

Australian Conference of Economists

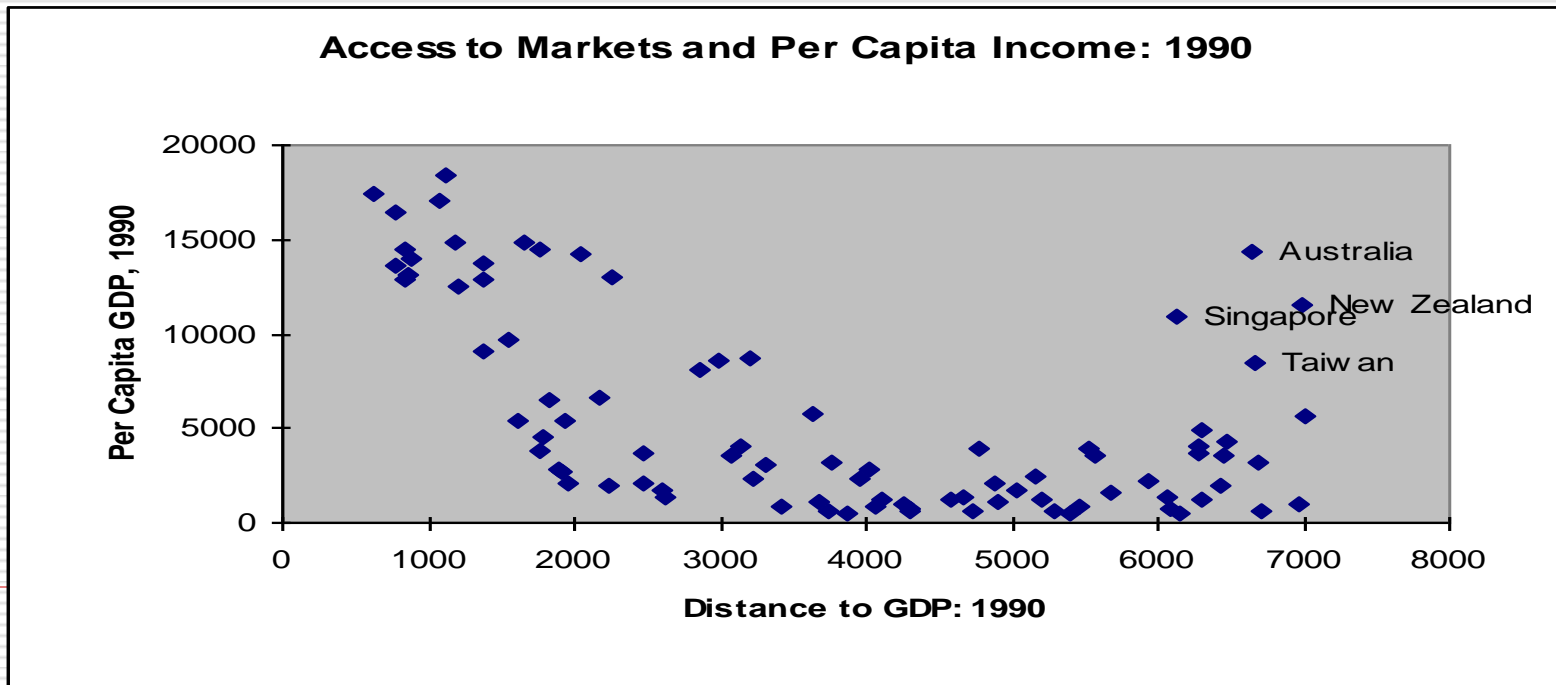
MEDIUM-TERM POLICIES FOR ECONOMIC GROWTH: HUMAN CAPITAL AND THE AUSTRALIAN FUTURE

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WHY WORRY? AUSTRALIA HAS DONE WELL

- ❑ World's wealthiest country per capita (CREDIT SUISSE).
- ❑ Top of the Human Development Index (UN).
- ❑ Longest growth phase (OECD).

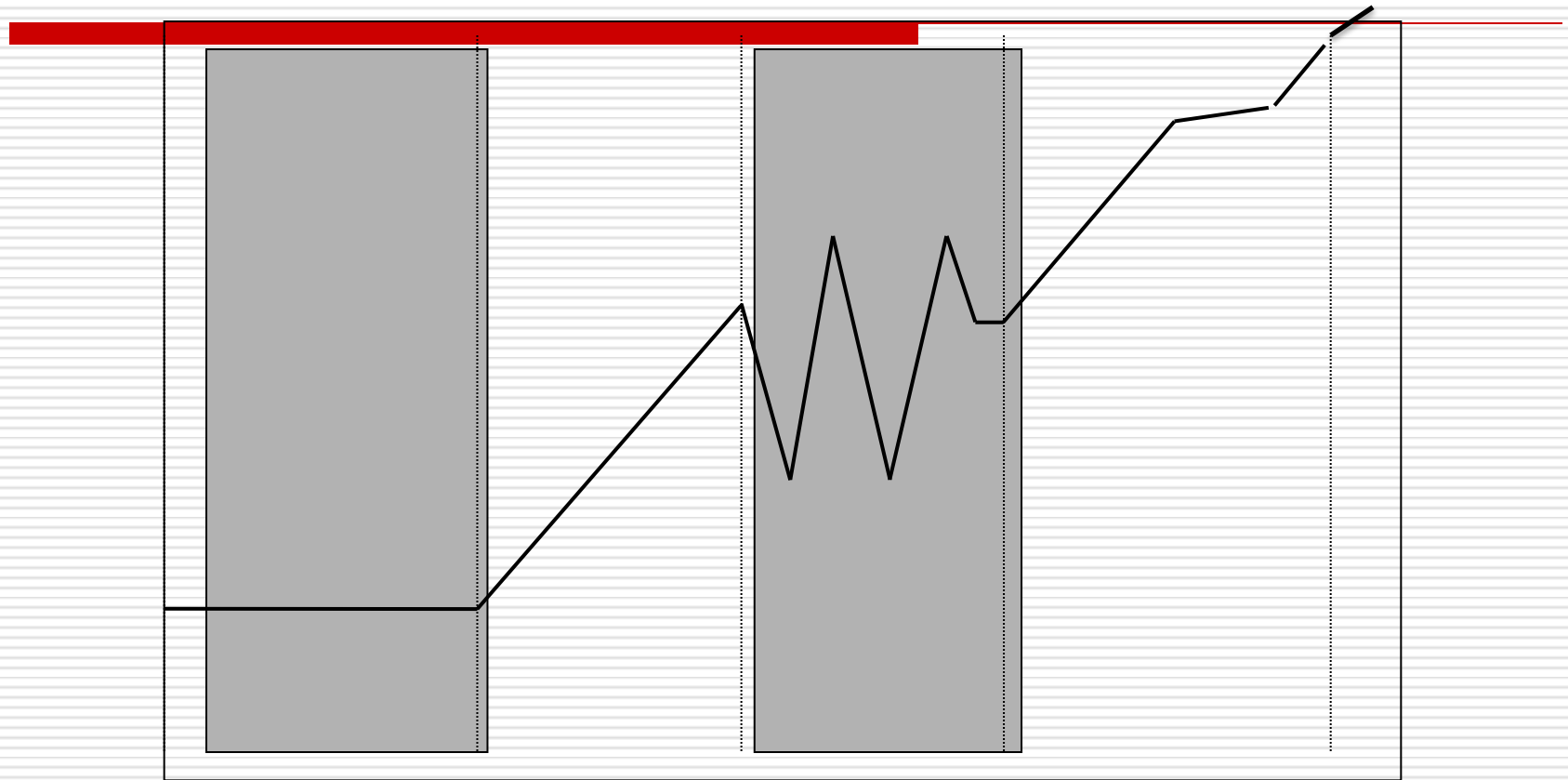


UNINTERRUPTED ADVANCE ?

