Growth’s running mate

Economic & Social Outlook Conference, Melbourne, 11 October 2018

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‘Delivering Growth with Equity’. A phrase bound to invoke as many distinct policy thoughts as individuals gathered here. It evoked déjà vu for me. A 1983 vintage ‘light bulb’. On learning good public policy has equity as the steadfast running mate of economic growth. And it has remained (for me) an enduring litmus test.

For equity in public policy is akin to balancing a spirit level. Affording economic opportunity for all and a supportive safety net for those unable (despite concerted policy) to realise opportunity.

And a balance we endeavour to achieve at the Commission. Whether it’s setting a 5 year policy agenda with our report last year – *Shifting the Dial*. Or in assessing the performance of the super system (which I’ll return to a little later).

It’s a spirit level I saw much of as a graduate in 1987. It was a time of much policy endeavour. A time not of ready-made deals, but when policy compacts were forged. And the forging, the political soldering, of equity and growth. With policy the alloy.

Where the troika of Hawke, Keating and Howe convinced a Cabinet, and then the ACTU, that tariffs are a pernicious regressive tax. The estimated economic growth dividend of tariff cuts was big. Politicians also liked big numbers back then. But it was the distributional effects of across the board tariff cuts that ultimately forged the decision to dare greatly.

This reflection is shared not out of some romantic lament for the past. There was nothing romantic about modelling in Lotus 1-2-3. Nor with hard copy ABS data and no internet. But more to grapple with how we've ended up where we are today.

For things are fundamentally different. With today's public policy playlist more one of the incremental.

Now unsurprisingly there is a common privilege shared by the diverse collective gathered here today. All of us the holders of a near inevitable fortune. And its near inevitability is one bestowed by a good education. Appreciating in value year after year with our economic participation. And for some of us, it proved a game changer to a very different path of wellbeing, distinct from our parents.

Privilege by way of an unlikely and unexpected education underscores JD Vance's memoir – *Hillbilly Elegy*. A book that proved a timely insight into the populist political tsunami that engulfed the US. A tsunami that democratically installed a President who crowed after one primary victory, "I love the poorly educated". A book that was *The Economist's* must read of 2016. And rightly so.

And in the aftermath of that tsunami, pernicious trade policies percolate up in the US. Just as we anticipated, and pessimistically modelled, in our 2016 self-initiated project *Rising Protectionism?*

Policy pronounced by a President with the catch cry tweet – "delivering growth and jobs". For in the absence of Better Angels any catch phrase can be man handled into poor policy. Even today's 'delivering growth with equity'. And we ought not presume our public policy history affords us immunity.

Absent immunity, this poses twin questions the Commission has sought to ask and answer in the last two years.

First, in our 2017 report – *Shifting the Dial*. How do we continue to generate economic growth? A quest for deliverable, failsafe policy. Moving beyond our playlist of the incremental.

And then second in our more recent report *Rising Inequality? A Stocktake of the Evidence.* Have the benefits of our unrivalled 27 year run of economic growth been shared? Or has it been a case of better haves alongside more have nots?

The latter world played out in both perception and reality for many North Atlantic countries. Evident in income inequality remaining stubbornly high in the US and UK and rising markedly in parts of Europe.

So turning first to the Australian evidence base. In late August we released our self-initiated report *Rising Inequality?* (With a notable question mark signposted at the end of that title.) To inform a debate well underway. By seeking to understand what a comprehensive analysis of the evidence on inequality tells us. Does it align with the broad perception of many – CEDA's 44 per cent – that most have not benefited from our unrivalled run of growth?

It's not a simple story. For it is a broad church evidence base. Ill-suited to a single grab or selective citation. As some inevitably leapt to in their interpretation of our report. For it is perhaps more a subtle tale of two cities.

Turning to the first tale. And here it's a story where perceptions do not match reality. Where inequality has only modestly increased in Australia, with the benefits of our 27 year run of growth being pretty well shared. In contrast to the rising inequality in many other developed countries in the last 30 years.

And where there is evidence of much (life course) economic mobility for most Australians – and a heavily italicised most. For mobility falls away at both the top and bottom of our distribution.

But perhaps the sage take out is how the two biggest single reductions in inequality have been delivered. The first powerful equalising effect on household incomes delivered through our progressive tax and targeted transfer system – together delivering just over a 30 per cent reduction in inequality. Think age pension, family tax benefit, disability support. And the second equalising effect from government in-kind transfers like education and health. Delivering more than a 20 per cent reduction in inequality in final consumption.

Two mighty powerful equalising forces that warrant concerted preservation. And preservation by way of fiscal discipline. Straying not from the progressive and the targeted. And by shoring up our immunity to catch cry tweets. For policy wolves in sheep's clothing are today heralded by the twitter of a bird.

