

productivity reform:

A NEW ROADMAP TO AUSTRALIA'S FUTURE



42 Introduction – The Risk of a Tarnished Golden Age
46 The Need for Reinvigorated Competition Reforms
52 National Competition Policy’s Unfinished Business

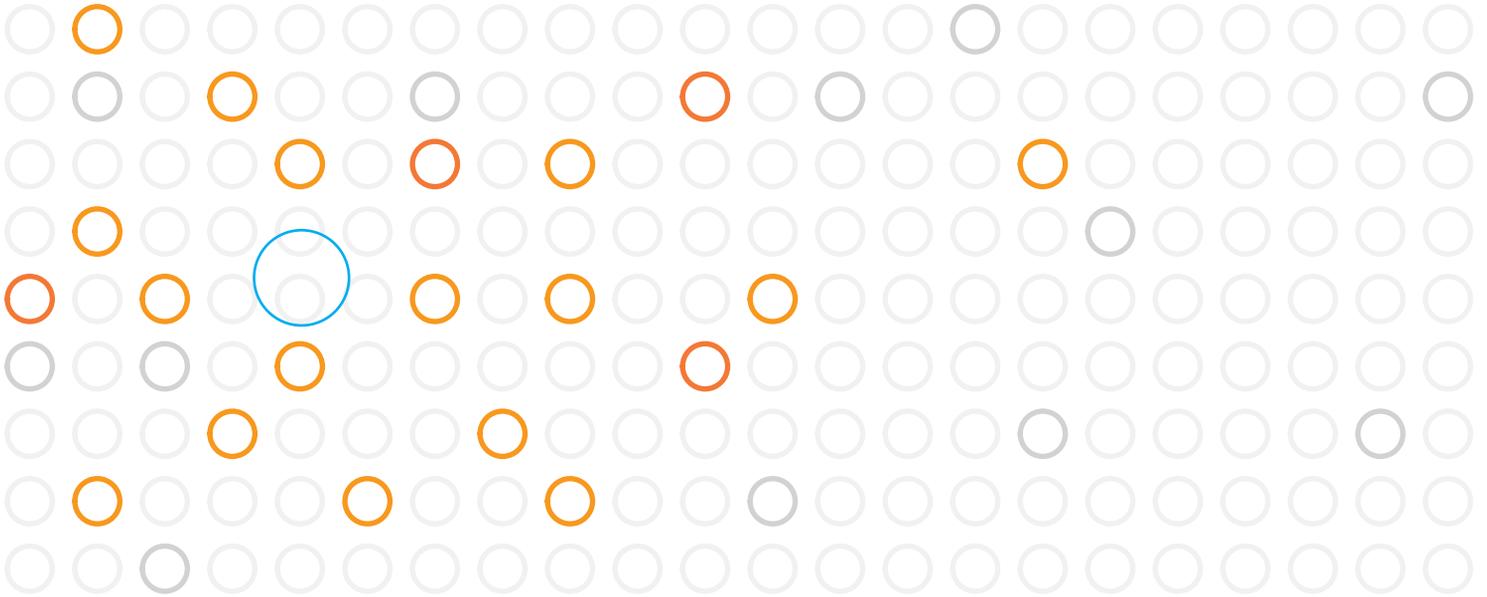
53 National Productivity – A Foundation for Australia’s New Agenda
56 A Framework to Eliminate the Barriers to Reform
58 The Mechanism to Deliver Results

59 Investing in a Productive Workforce
62 Australia’s New Agenda – The Way Forward



INTRODUCTION

the risk of a tarnished golden age



The Business Council of Australia (BCA) represents the Chief Executives of 100 of Australia's leading companies. These companies account for a substantial share of Australia's domestic and overseas business activity. Our Members therefore have a significant interest in supporting public policy reform that positions Australia as a strong and vibrant economy and society. It is the BCA's objective to develop and advocate, on behalf of its Members, such reforms.

Over the past year, the BCA's central message has been that Australia must act now to make further fundamental reforms to lock in its current prosperity and create the conditions for sustainable growth over the long term.

The BCA noted in its 2005–06 Federal Budget Submission released at the start of this year:

'Australia is experiencing one of its most prosperous periods for several decades. For many Australian businesses, workers

and families, the economy has never performed more reliably. Profitability is high, unemployment and inflation are low, income growth is strong and asset prices are rising.'

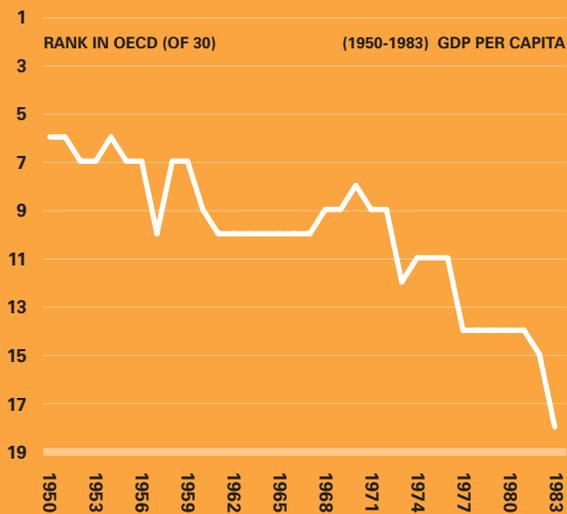
And went on to ask:

'Why propose or advocate changes to an economy that is running so well?'

