Submission by Per Capita to the Productivity Commission Inquiry
Australia's future prosperity

Introduction

Per Capita applauds the government for commencing regular productivity reviews. We believe that a combined and integrated focus on productivity, inequality and sustainability is essential to ensure sustained high quality of life for the Australian population. Per Capita endorses the broad scope of this review, in particular the inclusion of non-market areas, domestic productivity and inequality.

We would like to have seen a greater emphasis on environmental sustainability in the scope and terms of reference for this review and an explicit consideration of the impact on quality of life of productivity enhancing policies.

The distributional impacts of future productivity improvements are extremely important and will be largely determined by the relative power of capital and labour. Government policy has a role to play in influencing distributional outcomes, not only through the tax and transfer system but through the structural and legislative systems that influence the power balance between capital and labour.

Some principles and issues for consideration

The transaction between increased material prosperity and overall wellbeing

The relationship between material prosperity and wellbeing appears to be logarithmic, at best[1]. What this means is that doubling somebody's income increases their wellbeing by roughly the same amount no matter what income level they start at. Increasing somebody's income from $20,000 to $40,000 will have the same impact on overall wellbeing as increasing somebody's income from $200,000 to $400,000. What this means, if we care about wellbeing, is that we get much better bang for our buck if we focus on those at the bottom of the income distribution. The reality, however, is that many productivity improvements benefit the holders of capital more than they benefit labour.

Productivity inprovements allow for two main outcomes: we can produce more with the same inputs or we can produce the same with less inputs. Many productivity improvements of the latter type result in worker redundancies. The impact of these redundancies and the capacity of redundant workers to find new employment must be considered in any government policy that promotes productivity. In addition, some apparent productivity improvements involve cost-shifting to the public. These should be carefully monitored and the net benefit assessed.

Productivity as a (false) justification for lower wages

In Australia, the productivity debate has become deeply confused. There are repeated calls for the reform of our industrial relations system to improve productivity, yet labour productivity has been consistently higher than total factor productivity over the past decade.

Employers frequently claim that Australia must lower its wage levels if it is to compete, and these higher wage levels are presented as evidence of a productivity problem. In fact, they say nothing about productivity. Producing the same output for lower wages (rather than a lower headcount) does not represent a productivity gain; it simply represents a transfer of margin from the worker to the shareholder. This fundamental fact is persistently misrepresented and/or misunderstood in the Australian policy debate. If Australia is to improve its productivity, it needs to look to business investment, innovation stimulus and competition law, rather than seeking the answer in the diminution of workers' wages and conditions.

Productivity, public services and privatisation

Multiple reviews in recent years have told us that the public sector must become more productive, that productivity is one answer to Australia's straitened public finances and public services must learn to do more with less. Just as private sector businesses rely on productivity growth - higher output per unit of input - to stay competitive, the public sector must learn to do the same.

Yet public sector productivity is a vexed question. At a fundamental level, of course public services should become more efficient over time - innovating, improving their processes, and delivering more and better services for each dollar spent. Defining public sector output, however, is far trickier than defining its private sector equivalent. Private companies deliver a given number of valves or audits or airline trips which we can benchmark against the labour and capital they use to produce these things. Certainly they have other nonfinancial obligations - social and environmental - but as long as these are met to a given minimum standard, it's really only the financial outputs that count.

The public sector is different. Take vocational training as an example. Unlike their private training counterparts, public TAFE providers are expected to meet a set of community service obligations in addition to their training provision. They typically provide the most costly-to-deliver, capital-intensive courses which private colleges choose not to provide. Yet in recent years, several state governments have decided that TAFEs will no longer receive extra funding for these specialist services.

Instead governments have used the introduction of private provision to argue that a new benchmark has been set which shows that training can be provided more cheaply. This is certainly true, but at what cost to regional or disadvantaged students or those in more expensive courses? What appears at one level as an increased efficiency in service delivery turns out to be a diminution of quality.

Privatisation of public services is a logical endpoint of this philosophical approach. Yet apart from the windfall gain of an asset sale, it is far from clear that selling public assets has been good for recurrent public finances or for users of services. In the case of electricity in Victoria for example, prices have risen in the wake of privatisation while a lack of maintenance investment was identified as one of the primary causes of the Black Saturday fires. Meanwhile, the Victorian government no longer receives a healthy dividend from a state-owned operator to fund essential public services.

