

# Australian Conference of Economists

---

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

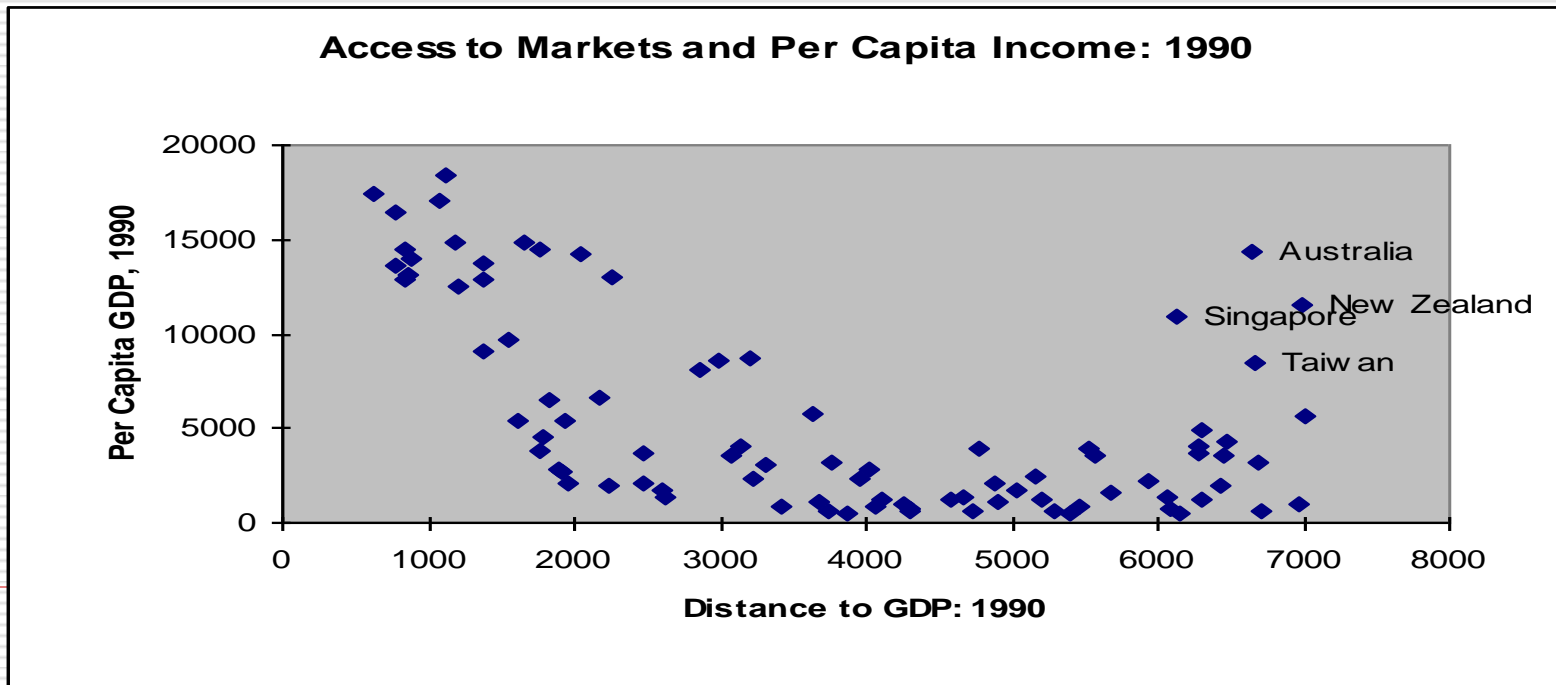
**Glenn Withers, ANU & UNSW**

July 2017

---

# 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).



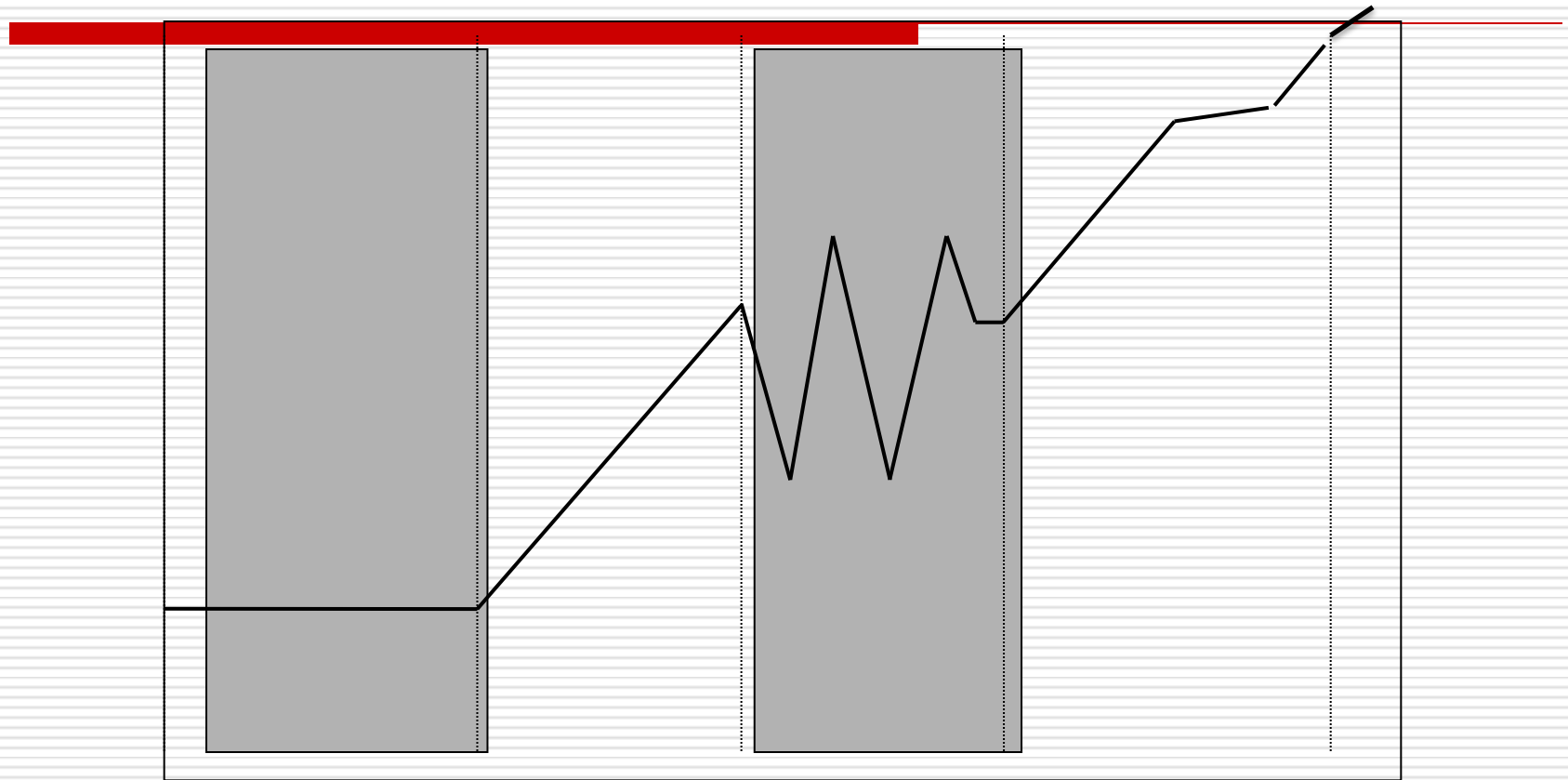
# UNINTERRUPTED ADVANCE ?

