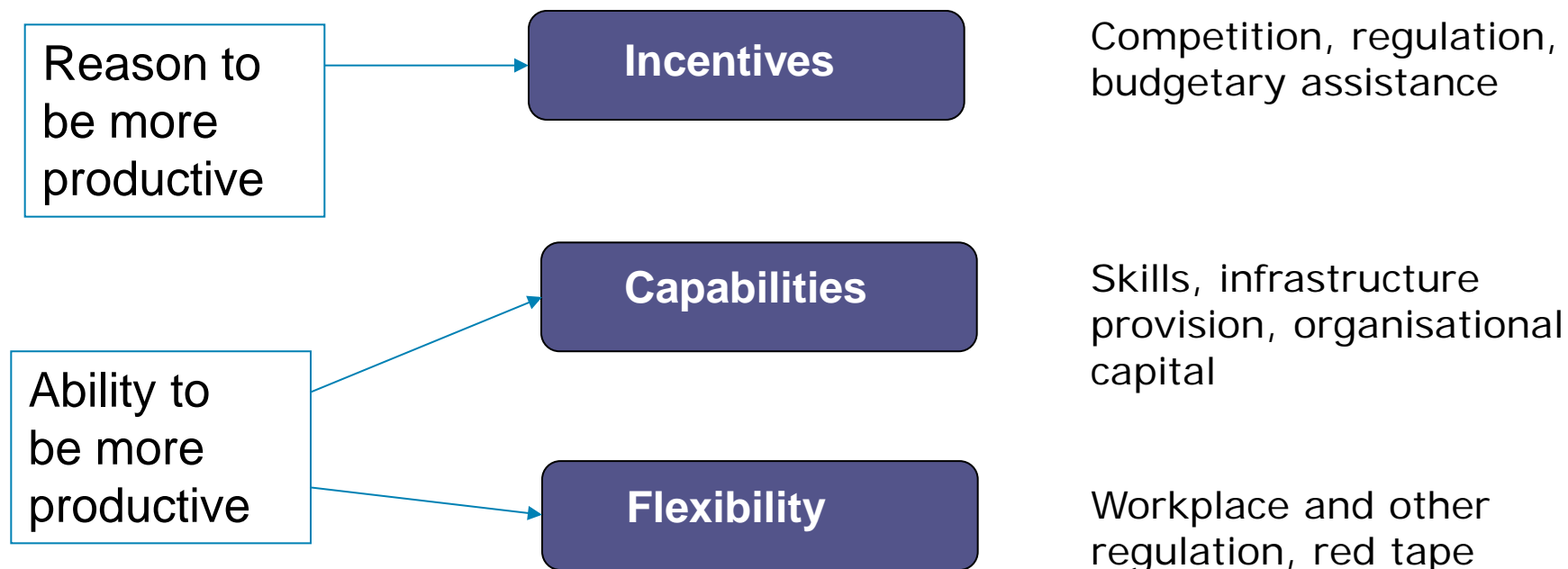
- Higher world prices for exports ('terms of trade')
- More output per person
 - labour force participation
 - labour productivity

