

A fresh game plan to grow the economy in 2015

Policy

The budget and reform are important. But most of all, the Treasurer needs to adopt new ways to show the public how policy is working.



Stephen Anthony

The challenge for Treasurer Joe Hockey for 2015 and beyond is to help achieve a circuit breaker to underpin the foundations of growth in the economy and head off any further income slowdown.

There are positive measures that Hockey can take to help grow the economy and jobs this year.

First, he should follow the advice of his audit commissioner, Tony Shepherd, and move "carefully, incrementally and fairly" to put fiscal policy back on a sustainable path by overcoming the confidence-sapping budget deadlock in the Senate. He needs to stop the fixation on the winners and losers from individual budget measures by announcing a complete budget package where the pain is carried more by those who benefit from budget repair.

Second, the Treasurer should pursue a ruthless strategy targeting waste reduction and productivity in government and the broader economy. Of course productivity, like production, is the key because it helps generate higher incomes to raise living standards and alleviate disadvantage. Arguably, the government is making significant in-roads to the broader economic reform agenda, especially by pursuing an expansive bilateral trade reform agenda.

We can also take advantage of increased market access by making our supply chains more efficient and so expand domestic production by making them more profitable. Part of this process is club-busting to break open the monopolies/monopsonies in the Australian commodity and factor markets that still impede living standards and the path to higher growth in Australia.

In just one example, it is estimated that up to \$7 billion is needed to upgrade and rebuild eastern Australia's rail freight network. The nation's biggest grain handlers having been battling against the deteriorating state-owned railways for years. This investment is essential given that the cost of transport can absorb up to one-third of the farm gate price of each tonne of grain.

Along similar lines, a supply-chain review of each major Australian export commodity would help to target similar infrastructure bottlenecks where they are not already well known. Perhaps industry levies and further privatisation of public infrastructure can be used to help fund



Treasurer Joe Hockey is facing an economic challenge this year. PHOTO: ALEX ELLINGHAUSEN

these investments. The protected coastal shipping industry is another obvious target for reform.

We can make our product markets more efficient to allow household budgets

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to stretch further. Part of this requires hard reforms in closed shops such as the pharmacy sectors and medical professions, which would open the delivery of health services to greater innovation, efficiency and reduce the opaque nature of fee setting. Subjecting the grocery retail industry to competition reforms such as

strengthening of the Trade Practices Act via an effects test may be helpful here; perhaps very bad news for British celebrity chefs and producers of wildlife cards.

We can also improve the rate of return to savers while lowering the cost of business and household borrowing. Significant competitive forces can be introduced into the superannuation funds management industry where compulsory contributions subsidise underperformance. Similarly, the retail banking industry and the big four major banks need to face more competition in their core business and be prevented from controlling other financial industry segments through cross-subsidy.

Third, the Treasurer should promote key public institutions and processes that help to educate and sell the reform message to the public. We need road maps that identify the biggest bang for the policy buck; for example, by expanding the role of the Productivity Commission to report league tables of the top 10 welfare-enhancing microeconomic reforms, infrastructure projects, regulatory reductions, fiscal and social policy

changes. Get the Productivity Commission to put a dollar value on important policy changes using high-quality modelling frameworks and peer review information already produced by other agencies such as Infrastructure Australia, the Office of Regulation, the Grants Commission, the Parliamentary Budget Office and think tanks like Grattan and Natsem.

Transparent reporting of good policy options can help to create a groundswell for reform. Often the lead time for important reforms is a decade or more, so it is important to prepare the ground with high-quality analysis of reform options. For example, in the early 1980s a series of Business Council publications focused attention on benchmarking international industry best practice. They helped move the tariff reform debate towards a broader discussion about microeconomic reform in the non-traded goods sector, with a lot of help from Paul Keating.

The Productivity Commission could also benchmark the fiscal performance of Australian governments using scorecard indicators. Why not benchmark every government department, agency and business against one another and see how they stack up in terms of efficiency? Why not measure the policy performance of each state jurisdiction against the federal government and recognise good performance?

Fourth, in another coup for the brown-cardigan brigade, resurrect the Economic Planning and Advisory Council (EPAC). The federal government needs an economic research agency to carry out planning activity and to examine practical applied economic questions of interest. Someone independent of central government needs to be in a position to cast the overarching policy narrative: to look at the big picture questions that only government has the information and resources to consider.