With intergenerational fiscal pressures – and here think beyond ageing – we need to revisit discipline of the kind we saw emerge and consolidate through much of the '90s. Which I'll come back to shortly.

Turning to the second tale. The one universal truth, and better interpreted from our *Inequality* report, is the bedrock of entrenched disadvantage. For it is here that the real, not perceived, inequality problem resides. And in plain sight.

Some 2 million Australians remain in relative income poverty despite our 27 year run of economic growth. But not the same 2 million Australians through that period. And this is a critical distinction. Importantly for most of those 2 million Australians, their poverty spell is short lived (less than 3 years for some 79%). But there is another group for whom mobility remains out of reach. Where for some 600,000 Australians their poverty spells last for more than 5 years. This the bedrock of entrenched disadvantage that matters.

And the incidence of repeat spells is high – with more than half returning to poverty after only a year or two's reprieve.

These are the two cohorts for which we need to better understand the underlying drivers – think mental health, Indigeneity, chronic disease, intergenerational stories of poor economic participation for parents and poor educational outcomes for their children.

Clearly the interventions needed for this bedrock of entrenched disadvantage go beyond our current policy playlist. Even alongside economic growth. A bedrock patently in need of 'handmade' policies.

In releasing the report our then Chair, Peter Harris, hinted (a tad subtly) that a comprehensive deep dive is needed. To inform the shape and form of these 'handmade' policies to chisel down this bedrock. So now in a tad less subtle way. The Commission is well placed to do such work.

Returning to the remaining twin question: how do we continue to generate economic growth? At the request of then Treasurer Morrison, we set about identifying a 5 year policy playlist to deliver economic growth. In doing so, and to enhance the prospect of policy delivery, our focus was on policy about people – affording a tangible and relatable narrative for government. So *Shifting the Dial* focused (and intuitively so) on economic participation. The keys to the kingdom of economic mobility. For policy that delivers on economic participation is inarguably a policy failsafe to 'delivering growth with equity'.

One of the 5 big questions we asked – is our education, skills and training system fit for purpose for the workers of today and tomorrow? Perhaps the biggest policy "must have" when thinking of ensuring both a sense and a reality of equity in who shares in the ultimate job and wage dividend of economic growth.

And here we identified three fundamental fractures in our current education and training system.

First, deteriorating results in subjects that matter for future work. Think maths and reading – the twin cognitive enablers at school.

Second, the VET system is a mess, struggling to deliver relevant competency based qualifications. Employers today more satisfied with non-accredited training courses (90 per cent) than VET (76 per cent).

Third, universities need to improve student employment outcomes – delivering qualifications relevant to labour market needs. For as many as 26 per cent of students today are not completing their undergraduate studies in less than 9 years. And undergraduate underemployment has more than doubled in the last decade to now reach just over 20 per cent.

Taken collectively, this unfortunate troika erodes our capacity to deal with future labour market changes in an efficient and equitable way.

Because today's workforce bears little resemblance to that of even 30 years ago. Now in need of life-long learning and skill acquisition. A need manifest in today's workforce reality. For each and every job change today, will see 40 per cent of those workers change occupation and 50 per cent change industry sector.

So we proposed a few things change. Two noteworthy of mention here. For schools – eliminating teaching "out of field" in secondary schools. For universities – their financial incentives be redressed around student outcomes, rather than leaving students and the Government to bear and underwrite all the risks.

Now *Shifting the Dial* had a poor cousin chapter – a hillbilly chapter. And it inevitably gleaned little attention – when perhaps it should have garnered more. It was entitled *More Effective Governments*.

Now as eyes glaze over and some think this talk is about to head into the realms of Monty Python's bored pilots. Time to play "I Spy".

It was a chapter that sought to avoid a further *Hillbilly Elegy* hazard. The growing, seething mistrust in public administration. Where hubris enchants the elite.

And the evidence in *Shifting the Dial* suggests it is an outlier risk for us. One our own policy archives reveal we have avoided in the not so distant past – when responsible government thumbed pernicious, populist policies.

So to that same end we identified more than a handful of much needed improvements. The most notable for today include putting the intergenerational and independence back into the Intergenerational Report. Defunding poor quality programs like we used to. And after some modicum of evaluation. The paucity of program evaluation being beyond perversity in today's data and analytics driven world. Longer term fiscal projections for major programs alongside an expanded role for the Parliamentary Budget Office.

And in thinking of the scope of future Intergenerational Reports, a thoughtful consideration would identify looming intergenerational fiscal risks beyond ageing. Think obesity related chronic disease and mental health. And we welcome the Government's recent announcement for a Productivity Commission Inquiry into mental health.

For the Roman poet Virgil was on the money in his common sense view that the "greatest wealth is health".