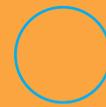
The simple answer is that we cannot take such prosperity for granted.

Australia has experienced such prosperity in the past and squandered it. After a period of remarkable economic prosperity in the 1950s and 60s – sometimes referred to as the 'Golden Age' – Australia's economic standing and performance plummeted. Australia's ranking in terms of living standards among OECD countries fell from 8th in 1970 to 18th by the early 1980s. Unemployment rose and the share of exports in economic activity fell below the level achieved at the start of the 1900s.

FIGURE 1
THE FALL OF AUSTRALIA'S RELATIVE PROSPERITY



SOURCE: GRONINGEN GROWTH AND DEVELOPMENT CENTRE AND THE CONFERENCE BOARD, TOTAL ECONOMY DATABASE, FEBRUARY 2005, WWW.GGDC.NET. OECD RANK IS AGAINST ALL CURRENT MEMBERS (RATHER THAN MEMBERSHIP AT THE TIME).



'MANY SOCIETIES HAVE HAD REMARKABLE SUCCESS IN ACHIEVING ECONOMIC PROGRESS FOR SHORT PERIODS. THE PROBLEM IS THAT SUCCESS IS HARD TO SUSTAIN. EVEN MORE DIFFICULT IS RETURNING A SOCIETY TO A SUCCESSFUL PATH ONCE IT HAS FALTERED.'

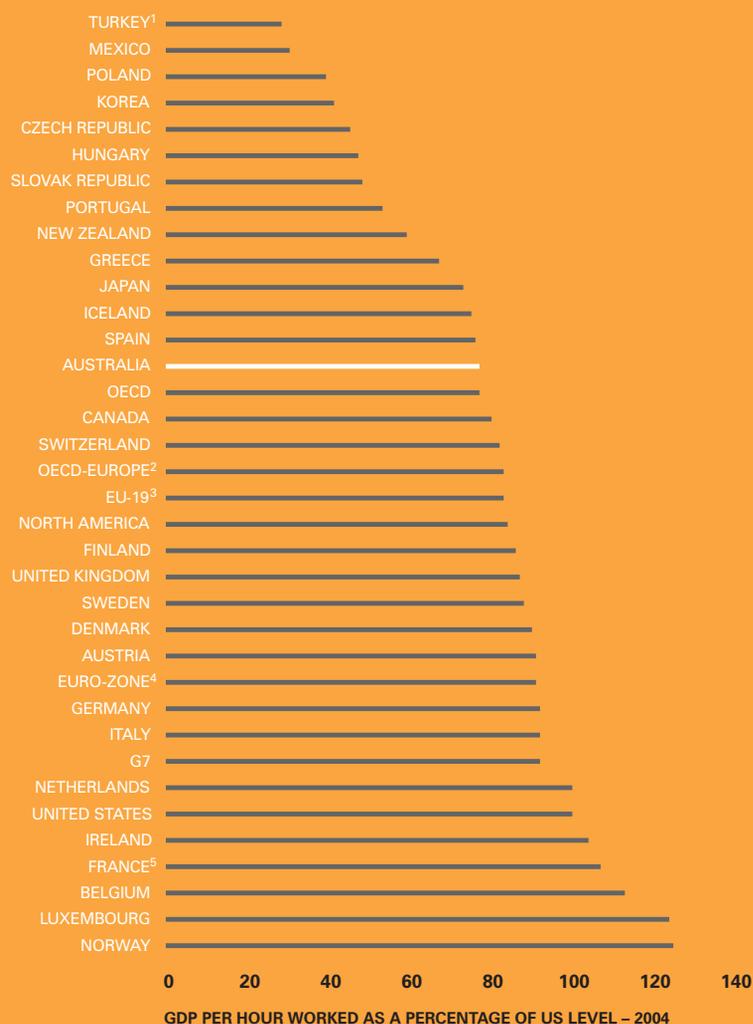
US CONFERENCE BOARD, JULY 2005¹

It has been a long time since Australia has experienced such hardship. It has been 14 years since Australia's last economic recession, and unemployment has been steady or falling since 2001. As much as we might like to sit back and enjoy the success of past hard work, however, we still have some way to go. We continue to lag many of our peers and competitors in important areas, including productivity, and our traditional competitors are actively looking for ways to reap similar gains to those achieved by Australia in recent years.

At the same time, new competitors are emerging as many developing economies position themselves to take advantage of the opportunities presented in global markets. In addition, the BCA has highlighted serious constraints and imbalances emerging within the economy that, in the absence of reform, will slow growth, limit opportunities and undermine the economy's capacity to deal with longer-term challenges, like ever-increasing global competition and population ageing.

Exhibit 1 overleaf outlines the drivers of growth that need to be considered and addressed if a strong economic future is to be assured.

FIGURE 2
LEVEL OF LABOUR PRODUCTIVITY – OECD COUNTRIES



NOTES
¹ GDP for Turkey is based on the 1968 System of National Accounts. ² Excluding Turkey. ³ EU members that are also members of the OECD. ⁴ Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain. ⁵ Includes overseas departments.
 SOURCE: OECD ESTIMATES, JULY 2005.

EXHIBIT 1 ○ DETERMINANTS OF ECONOMIC GROWTH

Economic growth is determined by two broad factors: labour supply and the productivity of labour.

