

# A MORE INCLUSIVE APPROACH TO PRODUCTIVITY GROWTH

## Submission to the Productivity Commission's Five-year Productivity Review

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Thank you for the opportunity to contribute to this Inquiry.

The work undertaken by the Productivity Commission (the Commission) is generally excellent. The Australian people are fortunate to have such a public body and professional staff researching and recommending public policy on a wide range of economic and social matters.

### Recommendations

That the Commission

1. Commence a discussion in the forthcoming Report about the possibility and desirability of indefinite productivity and economic growth, how Australia can move away from its addiction to consumerism, and options for new ways of living and managing the Australian economy under lower growth conditions.
2. Look beyond the recommendations of Interim Report No 4 *Managing the Climate Transition* to consider further the pending impacts of climate change on productivity, to evaluate whether the strategies currently proposed by Australian governments are likely to prove sufficient to achieve required productivity and growth, or whether further action is indicated.
3. Rather than preferencing private over public investment on the basis that this will maximise productivity, the Commission acknowledge the government's policy role as the primary determinant of total investment, focussing on the public good and the extent to which public and private investment can help achieve government and social objectives while providing returns to private investors.
4. Recommend renewed focus by governments on providing *universally fair access* for all young people through all developmental stages from pre-natal care through to tertiary education so that they may take their rightful place in Australian society, contributing to their full potential and to Australia's future productivity.

### We need to talk about Growth

Can increasing productivity and economic growth continue indefinitely on a finite planet?

Continuing maximum productivity increase appears to be the aim of Commission in undertaking this second Productivity Inquiry. The Foreword to the Commission's initial Productivity Inquiry Report *Shifting the Dial – 5 year Productivity Review* in 2017 (p7) states

.. the wellbeing of Australians is substantially and inextricably dependent on persistent growth in productivity ..

Nor is average productivity growth good enough. In the period between now and the next of these Reports in 2022, income growth in Australia is more likely to fall than rise over the medium term.

The offset to the factors behind this .. can only be higher productivity. Nothing else is capable of making a difference.

While a focus on productivity and productivity growth has lifted billions of people from poverty and maintains standards of living across the world, it is past time we looked to the future to consider the impact this focus on growth is having on our finite planet.

There is a large amount of literature available<sup>1</sup> that contests the need for economic growth to continue indefinitely for people to enjoy prosperous living. More of everything is not necessarily better – in many cases, it is clearly worse.

There are many reports and approaches indicating that the Earth is not capable of sustaining the increasing levels of production of goods and services currently occurring, *even without considering climate change*, without causing catastrophic impacts on standards of living for people and creatures around the world. *Earth Overshoot Day*<sup>2</sup> is one such approach, calling attention to the use of the Earth's resources more quickly than it is able to replace them.

In Australia and in other wealthy nations, consumerism and waste has reached extreme levels, reflected in a propensity to frequently replace motor vehicles, furniture, household appliances, clothing, frequent recreational travel etc. Products and services have long been designed to both foster and feed this consumer addiction. Productivity and economic growth are dependent upon excessive consumption and the “throwaway culture” continuing indefinitely. Kate Raworth has suggested

Reversing consumerism's financial and cultural dominance in public and private life is set to be one of the twenty-first century's most gripping psychological dramas<sup>3</sup>

Rather than seeking to maximise growth, a significant proportion of which may be socially and environmentally destructive, wouldn't it be preferable to seek lesser levels of growth if required to achieve more responsible growth, to challenge excessive consumption and waste, and promote better distribution of the benefits of growth?

It is time to revisit the *Australia's Future Tax System*<sup>4</sup> (Henry) Review, with a view to raising and distributing revenue from growth more equitably across the Australian population, to reduce inequality, raise education standards and provision, share our nation's wealth more fairly and improve productivity and growth by responsible means.

Will the Commission commence a discussion in its forthcoming Report on the desirability or otherwise of indefinite productivity and economic growth, how to move away from Australia's addiction to consumerism, together with options for new ways of living and managing the Australian economy under lower growth conditions?

Hopefully by the time of the Commission's next Productivity Inquiry in 2027, economic measures will be in place in Australia to support a prosperous economy, Australia's journey to zero carbon emissions, consistent with the Earth's capacity to replenish its finite resources.

### Everything is related to everything else

As mentioned, the terms of reference for the Inquiry are focussed upon measures to sustain and grow productivity and the Australian economy. Scarcely does the environment or the natural world get a mention, other than in its reference to the Covid-19 pandemic. The Commission is asked to focus its report on promoting “economic dynamism, entrepreneurship and appropriate risk-taking, and innovation and technological adoption”.

In his 2015 encyclical *Laudato Si' – On Care for our Common Home*<sup>5</sup> Pope Francis reminds us that everything is related to everything else. He says

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<sup>1</sup> For example, Nobel Laureates Abhijit Banerjee and Esther Duflo, *Good Economics for Hard Times*, 2019; Giorgios Kallis, *Degrowth (The Economy: Key Ideas)*, 2018; Kate Raworth *Doughnut Economics – Seven Ways to Think like a 21<sup>st</sup> century Economist*, Penguin, 2017.

<sup>2</sup> <https://www.overshootday.org/> accessed 18 October 2022

<sup>3</sup> Raworth, p281

<sup>4</sup> The Treasury, Australian Government. 2010. Australia's Future Tax System Review Final Report.

