

Productivity Inquiry – Productivity Commission

Summary

This submission argues:

- The terms of reference are fundamentally flawed due to the significant political, economic, social and environmental contextual changes that were either not mentioned or have occurred since issue.
- The six Interim Reports together understate the natural environment dimension at a time when climate change and the declining state of Australia’s natural environment are in the short term, crises and in the longer term, existential threats.
- The Commission fails to acknowledge that the strongest drivers of both climate change and the devastation of Australia’s natural environment are the twin growths of GDP per capita and Population. Population and GDP are fundamental to productivity.
- Given the urgency and scale of the economic transition required just to mitigate climate change, Australia needs all its agencies to act cohesively in accordance with the evidence and in the long-term interests of all Australians. The question is: does the Commission want to be part of the solution or part of the problem?
- There is a leadership opportunity for the Productivity Commission. The enabling legislation provides the Commission with the freedom to initiate research and produce reports. Its definition of “productivity” is not troubled in an economy where production levels are constant, population is stable or even if both are in ‘de-growth’ mode. The Commission will need to develop its capabilities in environmental and ecological economics in order to advise on the productivity implications of the range of choices available to Government as it attempts to navigate the transformation to a net-zero economy and arrests the destruction of our natural environment.
- There are significant opportunities and challenges on this path. As noted by the Commission, the major political parties have rejected the economic advice on the most efficient and dare I say it ‘productive’ way to transition to a zero-emissions economy i.e. to have a price on carbon. There are over 100 fossil fuel projects on the table when the science says none can start. There is current consultation on “Safeguard Mechanism Reform” (industry emissions reduction) where the various stakeholders are having their say (rent-seeking?). The Marinus Link project has been financed yet there are those that say it doesn’t make economic sense. The Jobs Summit was all about population and GDP growth, with rent-seekers and free-riders the overwhelming the majority of attendees. There are ample more examples now and to come.
- The Commission should engage with the productivity implications of high population growth, taking a wider perspective than the narrow analysis offered via Treasury’s FIONA model. As mentioned in the first interim report *The Key to Prosperity* (at 1.4 Productivity: what lies beyond the aggregates?) there is an acknowledged need to account for the damage to the natural environment and climate, in the broader context of well-being. The Commission should also commence research into and analysis of the costs of rent-seeking and free-riding incurred due to those that advocate for high population growth and unlimited GDP expansion without regard to the consequences.
- This draft Report is not the document Australia needs to guide productivity at this time.
- The challenges are great. The alternative is a Productivity Commission grasping for relevance to the well-being of all Australians in an economy dominated by services and large-scale mining sectors neither of which are amenable to significant productivity improvement, despite the best efforts of this inquiry.

Supporting evidence with references follow.

Supporting evidence

The contexts for the 5-year inquiry have changed

- The Government has changed following the May election. The author of the terms of reference is now an employee of Goldman Sachs. <https://www.abc.net.au/news/2022-07-21/former-treasurer-josh-frydenberg-joins-goldman-sachs/101257296>
- The economy is in dramatically different circumstances compared to the unrealistic rosy picture painted by the then government prior to the election. Take your pick: Inflation, public and private debt, supply shortages, skill shortages, pandemic, record floods, geopolitical instability, China's economic and pandemic woes, war in Europe, AUD exchange rate, predictions of imminent global recession, the East Coast gas cartel ...
- The recently legislated Climate Change Act 2022 has set formal targets in line with amended Paris Agreement commitments. <https://www.legislation.gov.au/Details/C2022A00037>
- Treasury has been commissioned to include the impact on well-being of the Australian people in the October 2022 budget. In the words of the Treasurer:
"One of my personal obsessions is that we need to get better at measuring what matters. In addition to the really important economic data that we already collect – in addition to that, not instead of that – we should be measuring progress in this country more effectively, so that we can have a proper national conversation about what really matters to us and what matters in an intergenerational sense as well. What I've committed to is a program of measuring what matters. There'll be elements of a Wellbeing Budget. There'll be a better, more effective, less political, Intergenerational Report. And there'll be other steps that I want to take as well. What I'm hoping to do in the October budget is to get the ball rolling on that, so that we can have proper consultation with a lot of people who are interested in this. When I first floated it a couple of years ago that we intended to go down this path, I was overwhelmed with interest from Australia and around the world - people who are very interested in getting this right. I want to get it right as well. I'll say something around October about it and then I'll hope to finalise something based on consultation with people during the course of this term." <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/transcripts/interview-patricia-karvelas-rn-breakfast-abc-0>
- On 28 July Australia voted for the recent successful UN General Assembly motion that inter alia "Recognizes the right to a clean, healthy and sustainable environment as a human right" and "Calls upon States, international organizations, business enterprises and other relevant stakeholders to adopt policies, to enhance international cooperation, strengthen capacity-building and continue to share good practices in order to scale up efforts to ensure a clean, healthy and sustainable environment for all." This is important. <https://digitallibrary.un.org/record/3982659?ln=en>
- The Australia State of the Environment 2021 Report, sat on by the previous government, has been released. It confirms the roles of population and GDP growths as the strongest drivers of the shocking degradation. <https://soe.dcceew.gov.au/> [Good luck with this – the format seems designed to make an overview analysis as difficult as possible.]
- *The Productivity Commission Act 1998* provides considerable independence. The Minister could change the terms of reference even at this late stage. <https://www.legislation.gov.au/Details/C2018C00120>
- What is Productivity? This explainer needs a "well-being" makeover. Examples of 'the price of household goods then and now' include cigarettes and rent (3 bedroom house). Is there any measure of rent-seeking or free-riding or voluntary work or caring or the black economy? Any measure of the quality of work? We have seen significant transfer of risk from the employer to the employee in recent years (the gig economy, labour-hire firms, etc). How is this shift in risk accounted for? <https://www.pc.gov.au/what-is-productivity>

