

Australia's Productivity and
Participation Reform Agenda

By

Professor Geoff Gallop

OECD Forum 2008

Paris, 3 June 2008

In the past quarter-century Australia's political economy has been transformed. The first wave of reform began in the 1980's when the dollar was floated. Financial markets opened up to international competition and trade barriers began to be reduced. This was followed by a massive program of microeconomic reform in the 1990s – many restrictions on competition were removed and government trading enterprises commercialised or privatised.

This use of competition to stimulate economic performance worked with Australia climbing up the international income ladder. Indeed this year sees the economy in its 17th year of expansion, with an average rate of growth of 3.6 per annum over the period.¹

However, history marches on and Australia has embarked on a third wave of national reform. It has been motivated by the ageing of the population on the one hand and increasing international competition on the other. Standing still is not an option in a world of change.²

The focus of the third wave of reform is on productivity and participation. The potential of such an agenda was recognised in the OECD's Economic Survey of 2005:

Rising to these challenges will require policies that increase both productivity growth and labour inputs over the long term. These are ambitious objectives, but by no means impossible: Australian productivity levels are well below those recorded in several other OECD countries, as are participation rates among some working-age population groups.³

Although there was general support for this agenda before the change of government at the national level last year, the new Rudd government has made it a cornerstone of its approach to public policy development and implementation.⁴ Modelling by the Victorian Government in 2005 estimated that a successful program of reform could deliver an extra 6.1 per cent to annual GDP projections within the next decade, with two-thirds of the benefits arising from maintaining the participation rates as the population ages. The other third would result from productivity improvements.⁵

The new reform agenda is characterised by the strong emphasis on human capital – a healthy, skilled and motivated population – and on social inclusion, particularly for the indigenous population whose life chances are seriously below the rest of the community. Alongside the human capital and social inclusion elements of reform is the continuation of the microeconomic reform agenda to promote competition, reform the regulatory system and better co-ordinate and provide infrastructure provision.⁶

¹ See Australian Government, "Boosting Australia's Productive Capacity: the Role of Infrastructure and Skills", in Budget 2008-09 Paper No 1: 4.3

² The initial work on the new reform agenda was commissioned by the Victorian Government. See Allen Consulting, Governments Working Together: a better future for all Australians (May 2004). It led to the Victorian Government plan A Third Wave of National Reform: A New National Reform Initiative from COAG (August 2005)

³ OECD, Economic Survey of Australia 2005, quoted in A Third Wave, p.21.

⁴ See Geoff Gallop, "The Federation", in Robert Manne (ed.) Dear Mr Rudd: Ideas for a Better Australia (Black Inc., 2008), pp. 42-58

⁵ A Third Wave, p.8.

⁶ See Australian Government, Budget 2008-09 Paper No. 3. Other areas designated for national reform are climate change, water, housing and indigenous disadvantage.

At the peak of the Participation/ Productivity agenda is a formal agreement between the federal and state governments to cooperate and coordinate their activity in the interests of better outcomes in health, education and work incentives. Funding agreements will incorporate clear statements of objectives and outcomes and a specification of the respective roles and responsibilities of each level of government.

Performance indicators will accompany the objectives, outcomes and outputs and in some cases performance benchmarks will be set to which will be attached incentive payments for the state and territory governments. Indeed a new category of National Partnership Payments will be created by the Federal Government to facilitate or reward reform. An independently constituted Reform Council will monitor performance generally and make recommendations about whether reward payments should be made.

In the Australian case a partnership model is necessitated by the peculiarities of our federal system – the Commonwealth collects most of the revenue and the State and Territories provide most of the services. A cooperative form of federalism in which there is unity of purpose, agreement over outcomes but diversity and flexibility in delivery is seen as the best solution. Indeed the funding arrangements are being designed to give the states and territories greater autonomy over how they deliver services. This is expected to lead to different modes of service delivery that better suit the requirements of local communities.⁷

If co-operative federalism represents the governance framework for the reform agenda, a life-cycle approach represents its intellectual framework. This means putting in place specific policies and programs to deal with each of the key transition points in a person's life, such as the early years, schooling, and transition from school to work and from work to retirement. In particular emphasis is being placed on the early formative years when children develop their intellect, personality and skills. As the government's own budget papers have put it:

Evidence also shows that providing access to high-quality early education programs in the year before formal schooling is one of the best ways for government to help children from disadvantaged backgrounds get the best possible start in life. Over the longer-term, early childhood education generates substantial cost savings from improved health and productivity and reduced expenditure on social services.⁸

Not surprisingly, then, the portfolio of the Deputy Prime Minister and Minister for Education, Employment and Workplace and Minister for Social Inclusion, Hon. Julia Gillard, involves planning for early childhood education and childcare, schooling, training, universities, social inclusion, employment participation and workplace cooperation. As the Minister herself acknowledged it is a portfolio for productivity.⁹