---

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.**

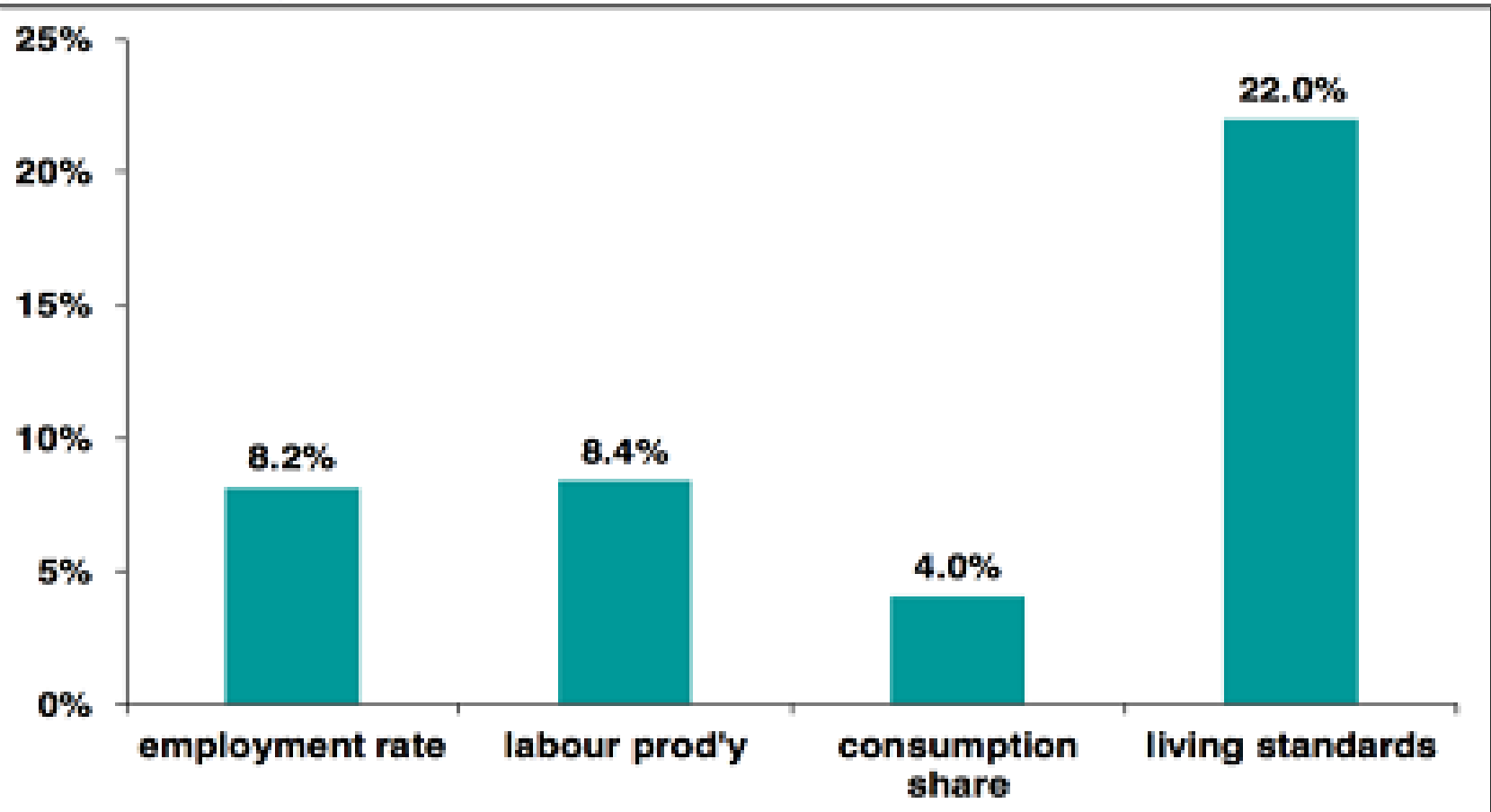


# CAPABILITY BUILDING FOR THE FUTURE

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

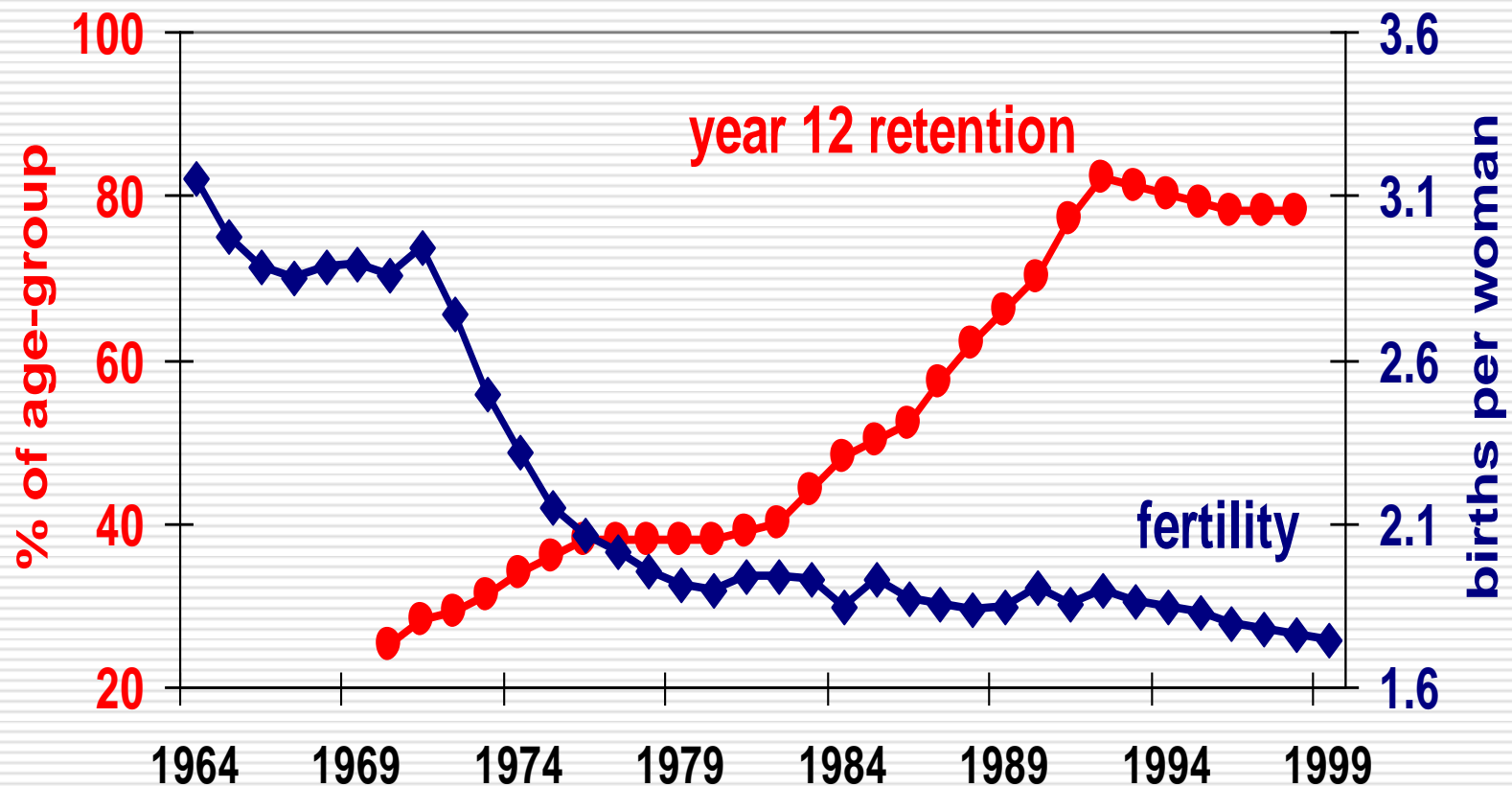
# Comparative Reform Pay-offs (GDP increase): the case of Australia

---

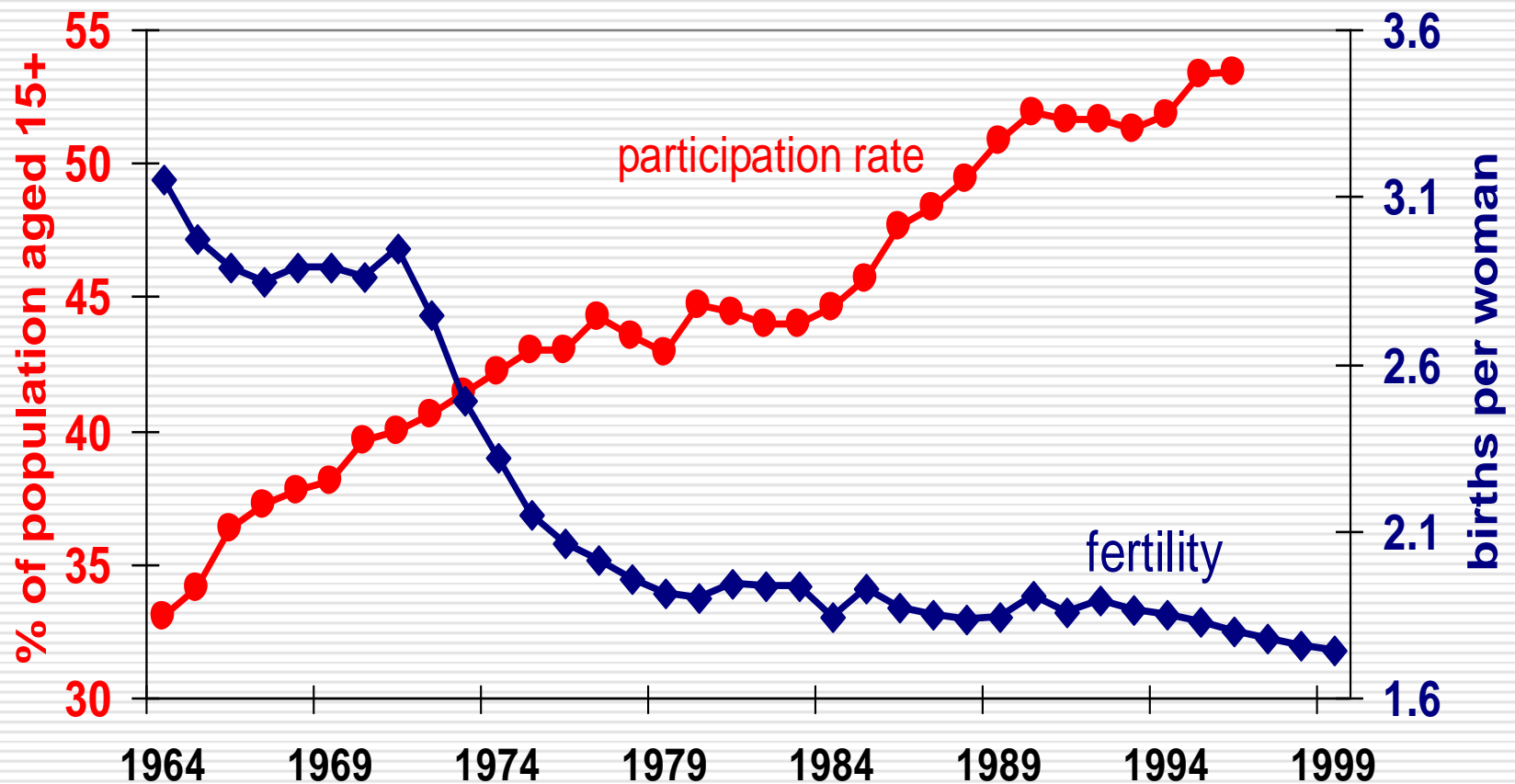
<b>Australia-Indonesia Free Trade Agreement</b>	<b>0.02%</b>
<b>A Single National Workplace Relations System</b>	<b>0.05%</b>
<b>The Bracks Motor Vehicle Reform Package</b>	<b>0.06%</b>
<b>The Henry Tax Review Reforms accepted</b>	<b>0.07%</b>
<b>National Agreement on Skills and Workforce Development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