Labour supply refers to the total number of hours worked over a period of time. It reflects the total number of people available to work, whether they are prepared to and able to work and actually in a job, and the average hours that each employee tends to work.

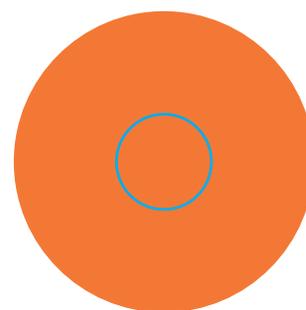
Labour productivity (or simply ‘productivity’ as it is usually shortened to) is the efficiency of our workforce. It is determined by: the skills and quality of the workforce; the amount of capital (machines) available to them (i.e. capital deepening); and the effectiveness with which we combine capital and labour in producing goods and services (i.e. multi-factor productivity).

Table 1 (pages 60–61) shows the relationship between the BCA’s reform agenda and the determinants of growth.

Reflecting their concerns about longer-term prospects, our Members have identified a range of current policies that present major barriers to future economic growth.

These include:

- a tax system that discourages people from entering the workforce, distorts business and investment decision making, and impacts Australia's ability to attract and retain investment and skilled labour;
- growing gaps and inefficiencies in the nation's transport, energy and water systems;
- an explosion of red tape that is placing real limits on business innovation, entrepreneurship and investment;
- a system of labour market regulation that is complex and inhibits job creation, skill formation, flexibility and therefore innovation in the workplace; and
- a system of Federal–State relations that is complicating almost every aspect of policy making, inhibiting transparency, accountability and effective decision making.



'We are living in a time of great prosperity [but] we will only stay that way if we are prepared to make changes and keep reforming the system.'

PRIME MINISTER JOHN HOWARD, 29 AUGUST 2005²

In responding to these concerns, the BCA's priority has been to examine the key policy areas identified by Members – workplace relations, taxation, regulation and infrastructure – to better understand existing policy limitations and to develop roadmaps for reform.

This has been the focus of the BCA's work over the past nine months, culminating in the release of four comprehensive *Action Plans for Future Prosperity*. Each Action Plan, backed by independent research, highlights the limitations of Australia's existing policy arrangements and sets out a reform agenda to underpin future growth and prosperity.

In order to better understand the benefits of reform for business, individuals and the economy, the BCA commissioned Access Economics to examine the sorts of reforms required to underpin stronger economic growth and quantify the impacts of further reform over the next 20 years.

The results of the Access Economics research, highlighted in the BCA publication *Locking in or Losing Prosperity: Australia's Choice*, clearly confirm that:

- further reform is required to lock in sustained strong growth;
- sustained strong growth delivers significant benefits, including the average Australian being around \$74,000 better off (in today's dollars) in real wealth terms by 2025; and
- comprehensive, not piecemeal reform, is required if we are to live up to our expectations and potential.

The BCA has, through its Action Plans, outlined a solid policy foundation capable of locking in Australia's future prosperity and has sought to use this research to promote the need for such reform as a matter of urgency. However, this work represents only one part of the task at hand.



the need for reinvigorated competition reforms



'...we tend to take the institutional matrix in which we live for granted. **We do relatively little to be sure that the existing institutions are kept in repair** and that new institutions are created to address new circumstances.'

US CONFERENCE BOARD, JULY 2005³

Developing reform priorities across a range of key areas is one important step on the path to sustaining Australia's future prosperity. However, the challenge from here is to facilitate successful and timely implementation of a revitalised agenda. Australia needs to act, and consideration must be given to the institutional arrangements necessary to support successful, timely and sustainable policy reform.

While often not recognised or discussed explicitly, research shows that institutional arrangements play a fundamental role in creating the incentives for sustained productivity and economic growth.⁴

In this context the BCA has focused on one of Australia's institutional success stories – National Competition Policy (NCP). The BCA considers that there are important lessons to be learned from NCP that can be applied to the development of a successful approach to implementing key reforms in the future.

NCP has delivered substantial benefits to the economy by raising productivity through enhanced competition (see Exhibit 2).



EXHIBIT 2



THE BENEFITS OF GREATER COMPETITION⁵

Greater competition in markets produces a wide range of benefits for consumers, businesses and the economy. It is for these reasons that more competitive markets are a desirable policy outcome.

Competition means that businesses face greater incentives to cut costs, maximise profits and best meet the needs and demands of current and future customers. The interests of business and consumers are better aligned. There is greater motivation for managers and businesses to innovate as a means of finding new, better and cheaper ways to produce goods and services, and as a means of developing new, better and cheaper goods and services.

Exposing domestic industries and businesses to greater global competition can, in turn, expose them to new ideas, production processes and technologies that can be applied and adapted in domestic markets.

From an economy-wide perspective, competition therefore results in more efficient use of available resources (a higher level of productivity) and can also improve production processes and innovation (ongoing productivity growth).

Based on the latest Productivity Commission research, productivity benefits and lower prices are expected to result in real economic activity being 2.5 per cent, or \$20 billion, higher than would otherwise be the case.