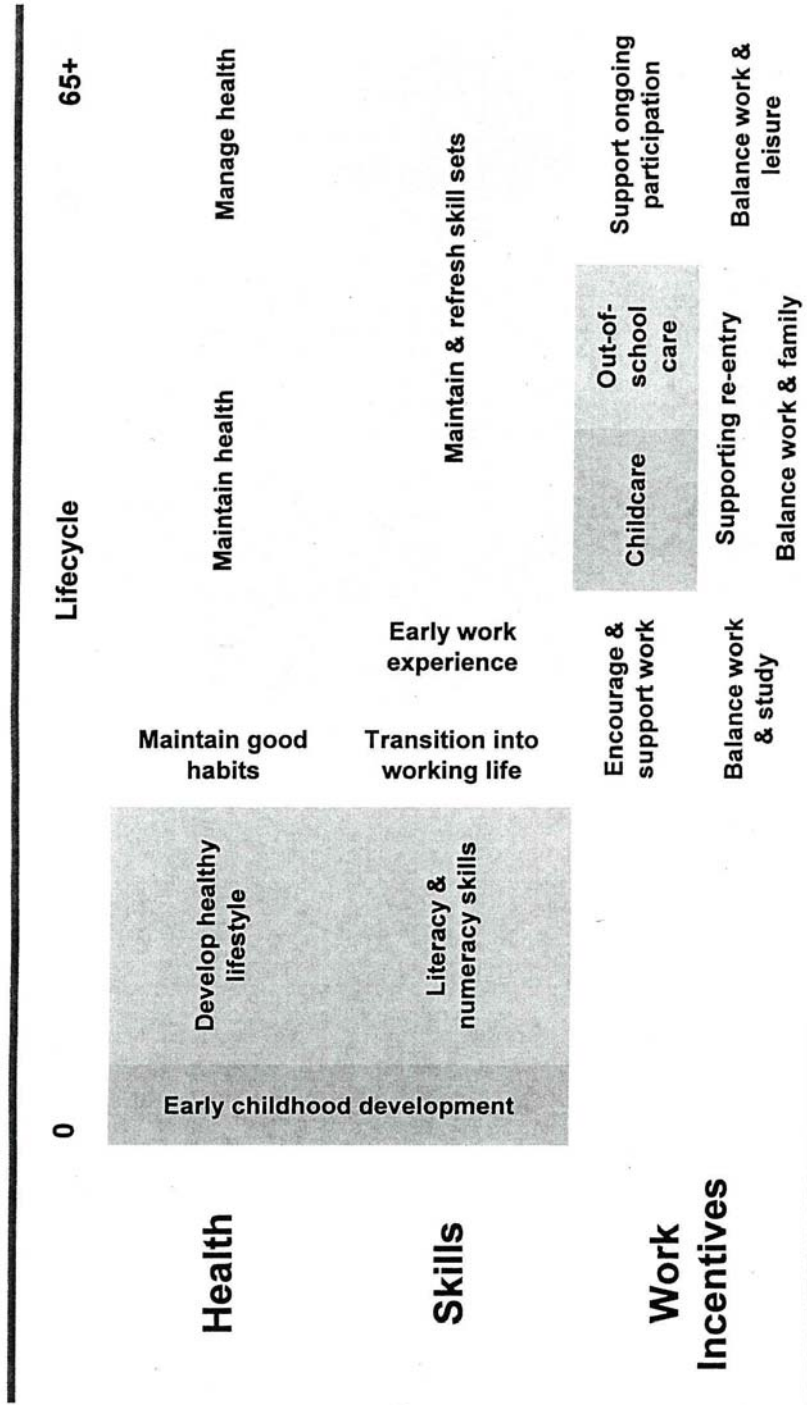
How the health, skills and initiatives agenda can be conceptualised in terms of policy priorities and the life-cycle has been illustrated most clearly in the following diagram prepared by the Victorian Department of Premier and Cabinet:

⁷ *Ibid.* p.14

⁸ Australian Government, "Ministerial Statement—Education Revolution" in Budget 2008-09, p.7.

⁹ See Julia Gillard, "Speech to the Australian Industry Group", Monday, December 3rd, 2007

A Holistic Approach to Change



Victorian Department of Premier & Cabinet, 2007

What is envisaged is a top-down and outcomes - driven system - and hopefully an evidence-driven one as well. Just as performance management and incentive payments worked to drive microeconomic reform within Australia's federation in the 1990's so they are expected to drive reform today. There is, however, an important difference – the competition reforms of the 1990's required action by governments alone. Today strategies that engage governments alone are going to be inadequate. Reform is going to require partnerships between governments, individuals and the community, particularly in respect of social inclusion. What is going to matter is not just the structure of inter-governmental relations and the funding model that will back it up but also the ability of the governments to involve the community, including business, in its health, education and labour market agendas.