BUT LOOK AT OUR HISTORY:

- LONG PAUSE;
- LONG BOOM;
- LONG PAUSE;
- LONG BOOM.

A history of the economic fortunes of the 230 years since Arthur Philip.



ARE WE NOW AT A TURNING POINT AGAIN: A MICRO DISSECTION?

- ❑ HOLT-MCEWAN-MCMAHON-GORTON USHERED IN THE END OF THE FIRST PHASE OF THE POST-WAR LONG BOOM MODEL.
- ❑ DOES RUDD-GILLARD-ABBOTT-TURNBULL USHER IN THE END OF THE SECOND PHASE OF THE POST-WAR LONG BOOM MODEL?
- ❑ CERTAINLY REFORM ONE-OFFS HAVE DEPLETED, THE MINING INVESTMENT BOOM HAS PLATEAUED, INEQUALITY HAS EMERGED, ATTITUDES HAVE SHIFTED

WHAT IS NEEDED?

- **CONTINUED STRUCTURAL REFORM:** THE UNFINISHED AGENDA BELOVED OF BUSINESS
- **NEW INVESTMENT IN NATIONAL CAPABILITY:** A NEW AGENDA BELOVED OF PROGRESSIVES
- WHAT IF WE WERE TO **WALK ON TWO LEGS?**
- It could benefit the Australian standard of living by 22% or more by 2030

Structural Reform:

- ❑ Tax reform (Henry)
 - ❑ Spending and regulation reform (PC)
 - ❑ Privatisation/contracting out reform (PC)
 - ❑ Free trade agreements improvement (CIE)
 - ❑ Competition policy enhancement (Harper)
 - ❑ Federalism reform (Twomey & Withers)
 - ❑ Industrial relations reform (PC)
-
- ❑ The contribution of such reforms to standard of living could be of the order of over **11.0% by 2030.**
-

Investment Reform:

- ❑ Labour participation enhancement (PC)
- ❑ Infrastructure enhancement (IA)
- ❑ Education enhancement (UA/TDA/ACPET)
- ❑ Research and innovation enhancement (OECD best practice)
- ❑ Immigration enhancement (MCA)

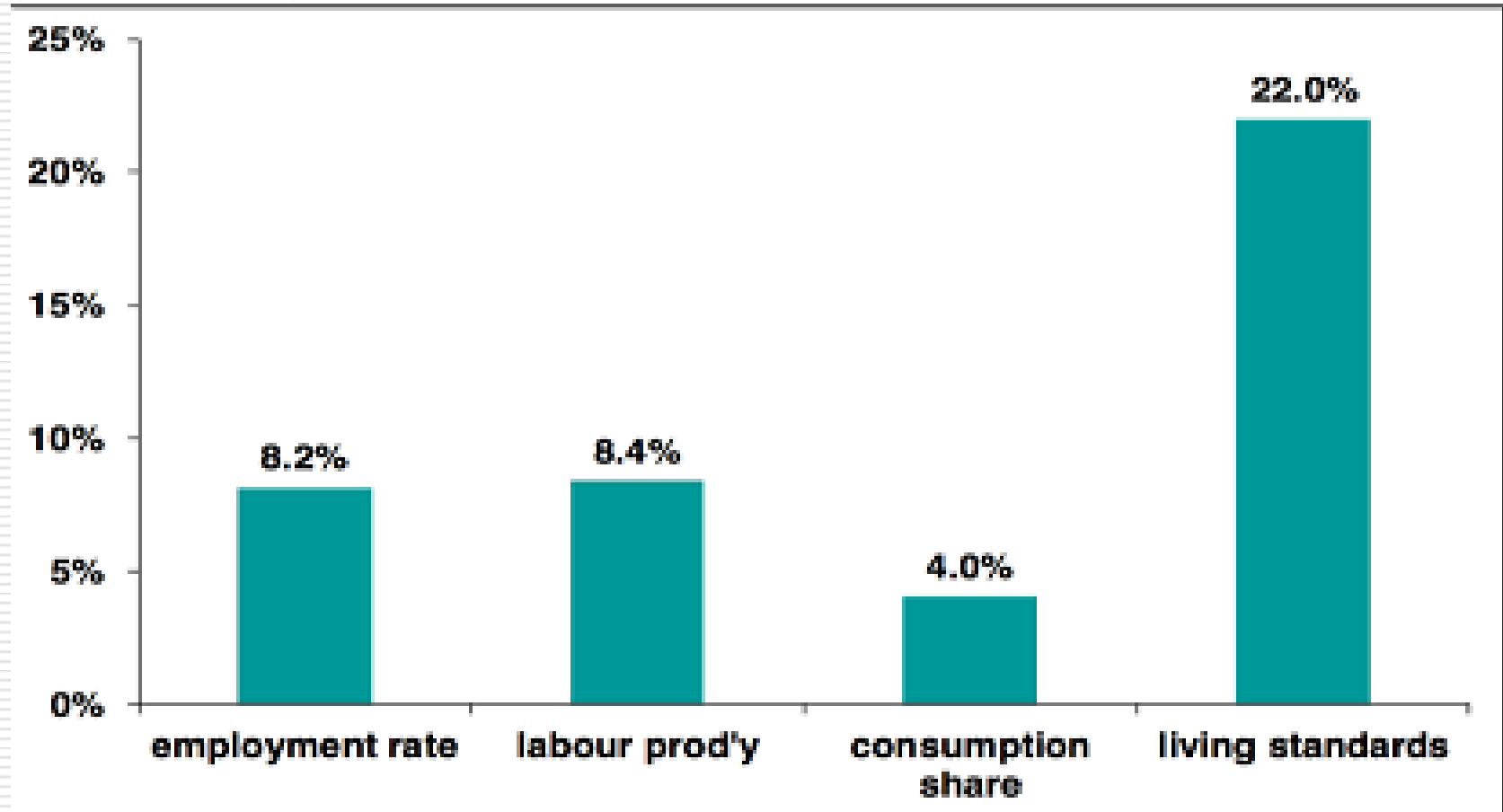
- ❑ The contribution of such reforms to the Australian standard of living could be of the order of over **11.0 % by 2030.**

CAPABILITY BUILDING FOR THE FUTURE

ARE WE ALL CAPITALISTS NOW ?