A Nobel Laureate's mantra

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

Prof Paul Krugman, MIT

Policy drivers and enablers of productivity

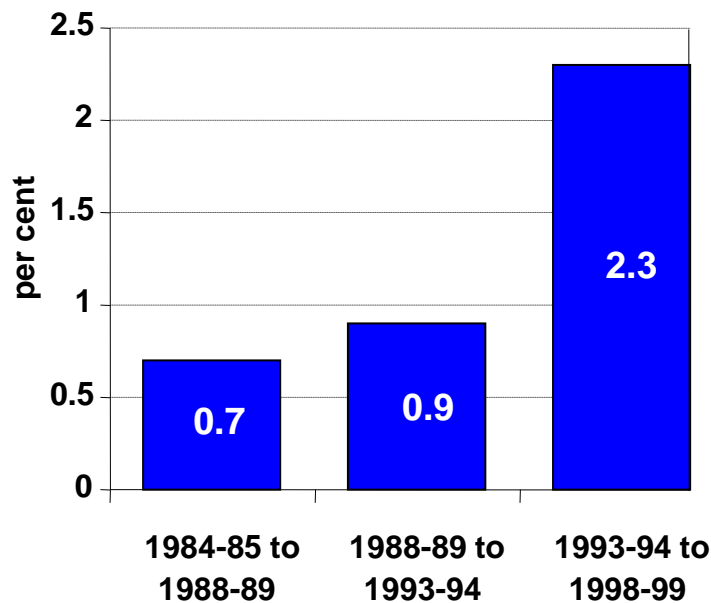


Wide-ranging pro-competition reforms

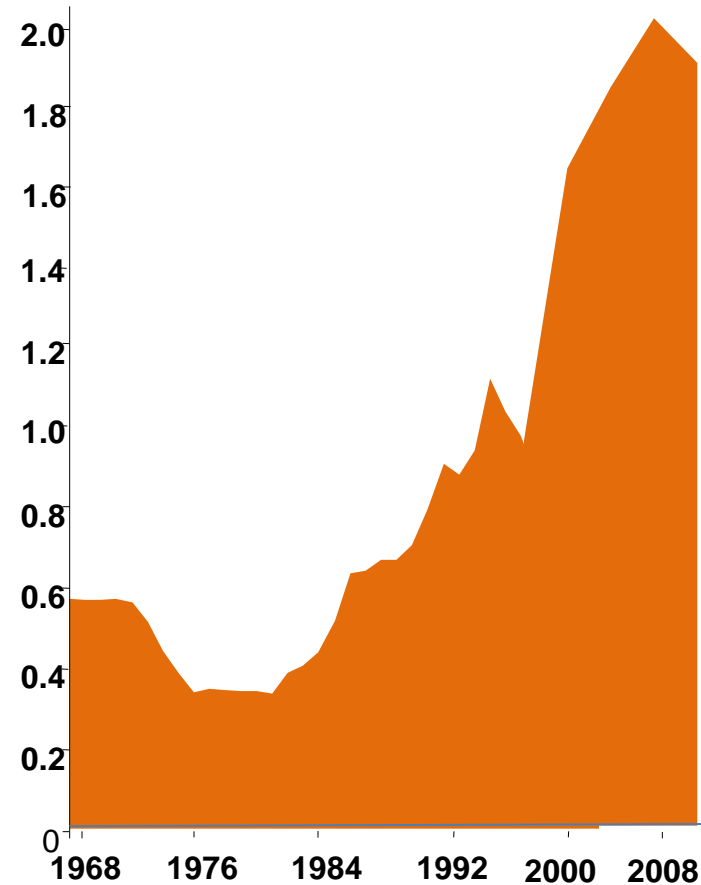
- Capital market liberalisation (from early 1980s)
- Trade liberalisation (from mid-1980s)
- Pro-competitive infrastructure reforms (from late 1980s)
- Labour market 'deregulation' (from late 1980s)
- A coordinated 'National Competition Policy' (from 1995)
- Contestability of public services (ongoing)