To put this in perspective, Access Economics has recently estimated that all of the economic reforms implemented from the mid-1980s to the early 2000s (of which NCP was one element) produced a net benefit to Australia in the order of 10.8 per cent of GDP, and resulted in the average real wealth of Australians being more than \$80,000 higher and annual incomes of Australians being \$4200 greater than would have been the case.⁶

Research has also shown a direct and positive relationship between product market reforms like the NCP and higher levels of employment. The OECD notes that 'the gains from stronger competition in product markets are likely to have contributed to the observed employment gain' (in Australia).⁷

Direct benefits have also flowed to consumers and businesses from the NCP reforms in the form of lower prices and/or better service provision.



While NCP reforms were aimed directly at improving competition, the ultimate aim was not competition for competition's sake, but rather creating incentives within the economy for greater efficiency and productivity (see Exhibit 2) and enabling domestic businesses to become and remain internationally competitive.

Improved productivity, in turn, has been the cornerstone of Australia's recent economic performance. Access Economics research for the BCA shows that productivity growth has been responsible for nearly three-quarters of the total benefits from economic reforms over the past 20 years. That is, productivity improvements alone have meant that the average Australian is \$3,000 a year better off now than would otherwise have been the case without economic reforms. NCP reforms have played a central role in achieving these productivity improvements.

However, the effect of NCP reforms on productivity will fade over time. While there will be small ongoing benefits as a result of improved business processes and sustained innovation, the one-off benefits to productivity growth associated with the shift to a higher level of productivity will diminish. Productivity, and therefore economic growth, will slow without further reform.⁸

As the current NCP agenda is now largely completed, the question is whether and how substantive gains to productivity in the future can be achieved by further

reforms to competition through NCP or the implementation of a more comprehensive, complementary reform agenda.

Second, NCP reforms and processes were very comprehensive in addressing a wide range of issues and sectors. Single-issue or single-jurisdiction approaches will not produce a significant lift in Australia's future economic growth performance. For example, the capacity to get the most from improved infrastructure planning will depend on broader tax and regulatory policy changes, in the same way that the benefits of further competition policy reform will depend on tax and workplace relations reforms. As noted above, the need for a comprehensive agenda has been identified in the BCA's research and in associated quantitative analyses undertaken by Access Economics. This is a theme that is also reiterated by the Productivity Commission, Federal Treasury, International Monetary Fund and the OECD in their assessments of Australia's economic prospects.⁹

Progress across a wide front also helps to ensure the biggest benefit possible from reform efforts, which provides the capacity to better address concerns about those who might initially be disadvantaged, or benefit less than others, as a consequence of reform.

Finally, a crucial factor in the success of NCP was the ability to bind together State and Federal Governments in the mutual pursuit of long-term, far-reaching economic reform.

EXHIBIT 3



BACKGROUND TO NATIONAL COMPETITION POLICY¹⁰

By the beginning of the 1980s Australia's economy was at crisis point. Output growth had slowed, inflation and unemployment had risen and relative living standards had dropped. External factors such as global oil price shocks played a hand in these adverse developments. However, it came to be realised that domestic policy settings and institutions were major contributors.

A series of economic reforms was implemented to lift the competitiveness and performance of the domestic economy. The first round of reforms, introduced in the early to mid-1980s, opened the Australian economy to greater competition and market forces from overseas by freeing up the exchange rate and investment flows, and reducing tariffs and external barriers to trade.

Greater openness, however, exposed the constraints on economic performance stemming from excessive Government intervention and regulation in virtually all areas of the domestic economy including infrastructure, education and workplace relations. More reform followed, but as this process gained momentum, it became clear that existing competition policy arrangements were not capable of supporting the development of a more internationally competitive economy. In short, Australian businesses were facing more competition from overseas but were operating in an environment that did not enable them to become more competitive.

To address these concerns, State and Federal Governments established the Hilmer Inquiry¹¹ to examine competitive arrangements in Australia. The Hilmer Inquiry saw its task as proposing the most effective approach for a national competition policy (in terms of structure, content and implementation), which in turn would better support a more open, integrated domestic market and economy.

The Hilmer recommendations focused on extending competition in Australia to typically protected sectors and activities including in large part the Government sector and the operation of Government business enterprises and public monopolies.

Following from the Hilmer recommendations the State, Territory and Federal Governments reached agreement in 1995 on the adoption of the National Competition Policy (NCP). The NCP was formally underpinned by three inter-governmental agreements: the Competition Principles Agreement; the Code of Conduct Agreement; and the Agreement to Implement the NCP and Related Reforms (including in the areas of electricity, gas, water, and road transport industries). The National Competition Council (NCC) was also established to act as an advisory body to provide national oversight of NCP.¹²

Over time, the establishment of improved institutional arrangements for competition policy, through NCP, has come to play a very important part in Australia's overall reform agenda. By creating more competitive markets and imposing a higher degree of market discipline, including for Government business enterprises which dominated the provision of important infrastructure services to the rest of the economy, NCP improved incentives for businesses to cut costs and prices, innovate, and to better meet the needs of customers over time.





In contrast with this experience, in each of the policy areas focused on by the BCA, a key impediment to reform and higher productivity is the separation of responsibility across Federal and State jurisdictions.

The Federal–State system as it currently operates results in overlap, duplication, unnecessary complexity, and ultimately poor accountability for policy effectiveness and outcomes. This is a cost and burden that a small, dispersed economy like Australia can scarcely afford, particularly given the growth challenges that already exist (see Exhibit 4 which gives an example of the costs of overlapping regulation).