---

# TREASURY'S PPP: Education and Fertility

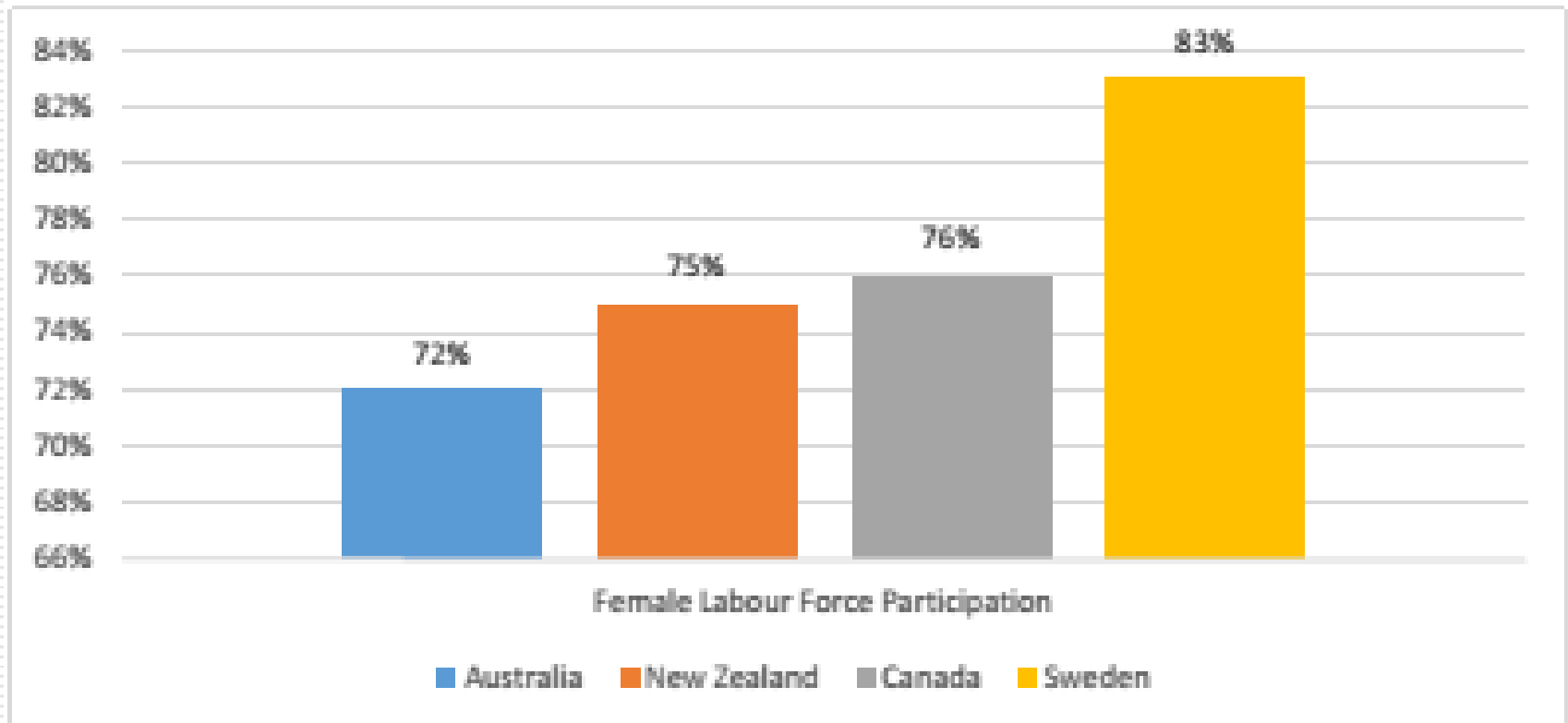


# Education and Participation: the case of Australia



# Statistical Benchmarking

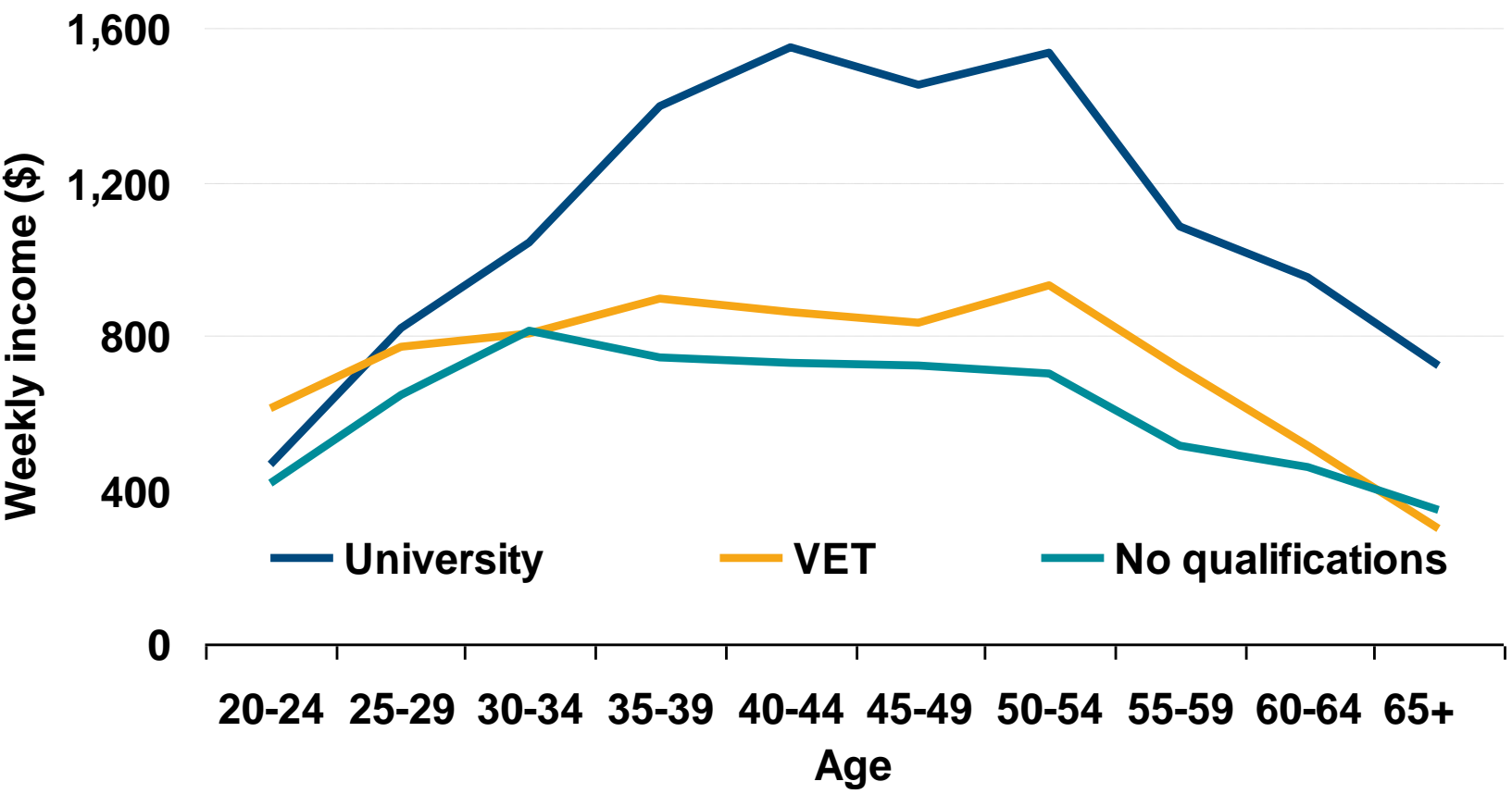
Figure 2.1: Female Labour Force Participation, 15-64, 2013