Ideas for policy reform

Tax economic rents – encourage productive investment and discourage rent-seeking

Capital deepening can be encouraged through policy settings. Current policy that disproportionately favours asset price speculation over productive investment should be reviewed. Obvious candidates are negative gearing and the concessional treatment of capital gains but it's possible to go much further than that. This includes stocks, where average holding periods have been falling around the world to less than a year in most jurisdictions, meaning that most purchases are not value purchases but asset price speculations (rent-seeking). The same story is true for currency trading. If the vast financial resources that are currently directed to rent-seeking were, through well directed government policy, redirected to productive investment, the impact would be very substantial.

Improve educational outcomes, particularly in critical thinking and problem solving

The predicted pace of technological change tells us that what we need is a flexible workforce. Many of the workers of the future will need to be able to change occupations several times during their careers. This makes occupation specific skills less important and general critical thinking, problem solving and team work skills more valuable, particularly as an increasing number of routine activities are replaced by robots and artificial intelligence (see below).

Reduce standard working hours (increase labour productivity)

There is increasing evidence that the forty-hour week is too long for optimal labour productivity. The implication is that we are missing the sweet spot between productive labour and leisure. As a wealthy nation, we should be considering what the settings are that maximise overall wellbeing and whether there is a case for accepting a small drop in productive output per person in return for an increase in output per hour and a substantial increase in leisure time. The potential benefits are immense in a society characterised by the word “busy” and with building stress and anxiety tied to time pressures, particularly for parents. A six-hour work day, aligned with school hours, would also create an environment where gender equality in pay and opportunity would be easier to achieve.

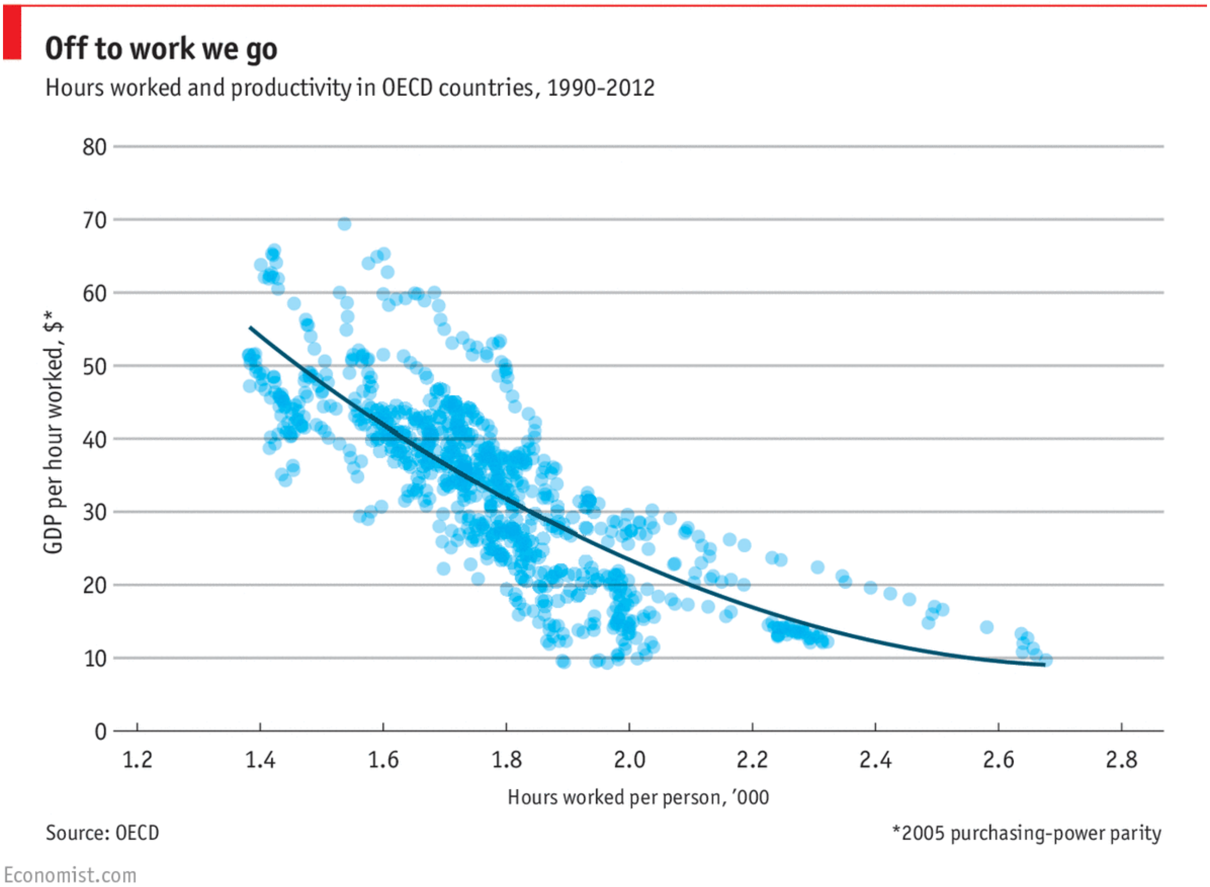

Image from The Economist (http://www.economist.com/blogs/freeexchange/2013/09/working-hours)

Address age discrimination in employment

The Human Rights Commission, among others, has highlighted the prevalence of age discrimination in Australia's workplaces and recruitment agencies[2]. Once older workers become unemployed they remain unemployed for longer on average and are more likely to become discouraged and leave the labour force than younger workers.