Climate and the natural environment – much worse than generally portrayed

- “Globally, Gross Domestic Product (GDP) per capita and population growth remained the strongest drivers of CO2 emissions from fossil fuel combustion in the last decade (high confidence). Trends since 1990 continued in the years 2010 to 2019 with GDP per capita and population growth increasing emissions by 2.3% and 1.2% yr-1, respectively. This growth outpaced the reduction in the use of energy per unit of GDP (-2% yr-1, globally) as well as improvements in the carbon intensity of energy (-0.3% yr-1). {2.4.1, Figure 2.19}” IPCC Working Group III contribution to the Sixth Assessment Report Technical Summary (pTS-12) https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_TS.pdf
- Note the IPCC first identified these drivers in 1990. Their confidence in the finding became ‘unequivocal’ in 2007. This fundamental finding, evidence and common-sense based, remains buried in the full report, excised from the AR6 *Summary for Policymakers* during the Government-editing process. Hiding the finding doesn’t make it go away. <https://overpopulation-project.com/population-in-the-ipccs-new-mitigation-report/>
- The Centre for Population agency you have when you don’t have a formal population policy. *The 2022-23 Budget: Australia’s Future Population* document (previous government) presents future growth as a projection not as a result of deliberate policy choices. The graph on page one shows a slightly declining annual percentage growth increase, masking the exponential nature of the absolute growth. <https://population.gov.au/> and https://population.gov.au/sites/population.gov.au/files/2022-04/2022-23_budget_overview.pdf
- The IPCC modelling of risk is contested by world-renowned economists. Nicholas Stern, Joseph Stiglitz and Charlotte Taylor “argue that, despite their dominance in the economics literature and influence in public discussion and policymaking, the methodology employed by Integrated Assessment Models (IAMs) rests on flawed foundations, which become particularly relevant in relation to the realities of the immense risks and challenges of climate change, and the radical changes in our economies that a sound and effective response require. We identify a set of critical methodological problems with the IAMs which limit their usefulness and discuss the analytic foundations of an alternative approach that is more capable of providing insights into how best to manage the transition to net-zero emissions. <https://www.nber.org/papers/w28472> The Economics of Immense Risk, Urgent Action and Radical Change: Towards New Approaches to the Economics of Climate Change - February 2021 Revised February 2022.
- Australia’s recently legislated targets are not supported as adequate by the science, particularly the carbon budget target which is only legislated to 2030. Alan Kohler recently compiled the shortfalls in a short digestible ABC News video *Is Australia on track to achieve the greenhouse gas emissions targets?* In simple terms the carbon budget for Australia, supposedly to last until 2050, is used up by the mid 2030s. <https://www.youtube.com/watch?v=TWZOPE-brUM> The Guardian newspaper provides more detail at <https://www.theguardian.com/environment/datablog/ng-interactive/2022/oct/03/tracking-australias-progress-on-the-climate-crisis-and-the-consequences-of-global-heating> Macrobusiness add the further complicator of the projected 50% population increase by 2060: <https://www.macrobusiness.com.au/2022/10/explainer-on-australias-emissions-reduction-targets/>
- The Climate Transparency Report 2022 details Australia’s poor G20 comparative performance. <https://www.climate-transparency.org/g20-climate-performance/g20report2022#1531904263713-04b62b8d-e708> There is an Australia country profile. Also see <https://reneweconomy.com.au/fossil-fuelled-australias-climate-policies-still-dont-stack-up-against-g20-says-report/>