Source: OECD, Labour Force Statistics, 2014

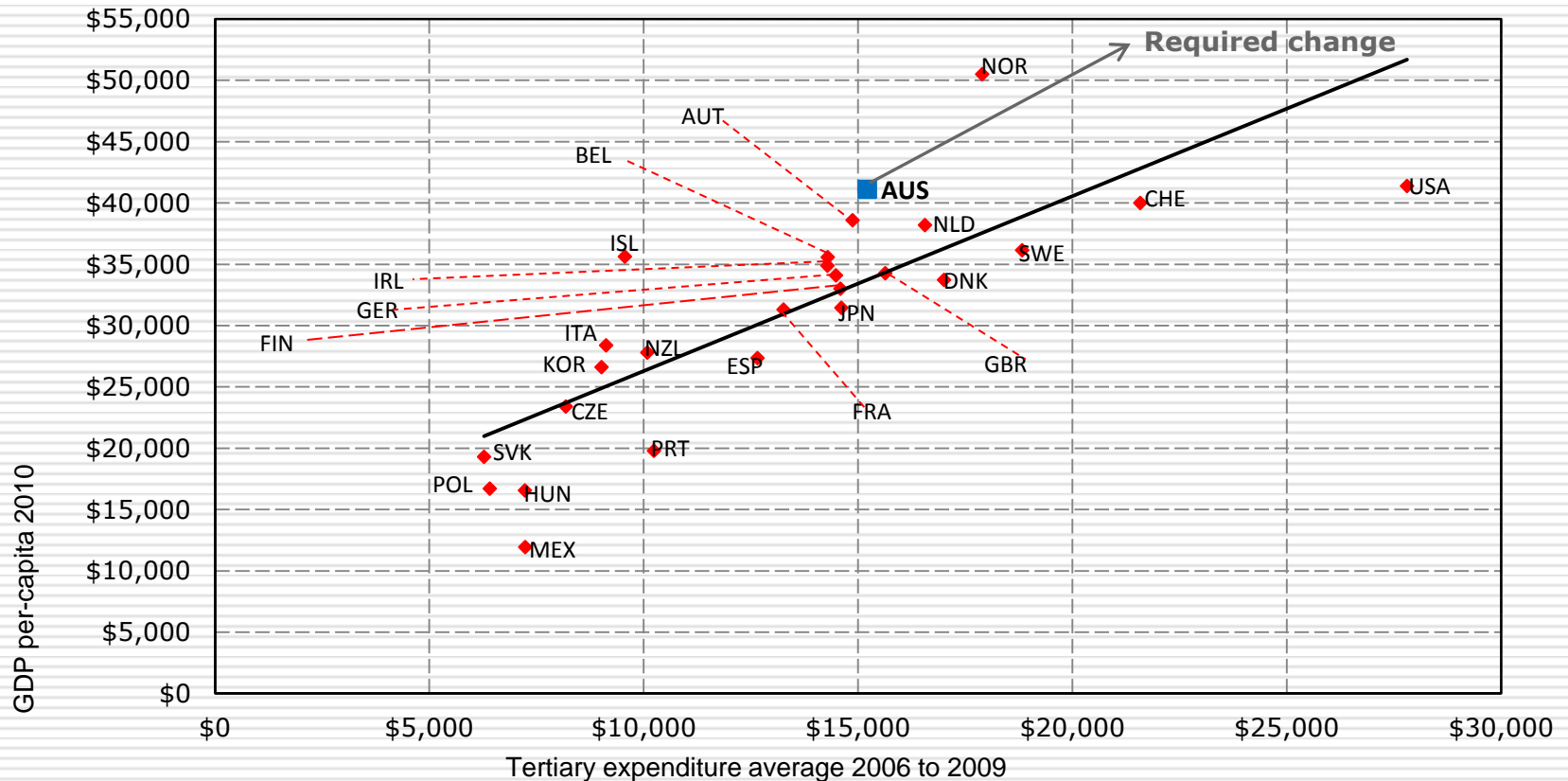


# Productivity: Education and Earnings



# 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

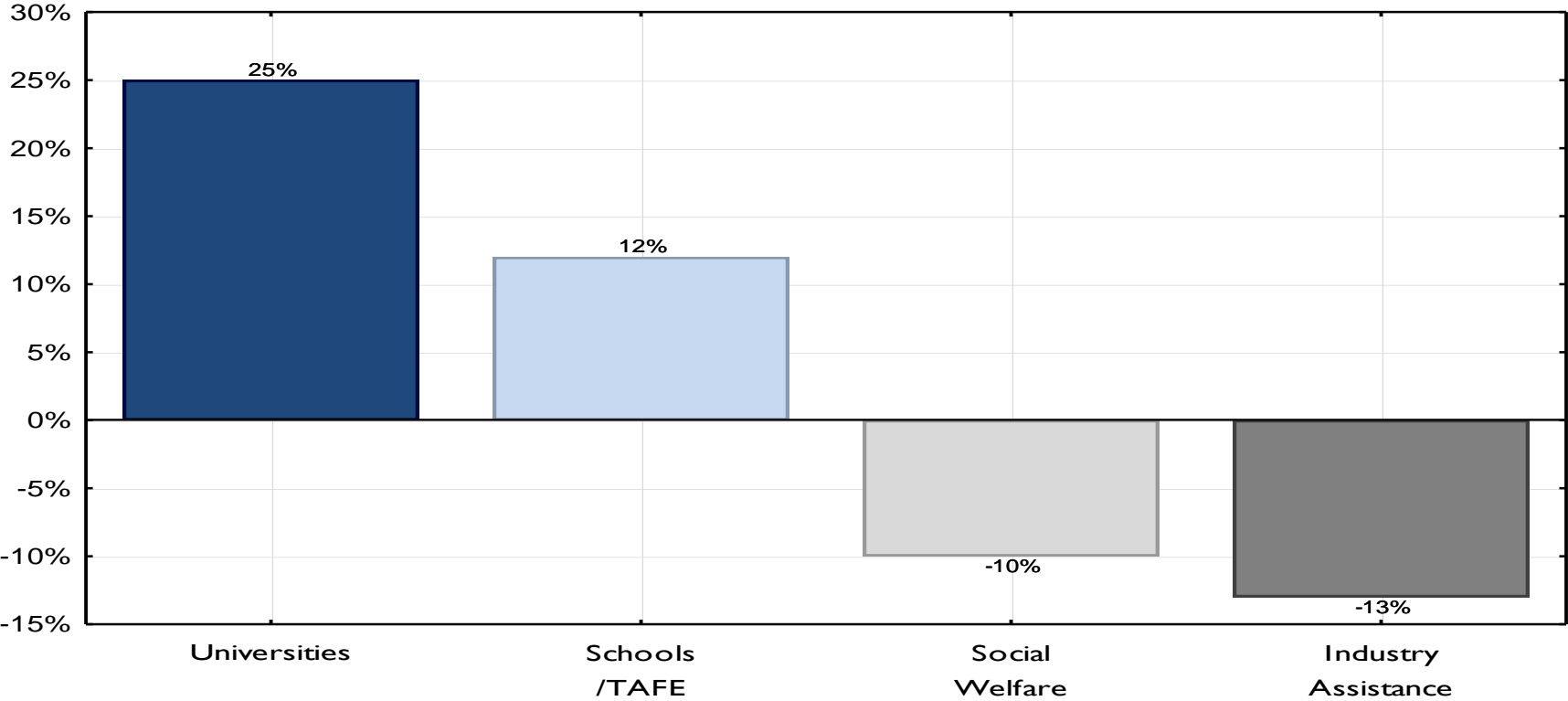