- ❑ **PHYSICAL CAPITAL:** machines, structures, infrastructure,
- ❑ **SOCIAL CAPITAL:** equity, trust and co-operation
- ❑ **INSTITUTIONAL CAPITAL:** private and public governance
- ❑ **NATURAL CAPITAL:** ecologically sustainable development
- ❑ **HUMAN AND KNOWLEDGE CAPITAL:** education, training and learning and innovation

BENEFITS OF TWIN TRACK REFORM: 2030 AUSTRALIA



LEADERSHIP: Attitudes to Reform and Taxes

- All those surveyed for the ACOLA study here in key groups or the general public saw a need for **greater leadership and partnership** in national policy
- Moreover, in the public opinion survey, more than half indicated that they would be **willing to pay** at least a little more in overall taxes to support reform- an average of \$1009 per head
- For tax structure, an **increase in GST** that directly funded our future was regarded more favorably than one that financed a reduction in income or company tax.

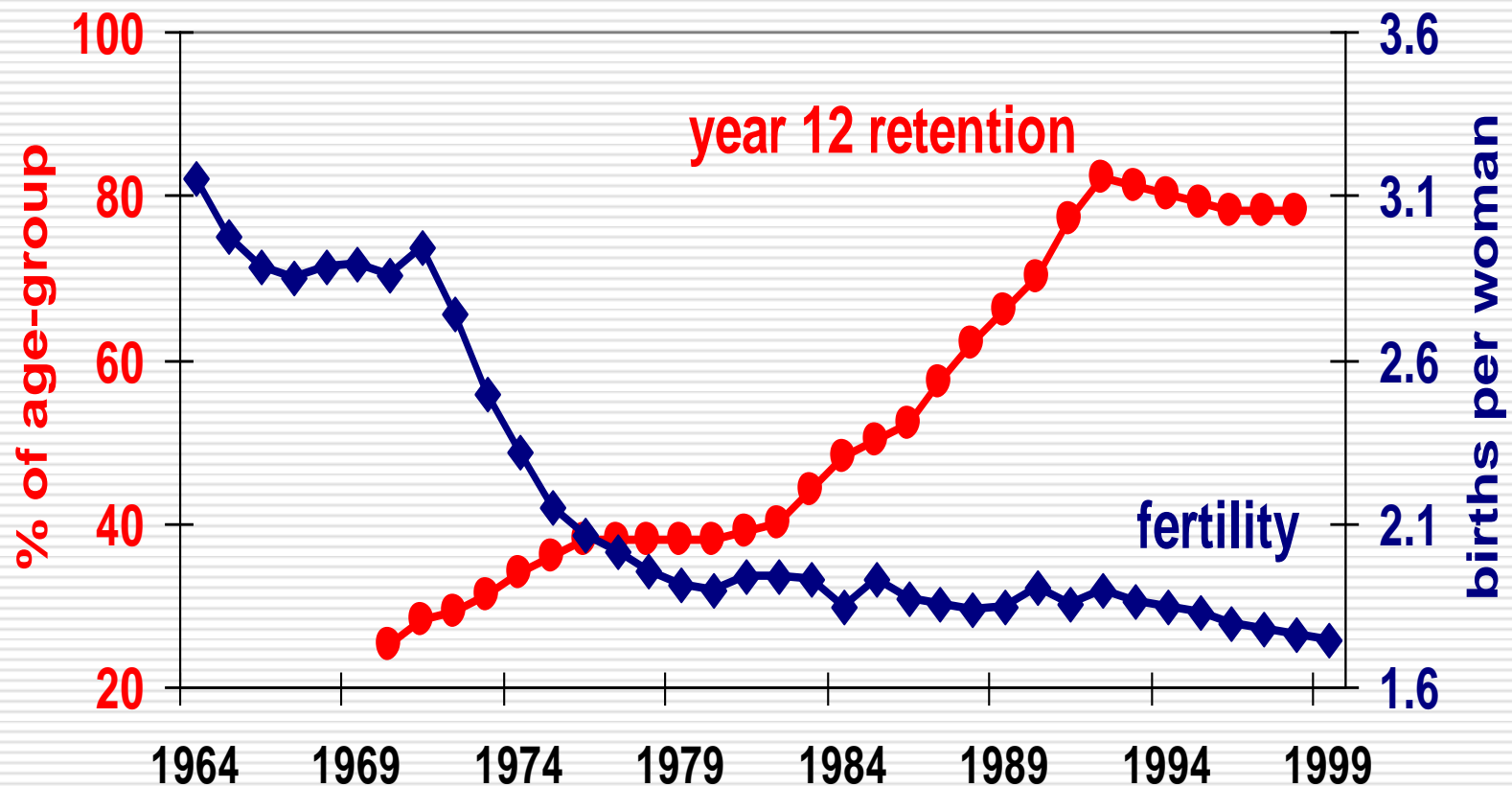
A FOCUS ON BEST PAY-OFF

“An investment in
knowledge pays the
best interest” -
Benjamin Franklin

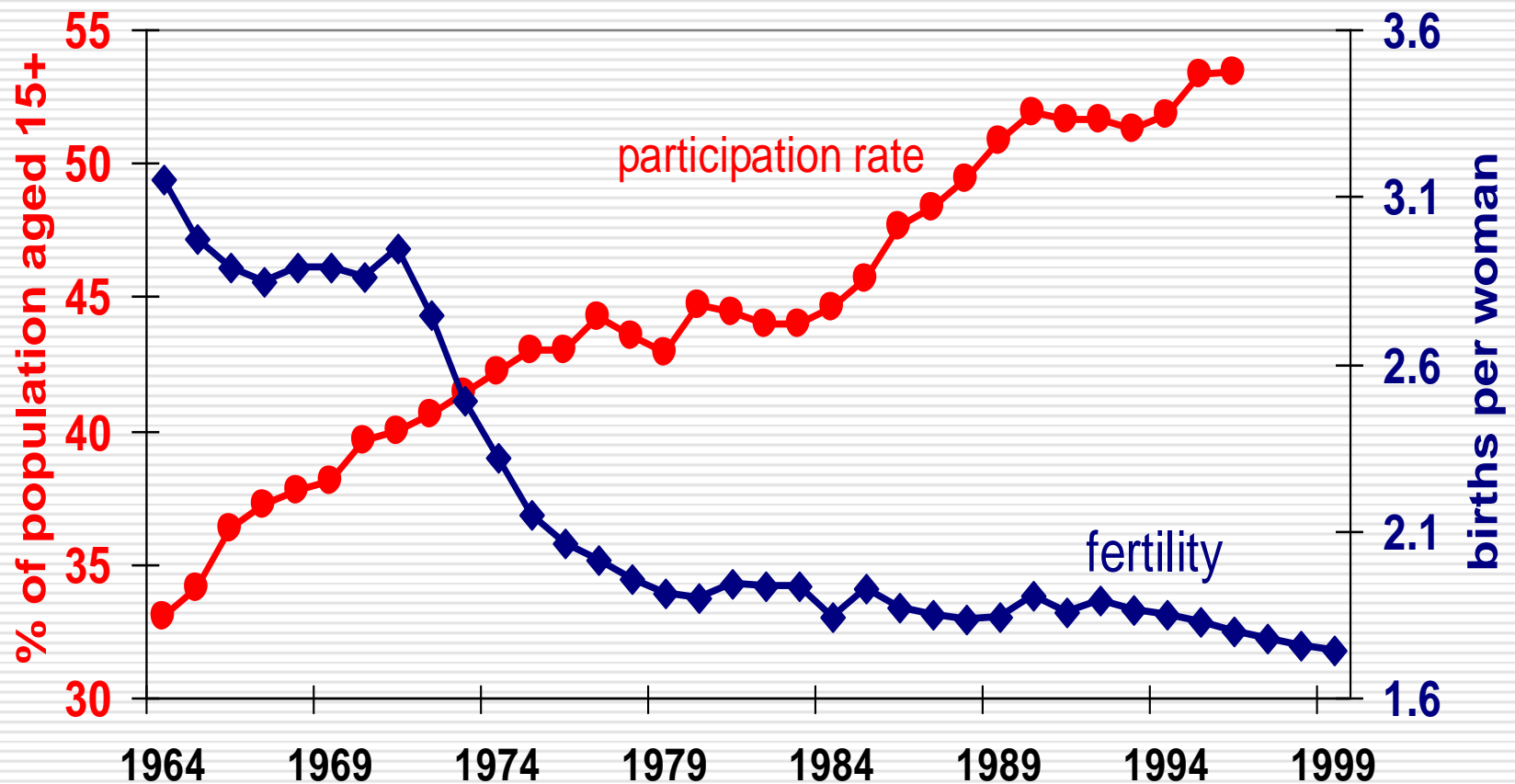
Comparative Reform Pay-offs (GDP increase): the case of Australia