- There is an emerging body of credible detailed research (Geological Survey of Finland) that suggests the transition of the global economy to net zero emissions will not be physically possible.
From the abstract:
"It is apparent that the goal of industrial scale transition away from fossil fuels into non-fossil fuel systems is a much larger task than current thinking allows for. To achieve this objective, among other things, an unprecedented demand for minerals will be required. Most minerals required for the renewable energy transition have not been mined in bulk quantities before. Many of the technology metals already have primary resource mining supply risks. At its foundation, the current industrial ecosystem was and still is based around the consumption of natural resources, which were considered to be infinite. The very idea that there might be system based limits to the global extraction of resources is considered foolish by the current economic market."
<https://www.researchgate.net/publication/351712079> The Mining of Minerals and the Limits to Growth
- Marinus Link cost/benefit analysis <https://reneweconomy.com.au/does-rewiring-the-nations-concessional-finance-really-change-the-case-for-marinus/>

Population and GDP per capita

- GDP per capita rose 2.7% for June 21 to June 22 (during the pandemic), suggesting migration may not be the economic panacea of those who promote high population growth.
<https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release>
- My understanding is that Treasury uses the FIONA model to calculate "The Lifetime Fiscal Impact of the Australian Permanent Migration Program" and that the modelling is widely used to justify the benefits of high population growth. The Executive Summary of the December 2021 Treasury Paper describing the model notes: "This estimate captures tax revenues and government expenses incurred by Commonwealth, State and Territory Governments that are directly attributable to migrants." and "However, it [fiscal impact] is only one, partial metric. Australia's migration program exists for a variety of reasons and results in many benefits and costs that go beyond fiscal outcomes. Accordingly, the results from this paper should not be used in isolation to evaluate the migration program without consideration of these broader social, economic, and environmental outcomes." This leaves a lot of uncovered territory. Are the broader social, economic and environmental outcomes considered? <https://treasury.gov.au/publication/p2021-220773>
- A recent survey of 50 "top Australian economists polled by the Economic Society of Australia asked "Which of these areas likely to be discussed at the summit provide the most fruitful opportunities for changes in government policy to deliver better outcomes for Australians? (Choose up to 3)" 65% of respondents nominated 'Education and Skills', 45% Broader reforms to promote productivity, and 37% Migration policy. Respondent Sue Richardson commented on Migration policy:
"In my view, Australia has relied much too heavily on migration as a solution to any labour supply problem. It always seems to be a cheap and easy fix, *but there is no evidence that I am aware of that migration increases productivity or per capita GDP. It does increase aggregate GDP, but that is just because the population is bigger.* [my italics] It also enables employers and our skills development system to avoid a close examination of why we do not generate the skills that we need, and what needs to be done to ensure that we do. I am also of the view that migration is not just about providing workers for employers. It has a much greater impact on our society than that. I think that judicious migration is very beneficial to the economic and social life of Australia. But it should not be used as an easy short term fix to labour/skill

shortages.” Is there any evidence that migration increases productivity or per capita GDP? The IPCC and the State of the Environment Reports have had evidence (unequivocal since 2007) that increased population and GDP per capita are driving climate change and destruction of the environment .

<https://theconversation.com/is-education-or-immigration-the-answer-to-our-skills-shortage-we-asked-50-economists-189388>

- “58% of human infectious diseases can be worsened by climate change – 77,000 studies were scoured to map the pathways” <https://arstechnica.com/science/2022/08/58-of-human-infectious-diseases-can-be-worsened-by-climate-change/> Are the health consequences considered in migration impact modelling? Where is the Duty of Care?
- A measured contribution to the Jobs Summit – “How to get to full employment”: Ross Garnaut’s address to the jobs summit <https://theconversation.com/how-to-get-to-full-employment-ross-garnauts-address-to-the-jobs-summit-189783>
- “Don't expect great productivity if we give business an easy ride” Ross Gittins article around Job Summit time. Mainly targets monopolies and oligopolies. <http://www.rossgittins.com/2022/08/dont-expect-great-productivity-if-we.html>
- “Better harnessing Australia’s talent: five facts for the Summit” e61 Institute submission to the Jobs Summit. Extract:
“Fact 2 Market dynamism has declined and remains low – Fact 2 is a series of indicators that together suggest this slowdown is partly due to rising barriers to the emergence of productive firms and the efficient matching of workers to these firms. Firms are entering and exiting less frequently; firms are older than in the past; labour and product markets are more concentrated; market leaders are more likely to remain leaders; and fewer workers are switching jobs. Together, these trends are known as ‘declining market dynamism’ and encompass the various ways that entrepreneurs and workers have become less likely to experiment, such as by starting high-growth firms and moving to better matched and higher paying jobs. Declining dynamism can lead to a greater share of economic opportunities and wealth being concentrated among market leaders, with adverse consequences for productivity growth.”
Creative destruction or corporate welfare to failing business models unable to cope with the times?
<https://www.e61.in/jobsandskillssummit>

END

Thank you for the opportunity to comment.