EXHIBIT 4 ○ THE COSTS OF OVERLAPPING REGULATION

One of the greatest frustrations for business is dealing with multiple layers of regulation. Most businesses have to deal with regulations imposed by Local, State and Federal Governments.

There is typically little coordination between these levels of Government, resulting in unnecessary compliance costs for business. There are also many areas where responsibility for regulation is shared between different jurisdictions. This often results in different laws in different jurisdictions, despite each jurisdiction having the same policy objectives.

The complexity arising from multi-jurisdictional legislation across States and at a Federal level imposes large compliance and administrative cost burdens on companies.

The Productivity Commission has highlighted some estimates of the direct costs of multiple workers' compensation and OH&S frameworks around Australia:

- Optus estimates that, if it received a single national self-insurance licence, it would expect savings of up to \$2 million per annum of its \$6 million annual workers' compensation costs.

It estimated that the cost of complying with multiple workers' compensation and OH&S arrangements adds about 5 to 10 per cent to the cost of workers' compensation premiums.

- CSR estimates the cost of maintaining and renewing five self-insurance licences at over \$700,000 per annum, compared to \$200,000 for a single licence.
- Insurance Australia Group estimates that the existence of multiple schemes added \$10.1 million to the cost of setting up a single national IT platform. In total, it estimates that having to comply with multiple jurisdictions adds about \$1.7 million to IT costs annually. Further, it estimates that a national scheme could offer overall operating cost savings to the group of \$1.2 million per annum and reduce actuarial costs by \$400,000 per annum.
- Skilled Engineering estimates that the annual cost saving from operating under a single set of national OH&S and workers' compensation rules would be in excess of \$2.5 million, or some 15 per cent of the company's annual costs of OH&S and workers' compensation.

SOURCE: BUSINESS COUNCIL OF AUSTRALIA (2005), *BUSINESS REGULATION ACTION PLAN FOR FUTURE PROSPERITY*

In summary, NCP has been highly successful because it:

- was developed around a clearly stated policy goal and objective (competition to deliver higher productivity);
- incorporated a comprehensive series of reforms across a range of policy and regulatory arrangements and jurisdictions; and
- developed a robust institutional framework that bound State and Federal Governments in the pursuit of agreed goals.

The BCA considers that a similar, top-down approach is needed now to establish the same conditions for successful implementation of a new reform agenda – a new, national productivity agenda. Locking in sustained strong productivity growth is a key element in locking in Australia’s future prosperity. Productivity improvements create the opportunity to do more with the same or fewer resources, the capacity to support more jobs in the long run and to deliver higher incomes and living standards.



‘Australia is facing major challenges in reforming its economy to enhance national living standards and opportunities. There is the challenge of improving productivity, not only in producing more with less and deploying scarce assets wisely, but also in becoming better at making and exploiting new discoveries, whether in technology, resources, fashion or ideas ... Australia faces an additional complexity in tackling these challenges, as most reforms require action by up to nine governments.’

PROFESSOR FRED HILMER, NATIONAL COMPETITION COUNCIL (1993)¹³

There is no need to create a new model to achieve this, because what the BCA is calling for is aimed at addressing the same challenges identified by the Hilmer Inquiry in establishing NCP.

What is required is some modification of the existing NCP model to reflect the need to tackle a wider range of impediments to productivity, now that much of the direct competition policy agenda has been largely completed.



national competition policy's unfinished business



While largely a completed agenda, there are still some important unfinished elements of NCP's current business, including:¹⁴

- completion of the anti-competitive legislation review;
- further progress in some public monopolies and professions and occupations;
- scope for improved compliance at the Federal level, especially with regard to the legislative review program; and
- areas of the related infrastructure reform agenda (notably water).

These unfinished issues should be addressed, but research by the Allen Consulting Group, undertaken for the National Competition Council, has shown that if all Australia does from here on in is implement the unfinished NCP agenda, Australia will continue to lag behind in terms of its productivity performance and hence living standards compared with its economic peers.¹⁵

In light of this, consideration is being given to the future of NCP, and its role in delivering further gains in competition and productivity

more broadly. Two opportunities present themselves in terms of how NCP might be used to achieve another boost to Australia's productivity performance.

At one level, the reach of NCP could be extended. That is, competitive or market-based principles could be applied to a greater extent in areas and activities that have largely been outside the scope of NCP with a view to ensuring quality and 'value for money' in the provision of these services. Areas that have been suggested include education and health (or human services more broadly) and natural resource management.¹⁶

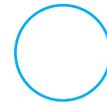
As argued above, the BCA considers that a wider productivity reform agenda can and should be developed around the successful structures of NCP.¹⁷ The aim of such an agenda would be to:

- remove barriers to improved efficiency and productivity (beyond those associated with a lack of competition only); and
- identify and target those areas that would benefit from improved national policy coordination along the lines of that shown to be achievable through NCP to date.



NATIONAL PRODUCTIVITY

a foundation for Australia's new agenda



The BCA believes that the overriding aim of a new national productivity reform agenda should be to use the example set by NCP to achieve broadly based benefits for Australia by locking in higher productivity and economic growth.

'All jurisdictions need to work together to develop the institutional frameworks and supporting processes that will allow the nation as a whole to reap this [new agenda] dividend.'¹⁸

As a starting point, this new agenda should recognise the remaining gains to be achieved from ongoing competition policy reforms. It should encompass the unfinished elements of the current NCP program and incorporate formal consideration of the benefits of, and priorities for, extending competition to areas currently outside the scope of NCP as a means of improving productivity and cost effectiveness.

