Australia's new productivity imperative requires reforms that aren't on the radar

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It could be said without much exaggeration that whatever the economic problem, productivity is the answer. As Treasury's *Intergenerational Report* makes clear, higher productivity would generate higher national income and lead to a smaller relative debt burden. It is the key to a more sustainable fiscal outlook in circumstances where governments seem powerless to rein in excessive spending (or feel pressured to spend even more). And, of special importance right now, it is the key to non-inflationary wage growth that could see real wages and living standards rise again.

While there has been some renewed, albeit at times grudging, political recognition of the role of productivity growth, it has to be said that so far there is little of substance to back up the slogans. This will need to change very soon if we really are to 'grow our way' out of our economic difficulties, as both major parties would have us believe.

Simple logic tells us that the policies that can do most to support wages growth through productivity improvements, are those that operate at the level of individual firms and organizations. These have been labeled 'drivers and enablers': policies that, on the one hand, incentivize firms to do better and, on the other, enhance their ability to make the necessary changes.

It should go without saying that industrial relations is of paramount importance in these respects. I have yet to see a survey of businesses, small or large, that did not rank workplace regulation at or near the top of obstacles to their productivity and competitiveness. Yet attempts dating back to the Hawke Government to introduce flexibility into Australia's rigid and archaic regime have been progressively undermined and reversed. This seems destined to continue, with Labor rejecting procedural changes needed to make enterprise bargaining viable again, and signaling its intention to target so-called 'insecure' (read 'non-unionised') work, despite scant evidence of a problem. At the same time, the Coalition has shown itself incapable of leading an effective reform process in this sensitive area, its recent attempt to exhume the proposals it buried last year bordering on the farcical.

Electricity is an essential input for every business and workplace in the economy. It is one of the great generic technologies responsible for economic progress. Both sides assert that it will become not only ‘cleaner’ but permanently cheaper under their watch and no less reliable. This is despite the ongoing subsidized displacement of coal-fired baseload power by intermittent renewables, and suppression of reliable low-emission alternatives (gas and nuclear). In the interim, while waiting for the elusive technological breakthrough, we have a bewildering patchwork of interventions, including a requirement for intensive users of electricity to *cease* production whenever blackouts threaten -- the antithesis of a pro-productivity policy.

A third area of economy-wide importance is taxation. Despite past reforms (and some in train) our economy remains handicapped by a system that relies too heavily on taxing productive activities. Yet both sides have essentially indicated an attachment to the status quo. However, it is not hard to imagine an announcement after the election that our fiscal circumstances are worse than thought and will require higher or new taxes (or ‘levies’). The risk is that these will be primarily redistributive rather than efficiency enhancing, and that they will apply retrospectively, further undermining investor confidence.

The policy areas where both sides evidently feel most comfortable, despite the fiscal implications, are those that involve public spending. But, for most of these, the productivity payoffs are distant or hinge on how and where the money is actually spent. Some favourites include manufacturing assistance, infrastructure provision, education and training, and childcare. The misallocation of funding in these areas is legion, with billions of dollars wasted in the past. In the case of childcare, which has been the subject of a political bidding war, the evidence indicates that further raising the rate and reach of subsidization will do little for children; not much more for female workforce participation – which is currently historically high – and very little for productivity.

The reality we face is that if productivity is to become the hoped-for ‘get out of jail card’ in relation to public debt and real wages, it would need to attain rates of growth not seen since the 1990s. The productivity surge in those years did not come about by accident. It was driven and facilitated by major structural reforms under the Hawke and Howard Governments, reforms that for the most part were evidence-based and carefully managed. Today's leaders have understandably sought to invoke their forebears from that pro-productivity 'reform era', but their policies and approaches arguably have more in common with the earlier, stagflationary era of Whitlam and Fraser.

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