A post-reform surge in productivity and innovation

Average MFP growth

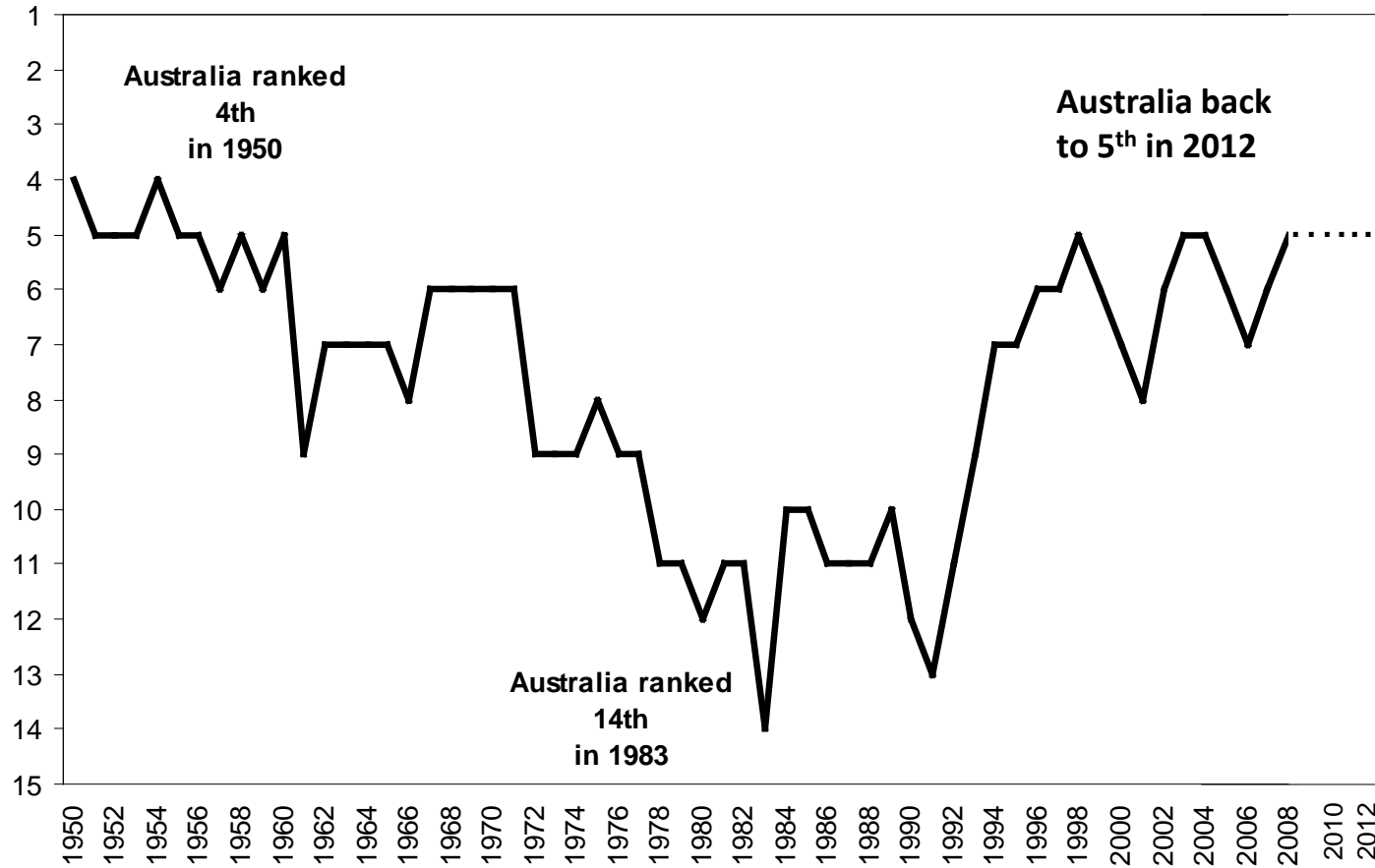


Business R&D share of market value added



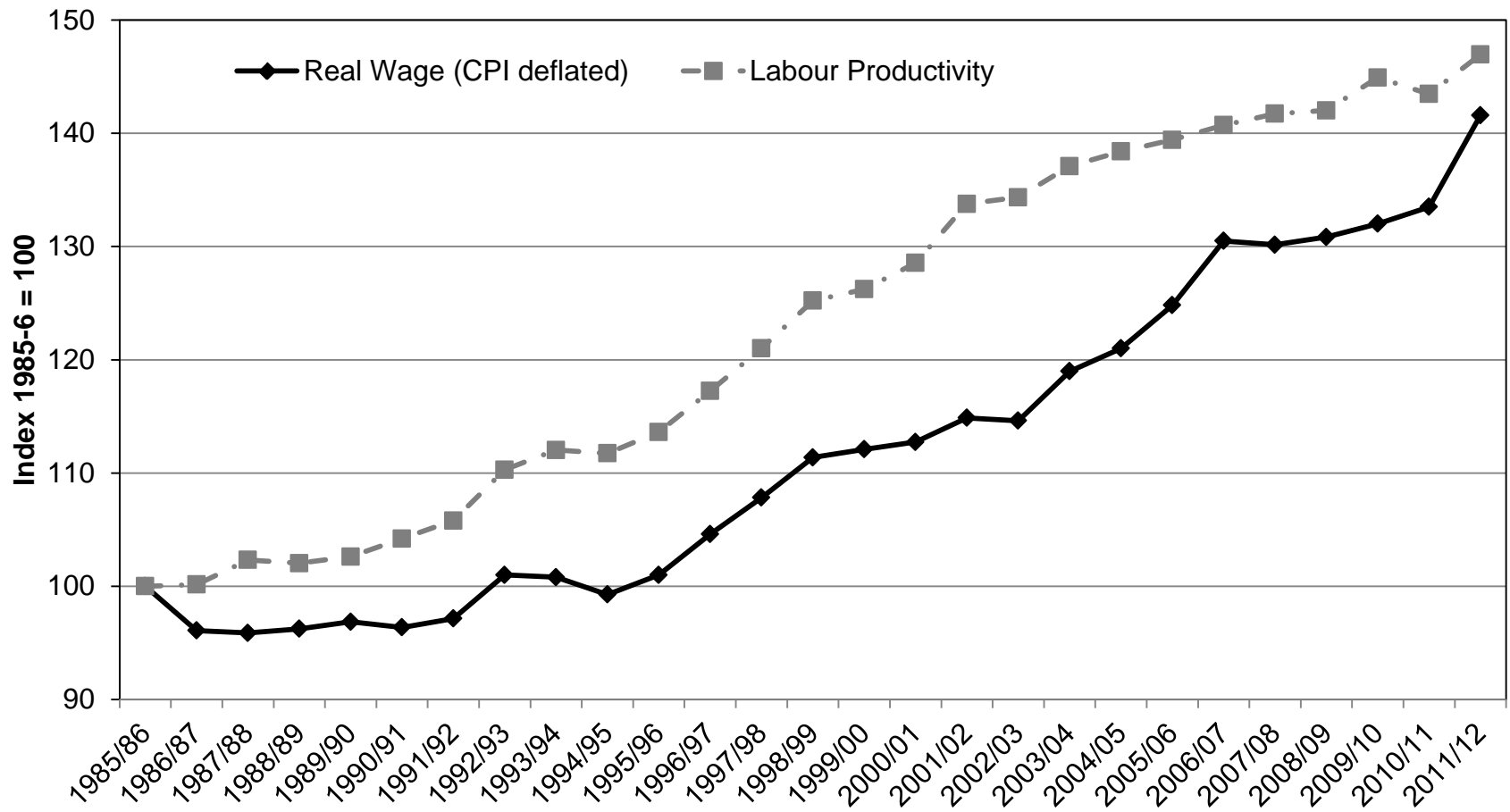
Recovery of Australia's global economic ranking