Beyond this, the BCA considers that the guiding principle underpinning a revitalised national agenda should be to eliminate barriers to higher productivity growth, not only those related to a lack of competition or market discipline. Table 1 (pages 60–61) summarises the links between the BCA's proposed reform agenda and improved productivity and economic growth.



Australia can go forward with a new workable reform program or it can allow a long history of federal–state tensions to put the nation on a low-growth path.’

DAVID CRAWFORD, ACTING PRESIDENT, NATIONAL COMPETITION COUNCIL, 2005¹⁹



A new national productivity reform agenda should therefore aim to:

- Remove legislative and regulatory barriers to productivity.
 - Including through the removal of inefficient, redundant, overlapping and duplicative regulation (particularly in regard to business regulation, workplace relations and infrastructure).
- Address existing and anticipated capacity constraints.
 - Including through improved national infrastructure planning and coordination, removal of disincentives for private investment in infrastructure, improved skills development, and improved natural resource management and planning.
- Achieve greater accountability in Government administration and service provision.
 - By addressing inefficiencies and duplication in service provision (for example, in health) and abolishing inefficient taxes (notably at the State level) with a view to reducing the deadweight costs associated with inefficient provision and higher taxes, which are a drag on economic growth and activity.

This is a very ambitious goal, but so too was that embraced by NCP. Looking back, the degree of ambition and comprehensiveness of the NCP reforms was fundamental to the breadth of benefits ultimately delivered. In addition, the priorities underpinning a new agenda now must be ambitious enough to sustain and underpin long-term reform and prosperity. This will not happen if the priorities and guiding principles agreed today are not seen as a 'stretch' for policy makers and the economy.



a framework to eliminate the barriers to reform

Based on the successful features of NCP and the priorities outlined here, the key elements necessary to underpin a new reform framework can be set out as follows.



ESTABLISH A STRONG AND WIDE CONSENSUS ON THE NEED FOR FURTHER REFORM.

- There must be agreement among all Australian Governments at the highest level of the need for a revitalised reform agenda to support productivity and economic prosperity, and the broad features of that agenda.
- Business can and should play an active and public role in supporting a renewed national reform agenda.

ESTABLISH A COMMITMENT TO A NATIONAL REFORM AGENDA.

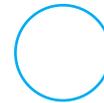
- All Australian Governments should agree that a renewed reform effort is best addressed at the national level through a coordinated, cooperative process.
- All Governments should make a binding commitment to such a process. Business should support Governments in doing so.

AGREE THE BROAD ELEMENTS OF A NATIONAL REFORM AGENDA FOCUSED ON PRODUCTIVITY.

- As noted above, a new national agenda should incorporate unfinished NCP reforms, a new NCP agenda (dealing with those issues raised by the Productivity Commission in its review of NCP – namely health, education, human services and natural resources) and a new productivity agenda.
- A new productivity agenda should in turn address the following on the basis of their impact on investment, capacity constraints, skills, innovation, unnecessary costs, taxation burdens and hence productivity:
 - Infrastructure
 - Regulation
 - Taxation
 - Workplace relations
 - Education and training
 - Health.

AGREE KEY REFORM PRINCIPLES

- Reforms should aim to reduce all barriers to productivity, and more specifically:
 - avoid and remove legislative and regulatory barriers to productivity;
 - address existing and anticipated capacity constraints; and
 - achieve greater accountability and coordination in Government administration and service provision.
- These principles should be applied in all cases, except where there is a clear and demonstrated public interest that cannot be more effectively addressed in other (more direct) ways.



AGREE SPECIFIC IMPLEMENTATION COMMITMENTS AND TIMEFRAMES

- Governments must be held accountable for agreed policy commitments and timelines. Formal inter-governmental agreements have proved to be effective in achieving this.
- The process for agreeing and signing off on commitments and timeframes needs to be efficient and capable of delivering timely progress.
- Given the breadth of issues and aims, commitments may need to be phased. For example, an immediate commitment to ensure all new regulation adheres to the key reform principles and aims agreed, and a commitment to review and reform existing arrangements over a suitable timeframe.

ESTABLISH INDEPENDENT AND TRANSPARENT OVERSIGHT

- A strong, independent body will be necessary to:
 - apply public interest tests;
 - address issues of dispute; and
 - monitor and assess compliance in terms of timeliness and quality.
- Transparency of reporting to and by this body will be fundamental to the ongoing success of and support for a new reform agenda.