Australia-Indonesia Free Trade Agreement	0.02%
A Single National Workplace Relations System	0.05%
The Bracks Motor Vehicle Reform Package	0.06%
The Henry Tax Review Reforms accepted	0.07%
National Agreement on Skills and Workforce Development	0.10%
Increased Superannuation Guarantee (from 9% to 12%)	0.33%
North Asian FTAs	0.40%
The National Broadband Network	2.00%
The Henry Tax Review complete package	2.50%
The COAG Human Capital Reform Agenda (schools and health)	3.00%
*The Bradley Higher Education Review Reform Package	6.10%

TREASURY'S PPP: Education and Fertility

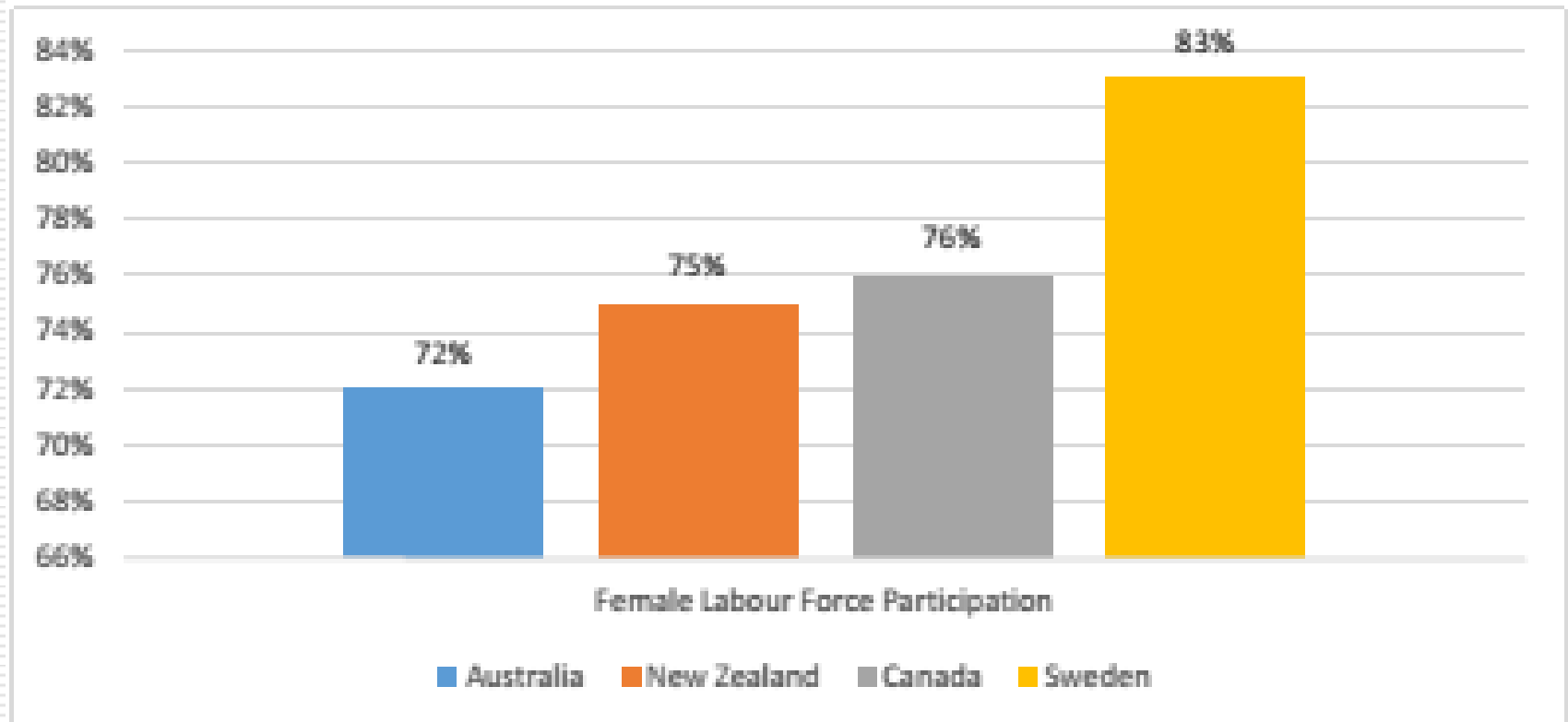


Education and Participation: the case of Australia



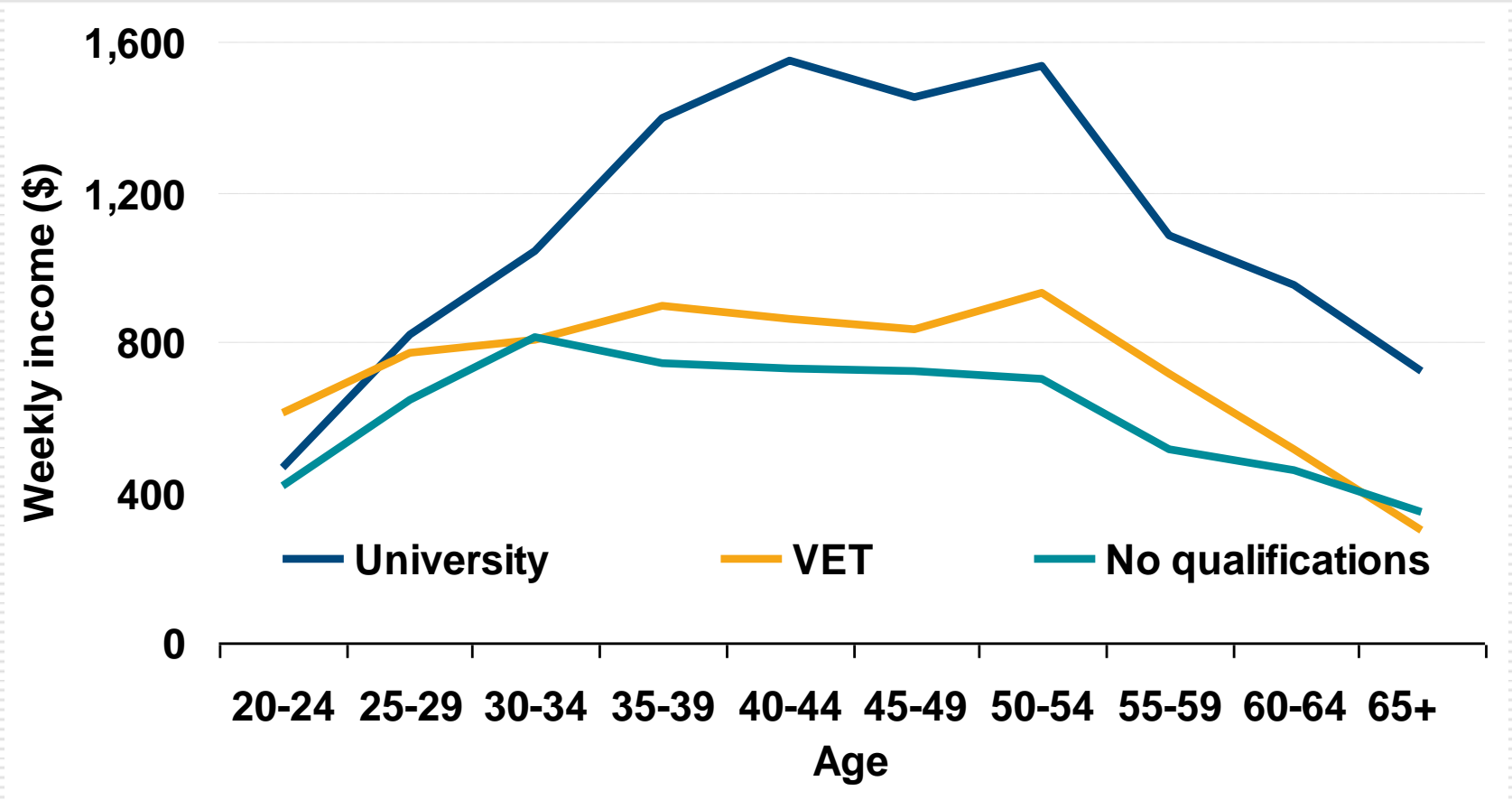
Statistical Benchmarking

Figure 2.1: Female Labour Force Participation, 15-64, 2013



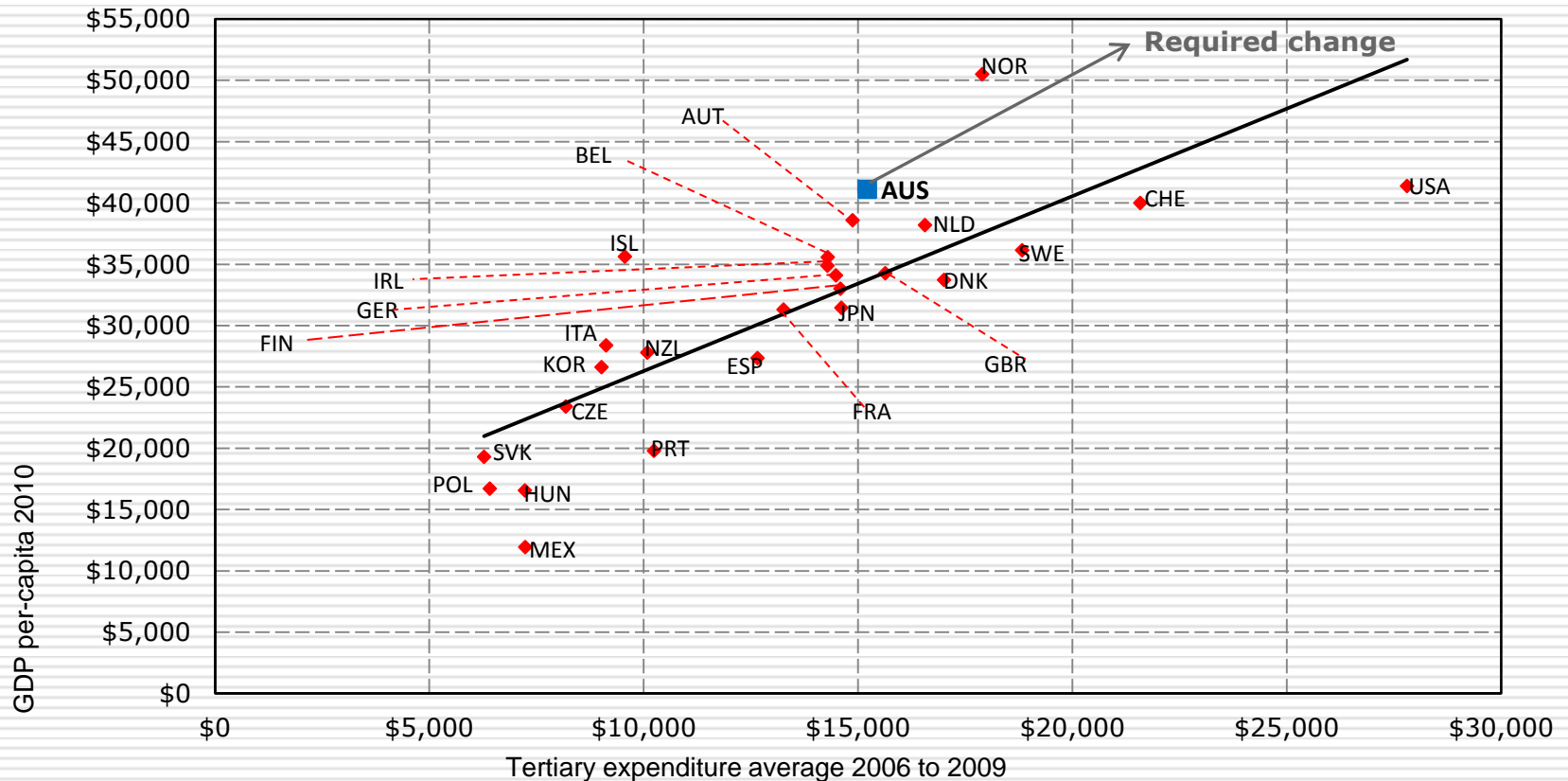
Source: OECD, Labour Force Statistics, 2014

Productivity: Education and Earnings



The case of the OECD: Income and Tertiary Expenditure, per capita

Figure 1 GDP Per-Capita and Tertiary Expenditure, Selected OECD Countries



Dowrick-Nguyen Style Growth Analysis: OECD 2005-2010.