---

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	

---

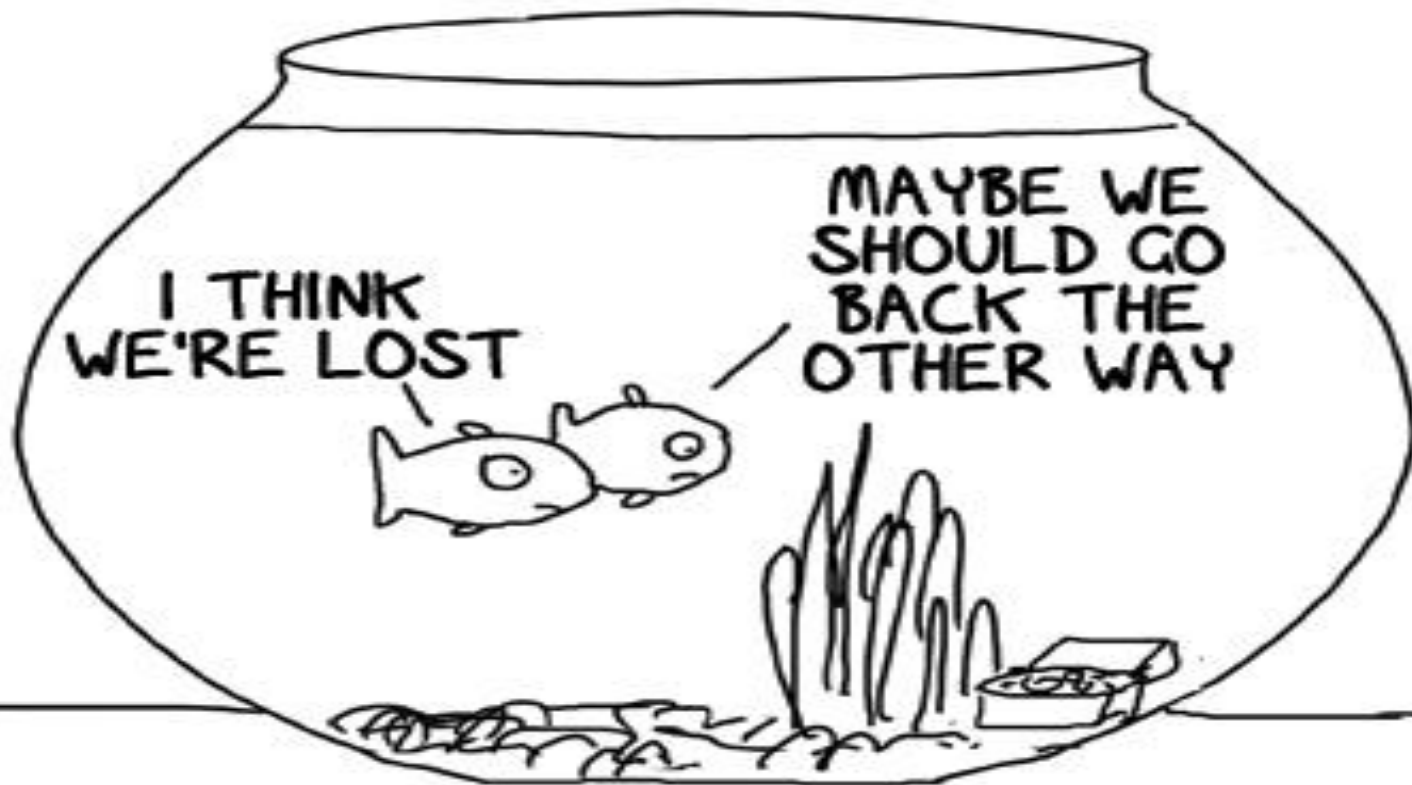
# Public Support: WTP Australia

Public Spending Preferences  
(% mean change)