CONSIDERATION OF THE NEED/SCOPE FOR INCENTIVES/PENALTIES

- Agreement will have to be reached among all Governments on the role of incentives, the nature and structure of incentives (most likely financial), how these would be applied, and the sources of any incentives.
- In this context, the spread of benefits across Federal and State jurisdictions needs to be addressed, as do the issues of 'compensation' or appropriate safety nets for those bearing the burden of adjustments and transitional arrangements.



the mechanism to deliver results



There is a range of institutional or governance frameworks capable of delivering the outcomes and key elements discussed above. To ensure the best possible outcomes, the BCA considers that the agreed framework should deliver the following:

- Systemic coverage and the ability to sustain progress over time. That is, institutional arrangements capable of enforcing and monitoring outcomes over time across all Federal and State jurisdictions. A top-down approach such as that adopted in NCP seems the most appropriate.
- Clear responsibilities and transparency in accountability for outcomes and performance.
- The capacity to deliver timely and effective agreement making and dispute resolution.
- The capacity to manage details within specific policy areas while achieving progress across a wide range of policy issues concurrently.
- Mechanisms to deal with interactions across policy agendas to ensure consistency and complementarity.
- The capacity to review and revise the framework, including formal mechanisms for consultation with business and other stakeholders.



investing in a productive workforce

The focus here has been largely on the scope for and benefits of a nationally coordinated productivity reform agenda as a fundamental requirement for sustained economic growth and prosperity in Australia. It is not, however, the only requirement.

Reform is also needed to better support higher levels of workforce participation and skilled migration (see Table 1 overleaf for a summary of the broader reform agenda and growth outlook). These are important priorities that the BCA has emphasised through its Action Plans and ongoing work in the area of education and training.

That said, the BCA considers that a clear focus on a nationally coordinated productivity agenda is a priority because:

- failure to achieve higher productivity will limit the benefits of higher participation and immigration;
- the ability to achieve a more productive and dynamic economy will support immigration and participation objectives (through higher wages and wider and more challenging career opportunities, which support the ability to attract and retain skilled labour);
- important reforms necessary to support higher participation can be achieved at the Federal Government level (through welfare, income taxation, and superannuation policies);
- the immigration program is already federally coordinated; and
- the web of Federal and State policy and regulatory burdens weighing on productivity through their impact on investment, innovation and business decision making, makes a national solution and framework a necessity.

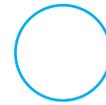
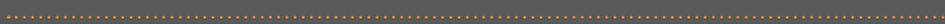


TABLE 1
BCA REFORM AGENDA TO BOOST PRODUCTIVITY AND ECONOMIC GROWTH

ECONOMIC GROWTH OUTLOOK
no-reform scenario



ECONOMIC GROWTH OUTLOOK
renewed reform scenario



BCA PROPOSED POLICY REFORMS

Taxation

- Lower marginal taxes
- Lower company taxes
- More efficient tax structures (consumption vs income; Federal–State mix)

Regulation

- Greater simplicity and transparency
- Less duplication
- More effective/efficient

Workplace regulation

- Greater flexibility
- Greater simplicity, less duplication
- Improved Federal–State coordination

Infrastructure

- Improved long-term Federal–State planning and coordination
- Reduced barriers and improved incentives to invest

Education and training

- Improved retention rates
- Greater flexibility
- Improved quality and outcomes

CONTRIBUTE TO IMPROVED PRODUCTIVITY THROUGH

Investment

- Higher quality
- Higher levels

Innovation

- More dynamic and innovative work practices
- Investment

Improved skill levels and labour quality

Improved allocation of resources



Capital deepening

Higher multi-factor productivity

Improved labour input



2.5%

GROWTH PER ANNUM

Plus
Higher
participation
rates
and
Higher
immigration

4.0%

GROWTH PER ANNUM

BENEFITS BY 2025

Australian economy nearly 40 per cent larger than in no-reform case

Average Australian would be \$74,000 better off (in today's dollars)

Australia could become the 3rd most prosperous country in the developed world in terms of GDP per capita

Federal revenues nearly 9 per cent of GDP higher compared to the no-reform case



The first priority is for Federal, State and Territory Governments to reach a clear understanding about the need for a renewed reform effort to secure Australia's economic future and prosperity.

The BCA is optimistic that there is now a greater interest in a renewed reform effort in Australia.

The recent Council of Australian Governments (COAG) Communiqué provides the basis for such agreement. In particular, the Communiqué notes:

- It is important not to be complacent about the continued performance of the Australian economy; and
- Australia's productivity performance is under threat, with further reform essential if the economic expansion of the past 14 years is to continue.

The fact that COAG has called for senior officials to focus on a possible new national reform agenda is also a positive development. The BCA expects the report of senior officials (due by the end of 2005) to lay the foundations for a national reform agenda focused on removing barriers to productivity growth and performance.

Likewise, the Victorian Government's *Third Wave* recognises that the reform agenda in Australia is unfinished and that there is widening support for a revitalised national reform agenda.²⁰

COAG will need to take responsibility for establishing a framework that meets the criteria spelt out above – most importantly one capable of reaching high-level agreements quickly. While COAG ultimately may not have responsibility for the development of specific reform priorities or implementation, the BCA believes that COAG must bear responsibility for establishing a national productivity agenda and ensuring its ultimate success. Without such ownership, the likelihood of sustained momentum and progress is diminished.

In terms of expediting a new reform agenda, it is worth noting that one factor that contributed to the coalescing of support for NCP among Governments was the presentation of evidence from the then Industry Commission of the potential benefits of National Competition Policy reforms.



The BCA's recently released research paper *Locking in or Losing Prosperity: Australia's Choice* should contribute to a wider appreciation of the benefits of decisive policy action, as should evidence outlined in the Productivity Commission's Review of National Competition Policy. If, however, important doubts remain about such benefits or the benefits of specific elements of reform among Governments, these should be identified by COAG and addressed as a priority, through referral to the Productivity Commission or similar.

'There is plenty of scope for a more co-operative federalism and there is an urgent need for a co-operative national reform agenda between the Commonwealth and the States to tackle national problems and meet national needs.'