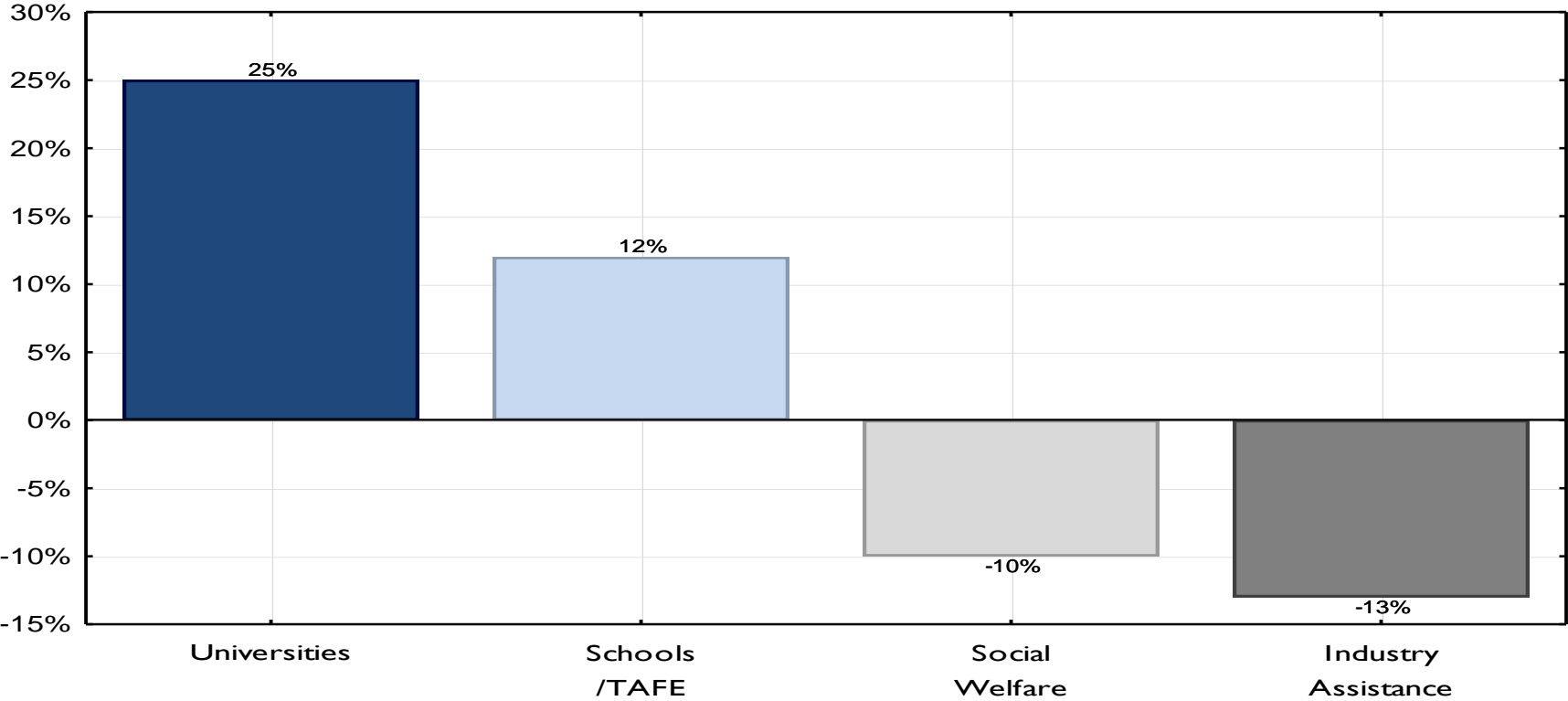
The impact of Tertiary Education on Real GDP Per-Capita

Dependent variable: GDP Per-capita 2010

Variable	Coefficient	Std. Error	t-Statistic	P-value
Constant	6821.142	2644.392	2.58	0.017
GDP Per-capita 2005	0.512	0.115	4.43	0.000
Average Tertiary expenditure (2005-2009)	0.697	0.234	2.98	0.007
R-squared	0.8079	F-statistic	46.27	
Adj R-squared	0.7905	Prob (F-statistic)	0.0000	

