Top three game-changing reforms can add $70bn each year to GDP

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*There are still huge growth gains available to our economy, writes **John Daley.***

Grattan Institute's latest report, *Game-Changers: Economic Reform Priorities for Australia*, sifts through potential reforms to find which will do the most to increase Australia's prosperity. Our goal is to identify policies that are desirable, achievable and will produce the biggest economic returns in the next decade.

On these criteria, the results are emphatic: governments need to reform the tax mix and raise workforce participation rates for women and for older Australians. Together these three reforms can increase gross domestic product by more than $70 billion within 10 years. Governments should make them their priority.

There are always immense pressures for governments to act in many policy fields. But governments have limited resources at their disposal. History shows that when governments attempt too many reforms they manage only the urgent but trivial issues and mishandle the important ones.

Reforms are not created equal. Governments should concentrate their effort where it can generate the greatest benefit. We estimate that each reform is capable of increasing GDP by more than $25bn by 2022. These three are game-changers. No other reform we could identify comes close.

Increasing GDP should not be the ultimate goal of good government. In the end, wellbeing and happiness matter most, and individuals and families make decisions on that basis. The goal of social policy is to enable people to make choices that are best for them. But good economic policy can pay for it.

None of the game-changers will be unfamiliar to policymakers but the scale of the potential growth gains should concentrate minds. Our analysis shows that if Australian governments collected more revenue from efficient taxes that encouraged economic activity, and less from inefficient, distortionary ones, GDP could increase by $25bn a year within a decade.

One key reform is to broaden the GST to include the 40 per cent of consumer spending presently excluded, particularly on health, education and food. The additional revenue could fund substantial income and corporate tax cuts that would increase economic growth.

On female participation, Australian women only would have to join the workforce at Canadian rates to deliver a $25bn boost to the economy. The essential reform is to increase the proportion of earnings that women with children take home, by changing the tax and welfare rules for family tax benefit and childcare. At present there are women who would take home less than $50 for two extra days of work.

Women with children should not be forced to work but the present system minimises the incentive for a second parent to work and denies many a worthwhile choice.

GDP would also be $25bn higher by 2022 if more older Australians were encouraged to retire later by increasing the age at which they can access the aged pension and their superannuation. This would not be unfair. The only group getting a free kick would be those already retired. Sixty-year-olds and 30-year-olds on average would work for longer.

Nor is it unreasonable to tighten access to superannuation. There are generous tax concessions for superannuation because it is supposed to reduce government pension liabilities. But one third of superannuation balances are spent before the pension age, which does nothing to help government budgets.

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Tax-mix and workforce participation reforms stand out from the other economic possibilities cluttering the government's in-tray. On a strictly economic analysis, several issues often touted as productivity bonanzas pale into insignificance.

It is often claimed, for example, that under-investment in transport infrastructure is holding back economic growth. Engineers Australia has estimated that we have a $700bn shortfall in spending. But this spending increases growth only if it is the right infrastructure in the right place at the right price.

While new infrastructure can significantly increase growth, particularly when it increases trade, it seems likely that the biggest growth opportunities in this area have already been captured, largely thanks to greatly increased government spending during the past decade and the prioritisation work of Infrastructure Australia. We estimate the net economic benefit of doubling investment in large transport infrastructure projects would be less than $5bn a year.

Many see industrial relations reform as the key opportunity for unleashing economic growth. Industrial relations affect labour in every sector of the economy, so it seems logical that reform in this area could produce substantial dividends. There's plenty of anecdotal evidence that industrial relations can slow business change, delay new operations and reduce productivity.

However, there is nothing that quantifies how widespread these issues are, and therefore what reform may be worth. And, historically, industrial relations reforms have not led to measurable increases in productivity, in Australia or overseas.

Innovation policy and industry policy are a similar story. There is little evidence that government intervention does much to increase economic growth; indeed, it often destroys it.

The long-run picture reveals different priorities. Reforms to school education, particularly teacher training, feedback and performance management, would have a huge impact on economic growth. But even if we embarked on major reforms today, large economic impacts would not flow through until the 2030s.

Our report isn't meant to be the last word in reform prioritisation. The shortage of data and objective research makes it difficult to assess the reform potential of many issues. Prioritisation is inherently dynamic: further work by others may lead to better conclusions than ours. But we hope this analysis may encourage some discipline in the debate about what governments' big-picture priorities should be.

For the moment, the signs aren't promising. Both Prime Minister and Opposition Leader have ruled out moving forward on reforms to GST and older workers. Australians are entitled to ask what they are planning to do instead, and whether it will really be enough to change the game for Australian economic growth across the next decade.

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