<sup>5</sup> Pope Francis. 2015. *Laudato Si': On Care for Our Common Home* [Encyclical].

Economic growth, for its part, tends to produce predictable reactions and a certain standardization with the aim of simplifying procedures and reducing costs. This suggests the need for an “economic ecology” capable of appealing to a broader vision of reality. The protection of the environment is in fact an integral part of the development process and cannot be considered in isolation from it. We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a more integral and integrating vision. (141)

In chapter 3 of Interim Report No. 4, *Managing the climate transition*, the Commission reviews the abatement and emission control strategies currently under discussion in Australia. It adopts the political trade-offs that have resulted from more than ten years of “climate wars” in this country, and supports these for implementation.

However, the scale and extent of the changes coming our way as a result of climate warming noted in the Report (p59) and in the recent *Australia: State of the Environment Report 2021* and international reports are alarming. In the light of these reports, should the Commission be looking deeper into the coming impacts of climate change, and assessing whether the strategies currently proposed are likely to be effective and sufficient to manage the impacts upon productivity and growth?

Do the current approaches used in considering productivity growth tend to regard the natural environment, including Covid-19 as exogenous factors to be taken into account after the event and to the extent that they impinge upon the central concerns of capital, labour and technology?

Do they give sufficient regard to the consumption and depletion of “free” goods such as air and water, the consumption of finite natural resources, reductions in quality of life, the destruction of creature habitats, debts accruing to future generations in the form of extinction of species, pollution of water tables and streams, plastics, discarded fishing nets, depletion of fish stocks, crop failures through droughts and floods, etc.?

As Pope Francis says “We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a more integral and integrating vision”.

## Public vs private investment

The Commission’s Interim Report No 4, p9 notes

As the economy approaches full employment, the opportunity cost associated with any public expenditure and the potential for crowding out will be heightened .. As such, governments will need to consider both where it is possible to scale back public funding and how public expenditure could be made more efficient.

The Commission prefers private investment over public expenditure which always needs to be scrutinised, on the premise that private investment will lead to greater productivity and therefore greater prosperity for all. This in turn seems to imply that the private sector and “the market” knows what is best for the economy, that prosperity is best measured in terms of physical or financial outputs, in things we own or do, in GDP growth, rather than in measures of quality of life.

Much private investment is socially and environmentally harmful, creating a greater burden upon governments (taxpayers) and the Earth itself to remediate the damage, where that is possible. Examples include environmentally contaminating production processes, proliferation of plastics for myriad uses from wrapping new cars to individual pieces of confectionery, production of poker machines to prey upon vulnerable people, manufacture of armaments for sale to kill people and destroy economies.

Much government or public expenditure, although it may show lesser rates of productivity growth, may be more beneficial for prosperity and social wellbeing than private investment. While public investment should certainly be scrutinised for efficacy and contribution to public wellbeing and productivity growth, private

investment too should be scrutinised or filtered by legislative controls to ensure social and environmental benefit, or at least to do no harm, as well as provide returns to investors.

While governments may not be equipped to “pick winners”, and the market fulfils an essential role in guiding investment, governments should set the framework for public and private investment, and ensure that the public good is best served in the investments that take place.

Rather than preferencing private over public investment on the basis that this will maximise productivity, the Commission should acknowledge government’s policy role as the primary determinant of total investment, focussing on the public good and the extent to which public and private investment can help achieve government and social objectives, while providing returns to private investors.

Invest in human capital from conception and in fair access to excellent education for every person

The earliest life experiences from birth, childcare and early and school education are vital in forming students and young adults capable of contributing to the best of their innate potential in work and society.

About one-fifth to one-third of young people in Australia are behind or miss out in acquiring lifelong learning skills and fail to master the knowledge and skills needed to become creative, confident individuals and active, informed citizens, according to “Educational opportunity in Australia: Who succeeds and who misses out?”<sup>6</sup>.

The report notes that young people from poorer families, those living in rural and remote parts of Australia, and Indigenous Australians are notably among those left behind, and that disparities and disadvantage increase as young people go through school and into adulthood. Large numbers of young Australians are failing to achieve their educational, social and workforce potential, as Australia misses out on higher contributions to productivity that would be possible with a more educated and skilled workforce.

I request that the Commission’s forthcoming Report recommend renewed focus by governments on providing *universally fair access* for all young people through all developmental stages from pre-natal care through to tertiary education so that they may take their rightful place in Australian society, contributing to their full potential and to Australia’s future productivity.

Submission: Dr Jenny Gordon “Investing in long term productivity growth”

I commend Dr Gordon’s submission to the Inquiry “Investing in long term productivity growth”. It is an excellent summary of critical factors impinging on Australia’s productivity, including the need to release potential dynamic efficiencies trapped in social inequality and poor educational outcomes, and take adequate account of the environmental input costs and impacts associated with much production. Dr Gordon proposes several important measures to respond to these issues, including measuring and accounting for the use of natural capital.

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<sup>6</sup> Lamb, S., Huo, S, Walstab, A., Wade, A., Maire, Q., Doecke, E., Jackson, J., and Endekov, Z., “Educational opportunity in Australia 2020: Who succeeds and who misses out? 2020, Victoria University Centre for International Research on Education Systems.