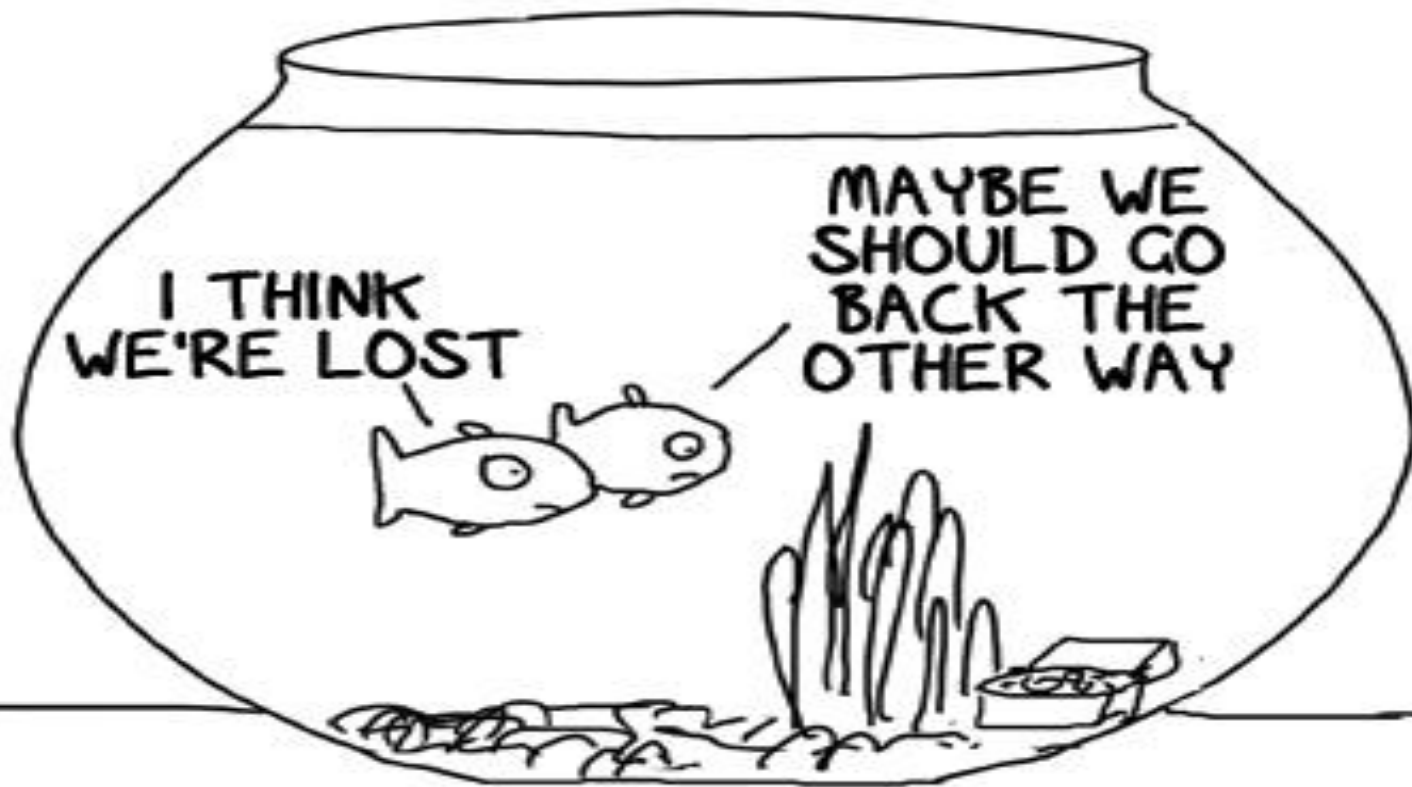
Public Support: WTP Australia

Public Spending Preferences
(% mean change)



Policy Development

THINK OUTSIDE THE BOWL



EXTEND ICL TO INNOVATION ?

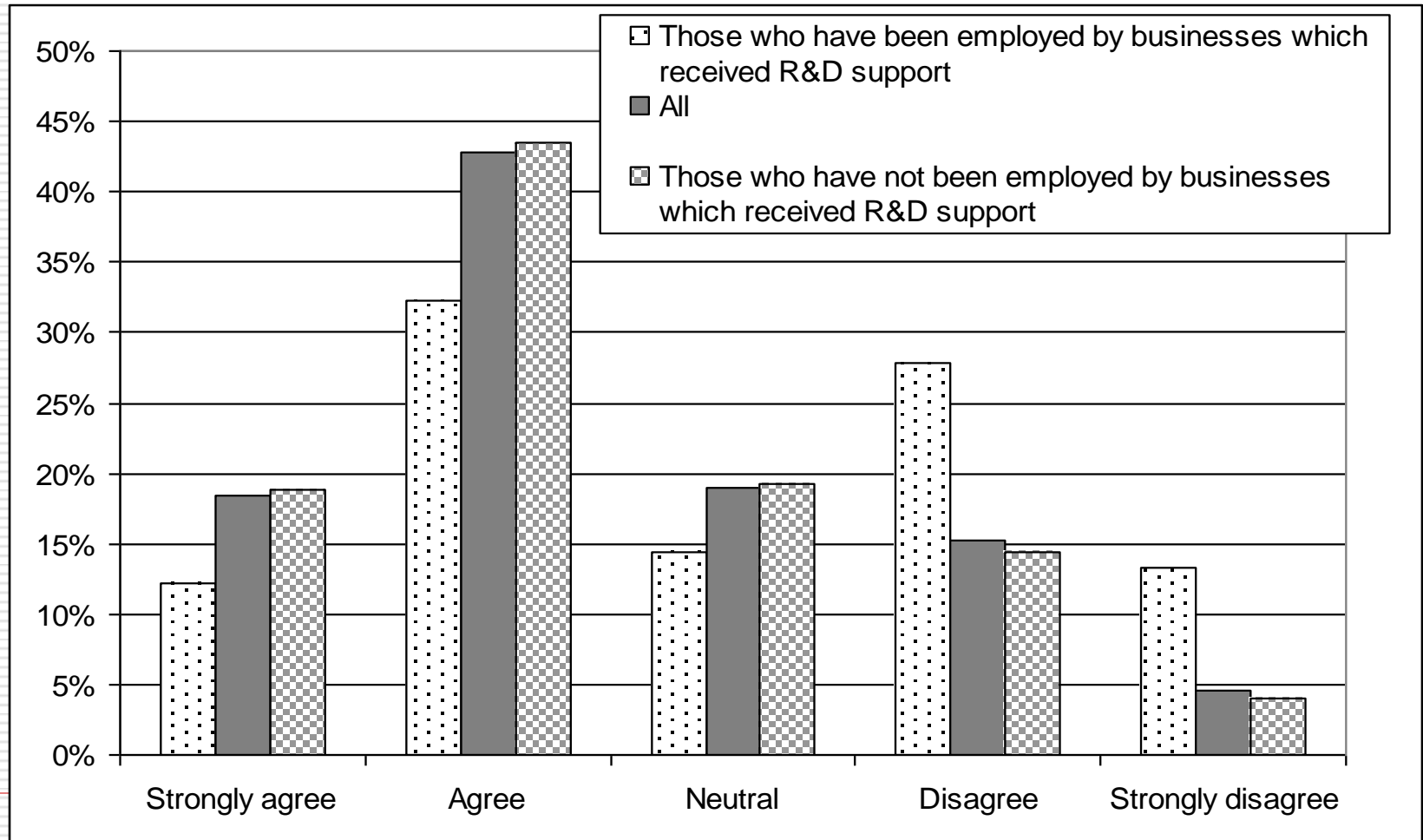
Private return to innovation

- ❑ Increased profits, reduced costs, or enhanced productivity (Shanks and Zheng 2006)
- ❑ Rates of return between 13% and 30% (Griliches 1992; Dowrick 2003; Bosworth and Rogers 2001)

Social return to innovation

- ❑ Productivity growth, spillover effects (Shanks and Zheng 2006; Harris and Kells 1997)
- ❑ Rates of return between 50% and 100% (Industry Commission 1995; Williams et al. 2003)

Political Testing for Policy Instrument Use: Innovation Financing with ICL.