Examples are population policy, issues related to planning and land use, regional industry policy, defence industry policy, perhaps even who should build the next submarine fleet.

These actions would help to frame policy settings back to a dynamic high growth footing which means prosperity for all Australians.

Stephen Anthony is director of Budget & Forecasting Macroeconomics.

What you would have heard – if the fireworks weren't so loud

On the other hand

Here are the New Year's resolutions our political class should have made. Except, of course, they didn't.



Rowan Dean

Overheard on New Year's Eve:

Tony: This, ah, this year, ah, I, ah, must, ah, er, I must, ah, speak less, ah, hesitantly and, ah, not ah, pause so much and, ah, avoid the habit, um, avoid the habit of, ah, repeating myself, of, ah, repeating myself and, ah ...

Joe: This year I must stay on message. I must stay on message and not get distracted by secondary issues. I must stay on message and not get distracted by ... bloody hell, what's that noise? ... Oh my God, will you look at those fireworks? This year I must stay on message but, let's face it, most poor people don't even watch the fireworks anyway because they live miles out in the suburbs and they can't afford to drive in to town, I mean those that can afford a car, which is hardly any of them, and ... where was I? This year I must what ...?

Scott: This year I must keep my head down and get on with getting the job done, no matter how many brickbats they fling at me and how much they all carry on like a bunch of banshees, and I'll just do what has to be done because ... hang on, this is last year's resolution ...

Bill: Vis year I must have vem eloculation lessons.

Tanya: This year I must not stab Bill in the back. This year I must not stab Bill in the back. This year I must not stab Bill in

the back. This year I must not ... oh bugger it, where's the knife block?

Clive: Well, of course this year I fully intend going on a diet and I intend going for a run every morning and I intend cutting down on the carbs, getting to the gym after work, doing a few push-ups, and I fully intend to get myself into shape so I can help the country by being a sane, sensible, responsible member of Parliament.

Jacqui: This year I'm gonna find me a gentle, loving, romantic partner who roots like a rattlesnake and is hung like a rhino. Oh, and I'm also gonna screw that bloody Clive so hard he's gonna think he's been gang-banged by a bunch of sex-starved wharfies at a bikies' bucks night.

Ricky: No comment.

Nick: Well, this year I intend to play the honest broker and be the most fair-minded Independent in the Parliament in line with my commitment to remain truly fair-minded, compassionate and totally independent so I can set an example to all the other totally fair-minded Independents who will be joining my party of totally independent Independents who'll do whatever I tell them to.

Bob: This year, along with pursuing a diet of steel-cut rolled oats and Tibetan yaks' low-fat yoghurt in accordance with my unflinching commitment to further

improving this magnificent living sculpture, this glorious monument to physical prowess which is, um, me ... I also intend to humbly devote my not inconsiderable and world-renowned intellectual skills to wreaking havoc in the Middle East so that I can big-note myself as a friend of Palestine and grab a cushy job somewhere that befits my stature, preferably in New York, but Geneva would be fine, thanks.

This year I must stay on message. I must stay on message and not get distracted by secondary issues ... bloody hell, what's that noise?

Peta: This year I must stop running the government.

Paul: Look, I really like Bob, but after what he said about me on that stupid cooking show – I mean, really, as if that old codger could even boil an egg without me telling him how to do it, I mean it's just laughable, so this year I intend to devote

myself exclusively to the greater good and the proud values of the Labor party of which I am such a critical component by taking a great big meat cleaver to that miserable bastard's putrid legacy and finishing it off once and for all.

Barry: This year I might actually get around to opening that bloody bottle of Grange.

Russell: Well, next I'd like to make a movie that tells both sides of the story of the Kokoda Trail and finally reveal how the Japanese – far from being bloodthirsty enemies – were in fact gentle souls engaged in their own desperate emotional struggle to cope with the crippling humidity, the moral-sapping mozzie bites, the lack of fresh sushi deep in the jungle ...

Tony J: This year I intend changing the format of the show to make it a little more inclusive and representative and bring in a few more relevant everyday cultural points of view, so I think we'll be cutting down on the vast number of so-called "conservative" guests and concentrating more on addressing realistic concerns such as how ordinary normal lives are being savagely decimated by cataclysmic climate change and rampant Islamophobia is destroying the very fabric of inner-city bike lanes and ...

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