The loss of productivity that results from age discrimination is unmeasured but likely to be very large, particularly given the growing evidence of the productivity benefits of age diverse workplaces[3].

Government policies should incentivise businesses to employ and retain older workers, and to improve training opportunities for older workers facing retrenchment.

Develop a national strategy to adapt to the changing nature of work driven by artificial intelligence and robotics

Australia urgently needs to begin planning for the coming age of artificial intelligence and robotics.

There have been several reports published in Australia highlighting the potential impact of technology on jobs over the coming decades[4,5]. It is almost universally acknowledged that disruption on an unprecedented scale and short timeframe are likely in the next couple of decades. However, this acknowledgement has not yet led to any significant planning for these disruptions.

The Centre for Economic Development of Australia calculated that 40% of Australian jobs are at risk of automation over the next fifteen years[5]. The IMF[6] and many others recommend training a flexible workforce and planning for retraining of those workers who are made redundant. This approach, if taken seriously, might work for younger workers but older workers have historically been the hardest hit by workforce disruptions with one study in Australia finding that 96% of retrenched workers aged between 55 and 59 did not find further employment following retrenchment[7].

If the CEDA estimates turn out to be accurate we will have somewhere in the order of two million older workers losing their jobs over the next fifteen years. If we are not adequately prepared for this then the impact will be devastating, both for those made redundant and for the broader economy.

The International Monetary Fund has predicted that the robot and artificial intelligence era may result in a 40% reduction in real wages for low skilled employees in developed countries[6]. They ask the critical question, who will own the robots? If such predictions come to pass, then we need to radically reconsider how our tax and transfer system operates as the net impact of massive productivity increases could be a large decrease in overall social wellbeing and cohesion.

Ensure equity of access to communications technology and broadband and mobile networks

Increasingly, productivity relies on appropriate communications and information technology.

As more of our professional and social activities move online, ensuring equity of access to communications technology and networks, whether fixed-line broadband or mobile, is a critical factor in ensuring Australia's productivity continues to grow and remain internationally competitive.

Recent evidence has shown that the so-called "digital divide" in Australia remains a real challenge. Swinburne University's Australian Digital Inclusion Index this year demonstrated that, in recent years, the digital divide has narrowed, but deepened, with almost three million Australians are not online in 2016[8].

While there are significant differences between different socio-economic groups in levels of access to technology, it is particularly relevant that regional areas are significantly less connected than Australian cities. This geographic divide represents a barrier to improved productivity and economic growth in regional Australia.

As noted in the discussion paper:

> … the technological advances in the mid-20th century that led to washing machines, vacuum cleaners and refrigerators, all taken for granted now, provided a boost to household productivity that freed up people for employment and leisure. These gains are not captured in official statistics. It may seem that such developments are untouched by government policy, but widespread mains electricity networks were required for the diffusion of these technologies (Strange 2014).

Similar improvements in both household and business productivity in the 21st century will be underpinned by the availability of a reliable, ubiquitous and internationally competitive fixed-line fibre broadband network, and by the adequate provision of mobile data networks throughout Australia.

Government policy and investment must support the creation and maintenance of such fixed-line and mobile networks, particularly in regional and rural areas which may not provide sufficient return on investment to the private sector, in order to ensure the diffusion of broadband-enabled technologies to support household and business productivity nation-wide.

Encourage the more efficient use of existing housing stock

There are many inefficiencies in our use of the housing stock that are created by poor government policy. First among these are stamp duties that act as a disincentive for people wanting to move to more appropriate housing (either size or location).

Similarly, the combination of negative gearing and the concessional treatment of capital gains makes it economically viable to hold empty investment properties. Research has indicated that nearly 20% of investment properties (nearly 5% of the total stock) in Melbourne are empty[9]. This waste could be prevented by a combination of restricting or abolishing negative gearing, removing the tax concession on capital gains, and increased use of annual land taxes. This would encourage optimal appropriate use of land according to its zoning.

The ACT government's gradual replacement of stamp duties with land taxes is an encouraging move in the right direction and should act as a model for other states and territories.

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