

## Economic game-changers ignored

*Published in The Australian Financial Review, page 55, Wednesday 13 June 2012*

*Julia Gillard's forum will be skirting around the edges of our problems, writes **John Daley**.*

The Prime Minister's economic forum today gathers the great and the good of Australian economic policy. How should we test whether it was worth their trip to Brisbane? We should judge the forum's outcomes with three tests: what concrete government actions are suggested; how good is the evidence that these things will help; and what are they worth to the economy? In discussing the economy, it is all too easy to admire the problem.

We can point to the rise of the Asian middle class, our growing mining exports, and increasing desires for infrastructure.

But drawing graphs of these trends provides little insight about what government should do in response.

The hard truth is that there may be little that government can do.

Mining investment, mineral exports and services consumption will all keep growing rapidly. By definition, therefore, other investment, exports, and consumption will all fall, at least as a proportion of the total.

No one has identified much that government can do to alter these trends constructively. The whole point of a market economy is that investment and consumption flows to where the most value is created, to deliver what people want most.

Government intervention to slow the tide particularly to support declining industries will generally be both costly and ineffective in the long run.

We would all like the answer to be more innovative businesses. Here we can at least identify concrete government programs such as research and development tax incentives that might increase the metrics. But there is little evidence these programs result in greater economic growth than their cost.

And the tendency to focus on R&D, patenting and first-in-the-world products confuses "innovation" with "invention".

The majority of innovation that results in productivity improvement occurs in low-tech industries copying ideas from elsewhere. The productivity of our economy is primarily driven by how well we implement other people's ideas.

Another common answer is that more investment in infrastructure would give the economy a lift.

However, as the Darwin to Alice Springs railway illustrates, there is no guarantee that benefits outweigh costs for every infrastructure project.

Bodies such as Infrastructure Australia are adding discipline.

However, on their numbers it is far from clear there are oodles of projects waiting for finance that would, on balance, benefit the Australian economy. And we are still making "strategic" investments such as the national broadband network without a cost-benefit case providing evidence that the marginal benefit over existing services would outweigh the cost.

In the long run, better education and training would help. Here, at least, we know that improving teaching, particularly through better teacher training, feedback and performance management, would

John Daley, Chief Executive Officer

T. 03 8344 6142 E. [john.daley@grattan.edu.au](mailto:john.daley@grattan.edu.au)

make a big difference. The catch is that it will be decades before the investment pays off.

There is also good evidence that putting more people through vocational education and training would help. However, as the Victorian experience is showing, we need to refine our plans for rapidly increasing student numbers while maintaining quality.

Finally, on competition and deregulation, we can find lots of little things in which governments can intervene, and there is good evidence this would help. But most of these things aren't worth very much. The Council of Australian Governments is responsible for implementing the "Seamless National Economy" in areas from wine labelling to margin lending, but the net benefit is estimated at less than \$10 billion, which will be hard to notice in an economy of \$1.4 trillion.

The agenda for the forum today covers the patchwork economy, innovation, infrastructure, education and deregulation.

Of these, there are few areas where there is good evidence that government intervention will make a big difference in the "short" term of the next decade.

By contrast, the Grattan Institute's recent report, Game-Changers, identified three policy interventions, each worth about \$25 billion a year in economic growth. Improving the workforce participation of women and older workers, and shifting the tax mix from income and corporate taxes to consumption taxes, could add more than \$70 billion to gross domestic product within a decade.

None of these game.changers is on the agenda for the forum. The interventions that would make a big difference would be politically difficult.

Maybe the Prime Minister's forum can pinpoint other concrete government actions with good evidence that they are worth a lot to the economy. But if not, can Australia afford to ignore the gamechangers of female and older worker participation, and tax reform?

*John Daley is chief executive of Grattan Institute.*

[www.grattan.edu.au](http://www.grattan.edu.au)