Shifting the Dial found chronic disease on the rise. With 7 million Australians suffering from chronic health conditions like diabetes and mental problems. And obesity prevalent amongst 5 million Australian adults – more than 1 in 4. These conditions are little prevented and not well managed. And the absence of outcomes oriented integrated health care is at huge cost. Growing impenetrable beta blockers to economic participation and ultimately wellbeing for millions of Australians. As well as being factors in entrenched disadvantage. Not to mention being obvious drivers of looming fiscal pressures.

For if we find ourselves in the absence of effective government, economic growth with equity will become elusive. Our *Shifting the Dial* policies will prove unachievable when they ought not be. Our equality enhancing tax and transfer system will become unaffordable. And our vision of 'handmade' policies for the truly disadvantaged will be relegated to the Bardo world of policy intractables.

Finally, turning to the wealth distribution trends identified in our Inequality report. Which reveal an uptick in wealth inequality. In the form of a much more concentrated increase for the top half. But where through home ownership and superannuation, a substantial majority of us have all seen our wealth rise. And where super, based on emerging trends in home ownership, is likely to become the post Baby Boomer generations' path to better wealth. Albeit consumed later in a much longer life.

Super's elevated role in intergenerational wealth escalates the policy imperative of our current Super Inquiry. For the super system's performance will underscore much of our future wealth equality story.

Our Superannuation Inquiry has found a system of twin failures. Persistent underperformance and unintended multiple accounts. And the costs revealed to be highly regressive in their impact – harming the young and lower income workers the most.

But some have suggested that our Super Inquiry revealed institutional failures. Revealed in three ways across our 3 years of super endeavour.

First, and after 26 years of compulsory super, it is telling in and of itself that this is the first time a Government has comprehensively asked the evaluation question. Is the now $2.7 trillion super system efficient and competitive, delivering good outcomes for its 14.8 million members?

Second, when we embarked on our super trilogy in 2016, we quickly learned the ‘must have’ data was pretty much missing in action. Indeed it is near impossible for a mere mortal (let alone an actuary) to follow the money. And where data was collected, it was done poorly and from the perspective of the fund. Not the member.

When it ought to be the reverse constellation. For super is not a prudential world. For members (and future taxpayers) pretty much underwrite the investment risk. Nor is it a world of caveat emptor. It is a market distinguished by Government fiat and a trinity of C’s – compulsion, complexity and cognitive biases. And much of that complexity induced by ineffective competition.

Third, our recent draft report – the penultimate report – presents much novel data and analysis. In doing so it revealed a government induced and supervised system that has become an unlucky lottery for many members. Where 1 in 3 member accounts are unintended multiples – costing members $2.6 billion each and every year. And a system in which 1 in 4 funds, 1 in 3 default products and at least 1 in 2 choice products underperformed. And seemingly unchecked – by government, regulator and trustee board – over the past 12 years. And why only 12 years – the data doesn’t allow us to look back any further.

And unsurprisingly tribal wars have begun to play out on the Superannuation Guarantee rate. Some increasing it, some decreasing it and some ‘resting it in peace’. But this bypasses where we find ourselves today. For the Superannuation Guarantee rate simply deems what flows into the super system. Leaving the system’s performance untouched. And it’s here the immediate policy imperative lives and breathes. Architectural improvements to raise the odds for the super member beyond our [hashtag] ‘# unlucky lottery’. And in doing so lifting the retirement balance of today’s new workforce entrant by $400,000.

Now the recent superannuation hearings by the Financial Services Royal Commission in some ways proved the personification of some of the system wide shortcomings we identified.

Opening Statement by Senior Counsel Assisting, Michael Hodge QC, rightly identified three lines of defence to member harm – the member, the trustee and the regulator. And all demonstrably breached in his curated case studies.

But there remains a reliable fourth line of defence. And it's the one that matters most for this market of the trinity of the C's. Government. And a thematic from (a careful read of) Commissioner Hayne's interim report. Alluding to the much needed 4th C – for competition. For it is the policy architecture that needs to do the heavy lifting. Setting the incentives and thus bandwidth for behaviour – within which the member and the trustee coexist with aligned interests. And then monitored and enforced by confident (member champion) regulators.

Our final Inquiry report will be with Government by year's end. And with recommendations to modernise and make superannuation all about the members – as it should have always been.

So in concluding, perhaps we can all agree one thing today. All of us are extraordinarily privileged to be here. To be well educated. To have jobs that pay a large multiple of average weekly earnings. To live longer, with better health. And more likely than not, so will our children.

But most of all we have a greater privilege – to ask these questions and to take professional risk in seeking to answer them. A privilege, we should acknowledge, not afforded most Australians. And our failure to do so, means that very privilege itself will more and more become the right of the few. Yet by taking those professional risks – by daring greatly – growth will be all the more likely joined by its running mate – equity. As it ought to be.