VICTORIAN TREASURER, HON. JOHN BRUMBY, 2005²¹

For many, the need to reach high-level agreement on reform priorities among all State, Territory and Federal Governments may appear to be too hard a task; even more so if implementation of a national agenda will require a realignment of responsibilities between Governments.

The BCA acknowledges that this is an important challenge. And, it is partly for these reasons that the BCA considers a comprehensive reform agenda must be pursued. Such an agenda will deliver the widest possible benefits across the economy, which should function as an incentive for all levels of Government to participate.

In doing so, there will also be greater capacity for benefits to be redistributed if need be.

National Competition Policy provides a precedent and reasons for optimism on both counts.

The NCP processes and framework have shown that these and other challenges can be overcome. What is required is leadership and commitment on the part of all Governments. The BCA expects such leadership to result in the establishment of a new national productivity agenda and reform framework as a key policy outcome in 2006.



- 1 Gail Fosler (July/August 2005), 'Not-So-Light Summer Reading', *Straight Talk*, The Conference Board, p. 3.
- 2 'Australia must push ahead or be left behind: PM' (29 August 2005), *Australian Associated Press*
- 3 Gail Fosler, (July/August 2005) 'Not-So-Light Summer Reading', *Straight Talk*, The Conference Board, p. 3.
- 4 Refer Gail Fosler (July/August 2005), 'Not-So-Light Summer Reading', *Straight Talk*, The Conference Board, p. 3; and North, D.C. (1993), *Institutions, Transaction Costs and Productivity in the Long Run*, Washington University, econwpa.wustl.edu:8089/eps/eh/papers/9309/9309004.pdf.
- 5 Productivity Commission Inquiry Report (28 February 2005), *Review of National Competition Policy Reforms*, No. 33, (Chapter 2).
- 6 Business Council of Australia (July 2005), *Locking in or Losing Prosperity: Australia's Choice*, available at www.bca.com.au.
- 7 OECD (February 2005), *Economic Surveys – Australia*, Vol. 2004/18, p. 115.
- 8 Access Economics shows that compared to a no-reform base case, further reforms could deliver productivity gains that in turn will lift annual GDP growth per capita by between half and three-quarters of a percentage point per year over the next 20 years. See Business Council of Australia, *Locking in or Losing Prosperity: Australia's Choice*, available at www.bca.com.au
- 9 See for example, OECD (February 2005), *Economic Surveys: Australia*; Productivity Commission Inquiry Report (2005), *Review of National Competition Policy Reforms*; IMF (2004), *Australia: 2004 Article IV Consultation – Staff Report*, available at www.imf.org; Ken Henry (2005), *Australia's International Engagement and Reform*, speech to the 2005 Economic and Social Outlook Conference, available at www.treasury.gov.au.
- 10 Exhibit 3 draws heavily on Blake Dawson Waldron (2005), *Development and Implementation of National Competition Policy*, Briefing Paper to the Business Council of Australia's Sustainable Growth Task Force; OECD (2005), *Economic Surveys: Australia*, Vol. 2004/18; and Productivity Commission Inquiry Report (2005), *Review of National Competition Policy Reforms*, especially the Overview and Chapters 2 and 3.

- 11 Named after the Chairman of the Independent Committee of Inquiry into a National Competition Policy for Australia.
- 12 The NCC is accountable to all Australian Governments and is independent of the executive arm of Government.
- 13 National Competition Council (1993), *Submission to the Productivity Commission Review of National Competition Policy Arrangements*, (Submission No.71, p. 10), p. 6, available at www.pc.gov.au.
- 14 For a full discussion see Productivity Commission Inquiry Report (2005), *Review of National Competition Policy Reforms*, Chapter 2.
- 15 Allen Consulting Group (2004), *Microeconomic Reform in Australia – Comparison to other OECD Countries*, NCC Occasional Series. See also David Crawford (2005), 'Federal–State Relations and the National Competition Policy', in *Sustaining Prosperity*, Peter Dawkins and Michael Stutchbury (eds), Melbourne University Press, pp. 53–59.
- 16 See for example, Productivity Commission Inquiry Report (2005), *Review of National Competition Policy Reforms*; and David Crawford (2005), 'Federal–State Relations and the National Competition Policy', in *Sustaining Prosperity*, Peter Dawkins and Michael Stutchbury (eds), Melbourne University Press, pp. 53–59.
- 17 A similar position is put by the NCC in National Competition Council (1993), *Submission to the Productivity Commission Review of National Competition Policy Arrangements*, (Submission No. 71, p. 10), p. 6, available at www.pc.gov.au.
- 18 Alan Fels and Fred Brenchley (11 November 2004), 'Governments must grasp nettle of lasting reform', *Australian Financial Review*.
- 19 David Crawford (2005), 'Federal–State Relations and the National Competition Policy', in *Sustaining Prosperity*, Peter Dawkins and Michael Stutchbury (eds), Melbourne University Press, p. 59.
- 20 Hon. Steve Bracks (2005), *A Third Wave of National Reform: A New National Reform Initiative for COAG*.
- 21 Hon. John Brumby (2005), 'In the National Interest: A New Co-operative Federalism', in *Sustaining Prosperity*, Peter Dawkins and Michael Stutchbury (eds), Melbourne University Press.