Per capita GDP ranking in OECD



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

Labour productivity supported real wage growth



Political obstacles to reform

- Most structural reforms produce some 'losers'
- Losses arise early, whereas gains take time
- Losses are concentrated, benefits widely spread
- Potential losers therefore tend to be better informed and more 'active' than winners
- Bureaucratic structures are often aligned with sectional interests
- Multiple jurisdictions further complicate progress

‘Washminster’ has made reform even harder

- Rise of *The Office* (from *Yes Minister* to *The Thick of it?*)
- The new ‘Oppositionism’
- Feeding the 24/7 Media beast
- A more expectant public



Short-term political tactics are trumping long-term policy strategy

Some recent policy 'casualties'

- Taxation reform (GST, Mining)
- Carbon abatement (market instrument)
- Workplace regulation (decentralisation)
- 2014-15 Budgetary measures
 - co-payment for GP visits
 - university fee deregulation
 - youth unemployment benefit eligibility
- More on the horizon?
 - Superannuation?
 - defence procurement?
 - etc...

The basic success factors in Australia's earlier structural reforms

- Leadership was fundamental, but so too was:
 - establishing the *case/need for reform*
 - promoting *public understanding* of what was at stake
 - thereby building *constituencies for reform*
- Institutions and processes were the key to identifying gains and testing ideas publicly

Some pro-reform institutional innovations

- Council of Australian Governments
- Government Services Review
- Office of Best Practice Regulation
- Productivity Commission

Australia's Productivity Commission

- An independent government research and advisory body on structural reform
- Established to provide information about the community-wide benefits and costs of different policy choices

Three foundation stones

- 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'*

Some recent inquiries

- Regional Trade Agreements
- R&D Support
- Regulatory impediments in key industries
- Urban Land Planning and zoning
- Water policy and regulation
- Airport regulation
- Carbon 'pricing'
- Education workforce
- Aged Care policy framework
- Industrial relations framework (in progress)

The contribution of independent research and advisory bodies/inquiries

- *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*

Other (intermittent) success factors

- Attention to prioritisation, sequencing and pace
- Some provision for adjustment needs
- Good timing (electoral, business cycle, 'events')
- A sense of 'crisis' (sometimes more perceived than real)
- 'Champions' in the media
- Enlightened leadership
 - Business, unions etc...
 - Opposition Parties
 - Government (above all)

Implications for other countries?

- All countries face similar obstacles to good policy and (especially) *reform*
- Information failure is a key contributor
- Independent research and advisory bodies can provide a circuit breaker
 - but their design is a matter of ‘horses for courses’
 - and political leadership will always remain crucial

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