# Policy Development

THINK OUTSIDE THE BOWL



# EXTEND ICL TO INNOVATION ?

---

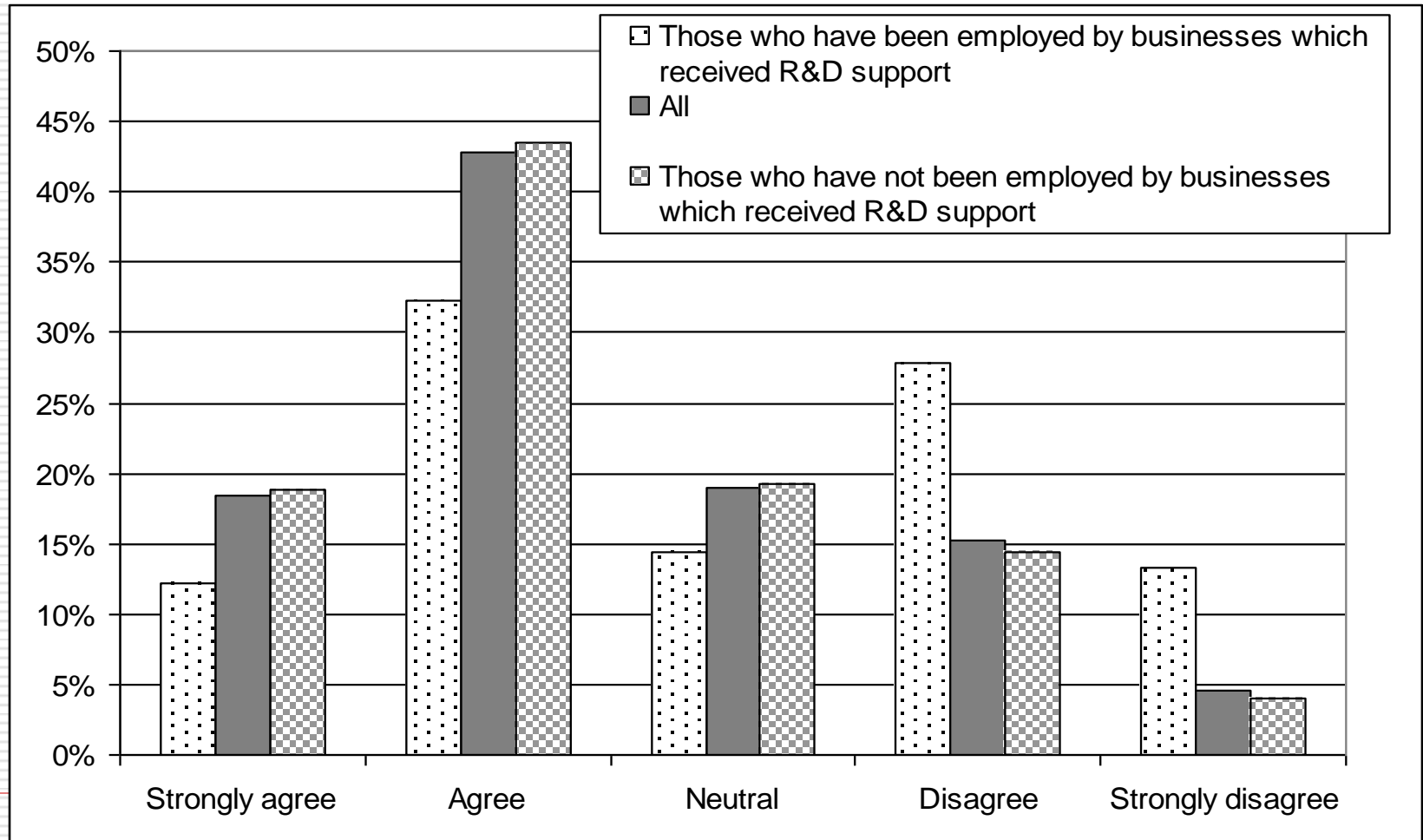
## **Private return to innovation**

- ❑ 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....