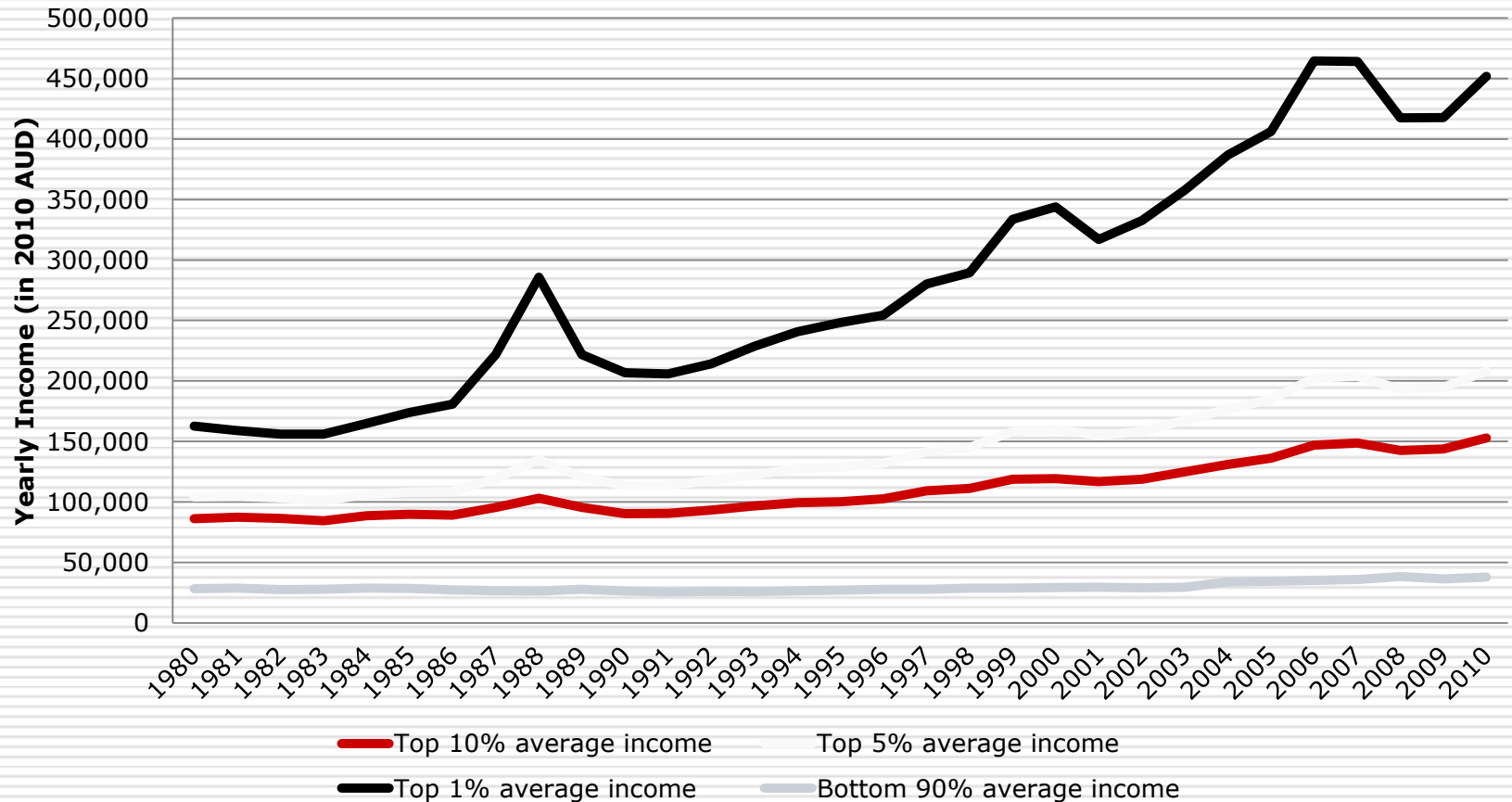
SO YES WE CAN, BUT....

TRIPLE BOTTOM LINE

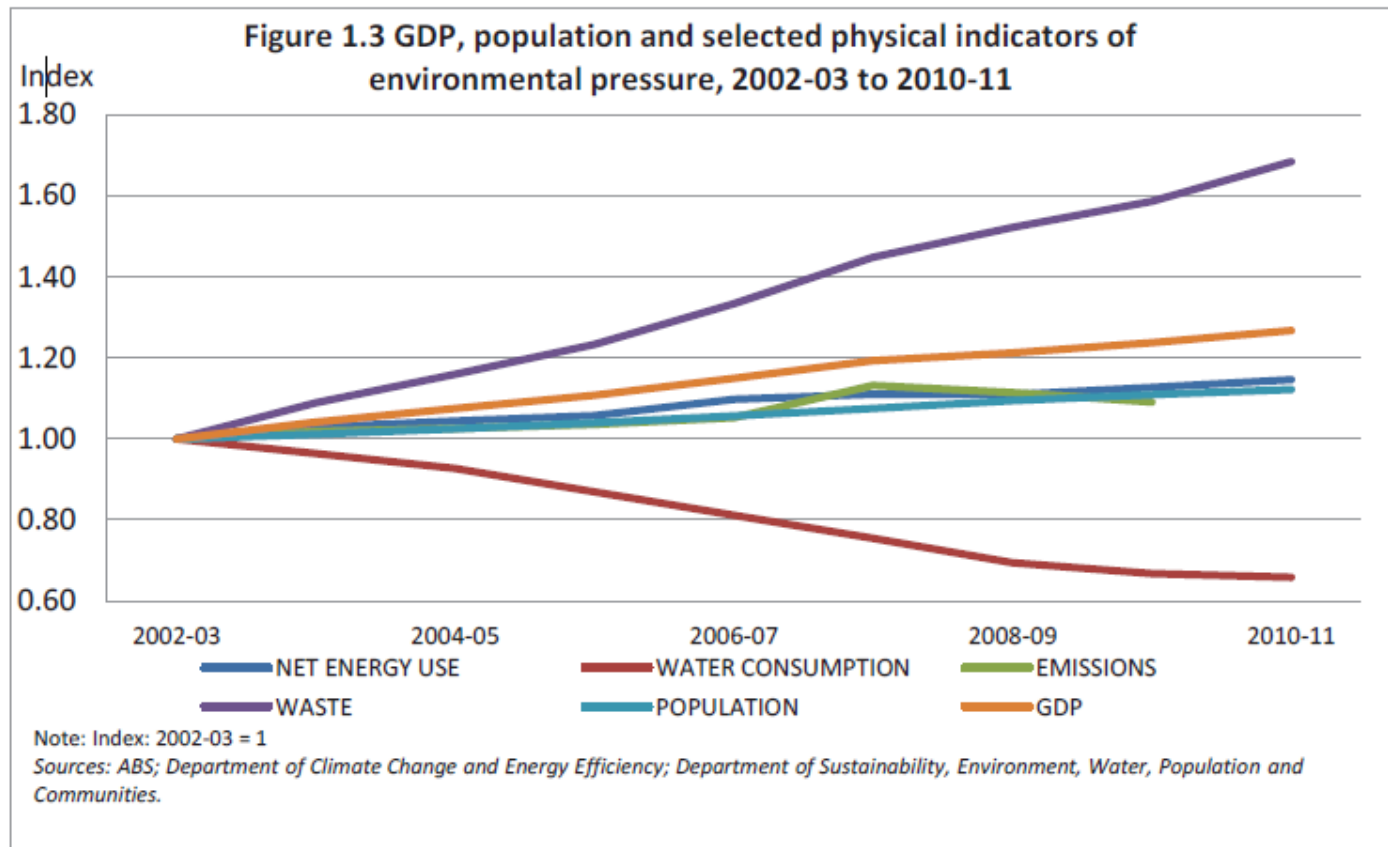
- Economy
- Society
- Environment

BUT HUMAN CAPITAL INVESTMENT IS
POSITIVELY CORRELATED WITH ALL:
WIN-WIN-WIN.

Social Impact: Picketty Analysis



Environmental Impact: Kuznets Analysis



Follow Up:



<http://acola.org.au/wp/project-1/>

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