---

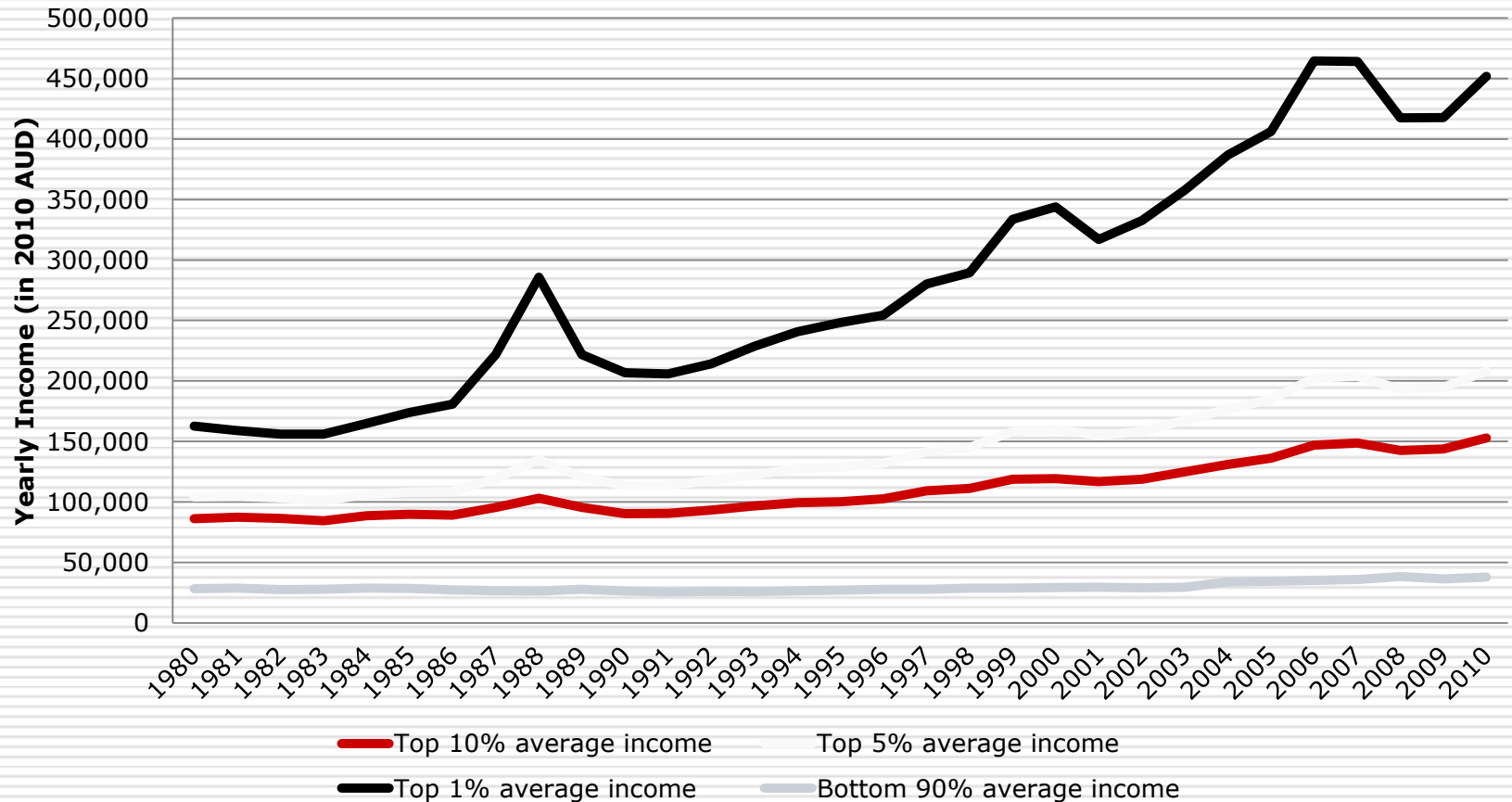
## TRIPLE BOTTOM LINE

- Economy
- Society
- Environment

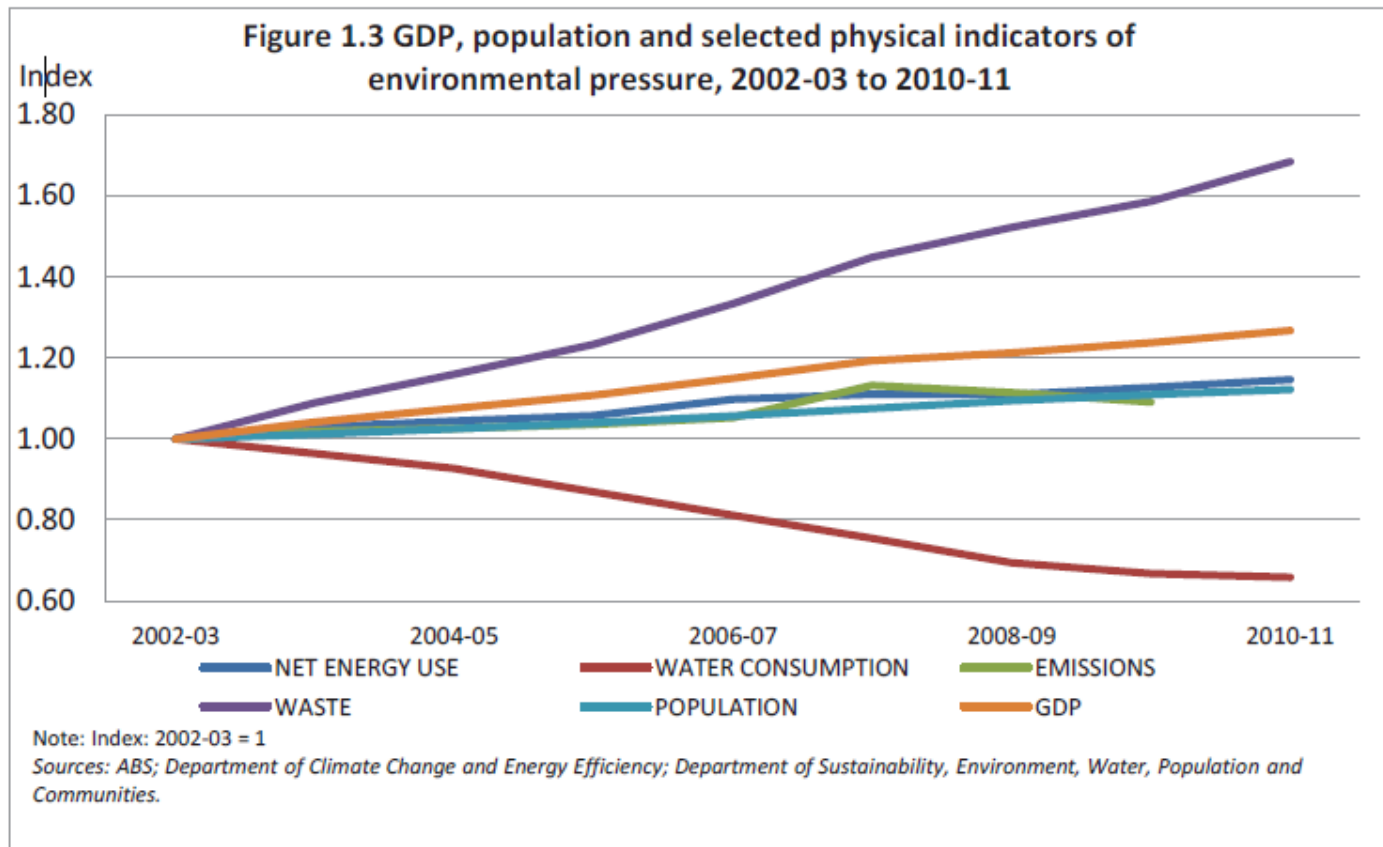
BUT HUMAN CAPITAL INVESTMENT IS  
POSITIVELY CORRELATED WITH ALL:  
WIN-WIN-WIN.



# Social Impact: Picketty Analysis



# Environmental Impact: Kuznets Analysis



# Follow Up:

---



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

[Glenn.Withers@anu.edu.au](mailto:Glenn.Withers@anu.edu.au)

+61 2 6125 4606

---