

# **5-year Productivity Inquiry: Response to Interim report**

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Given the very limited time frame for responses, it is not possible to offer a response to the detailed recommendations in the Interim Report. This response is, therefore, focused on implicit and explicit assumptions which deserve closer scrutiny. Some general recommendations are derived, and a number of supporting documents are attached.

### **Interim Report 1: The Key to Prosperity**

Interim Report 1, *The Key to Prosperity* makes a strong case for the benefits of productivity growth. However, as noted in Interim Report 6, many (perhaps most) workers respond with hostility to the word “productivity”. This can be explained primarily by the association between micro-economic reform and increases in working hours (particularly unpaid hours) and work intensity.

Unfortunately, the discussion of leisure time in the report is seriously misleading and fails to take appropriate account of gender divisions in working patterns.

\* Figure 1.1b shows the change in GDP per capita as the combined effect of labour productivity and labour utilisation. The figure would be much easier to interpret if a log scale were used.

\* However, eyeballing the graph shows that between 1950 and the 1980s, hours of market work per person declined, as would be expected if some of the benefits of improved productivity were taken in the form of greater leisure. No further gains have been observed since then. In fact, the ratio of the labour productivity and GDP per capita indexes has decreased.

\* That is, far from taking some of the benefits of increased productivity in the form of more leisure, as was the pattern until the 1980s, total hours of work have increased

\* This is largely due to increased female participation in the labour force. However, because women are almost twice as likely to work part-time as men, increased labour force participation by women produces a decline in average hours per worker, even though average hours worked per person increases.

\* For these reasons Figure 1.7 is seriously misleading. As is shown in the table, there has been no significant change in standard full-time working hours since the introduction of the 38 hour week in 1988. As observed in footnote 7, changes in average hours since then have been driven by changes in the gender balance of the workforce.

\* If the analysis were disaggregated by gender, this point would be clear.

\* The failure of productivity growth to generate increases in leisure reflects the orientation of micro-economic reform in general, and labour market reform in particular, to increasing output, often at the expense of increased working hours and work intensity.

**Recommendation (minor): Time series characterised by exponential growth rates should be presented in log rather than linear form**

**Recommendation (major): Analysis of work and leisure should be disaggregated by gender**

**Attachment:** Quiggin, J. 2022 There's never been a better time for Australia to embrace the 4-day week, *The Conversation*

### **Interim Report 4: A competitive, dynamic and sustainable future**

The claim that the equity risk premium observed in private capital markets is a socially optimal allowance for risk is inconsistent with decades of research on the equity risk premium, showing that the premium cannot be accounted for in this way.

Correspondingly, the claim

... the market will offer lower rates of borrowing to government business activities that enjoy explicit government guarantees. The market may also offer lower rates of borrowing to government businesses without an explicit guarantee because it considers that government ownership itself reduces the risk of default (i.e. that there is an implicit government guarantee for such business activities). You may therefore be charged a rate of interest that is less than that paid by your competitors purely as a consequence of government ownership. (Commonwealth of Australia 2004, p. 22)

is not supported by any empirical evidence, and is inconsistent with Australian experience. It is extremely uncommon for government business enterprises to exercise a public guarantee against default. By contrast, governments have regularly rescued failing private enterprises.

The only major case of a government business enterprise requiring rescue in recent times was the failure of the state banks of South Australia and Victoria during the financial crisis of 1991. However, this is a special case. Unlike state banks, and state-regulated building societies, private banks had access to the Reserve Bank of Australia as 'lender of last resort'. The implicit guarantee of the RBA was made explicit during the 2007-08 financial crisis.

**Recommendation:** The higher rate of return demanded by private equity investors reflects failures in private capital markets, and should not be applied to public enterprises.

**Attachment:** Grant, S. and Quiggin, J. Australian Economic Papers 2006 The risk premium for equity- implications for resource allocation, welfare and policy\*

## **Interim Report 5: From learning to growth**

The interim report contains numerous references to competition in the provision of education and recommends a voucher scheme as a way of promoting competition. However, there is no analysis of the effects of competition, with the exception of a brief quotation (p 81)

... students, by definition, cannot know in advance what they are going to learn, or make an informed judgement about what they are learning. They have to rely, to a substantial extent, on their teachers to select the right topics of study and to teach them appropriately ... Students may judge, in retrospect, that particular teachers, courses or institutions were good or bad, but in either case they are unlikely to return, so that there is no direct market return to high quality performance. The result is that education does not rely on market competition to any significant extent to sort good teachers and institutions from bad ones.

Being the author of the quoted passage, I naturally endorse it. But the recommendations appear to take no account of this analysis, or of the disastrous history of competition in Australian education, most notably, the VET FEE-HELP system.

The Interim Report does not raise major points that have not been the subject of previous discussion of this topic. Given the time constraints for a response, I have therefore attached a number of previous submissions to inquiries into this and related topics.

### ***Attachments***

#### *Post-School Education in Australia: The Case against Deregulation*

Submission to: Senate Education and Employment Legislation Committee inquiry into the Higher Education and Research Reform Amendment Bill 2014

#### *The failure of for-profit competition in the provision of human services*

Submission to Productivity Commission inquiry into introducing competition and informed user choice into human services 2016

#### *The case for a unified national post-school education system*

Submission to Inquiry into the Education and Other Legislation Amendment (VET Student Loan DEBT Separation) Bill 2018

**Recommendation: The report should recognise that for-profit competition in the provision of human services such as education is not, in general, beneficial.**

## **Interim Report 6: A more productive labour market**

An important positive feature of Interim Report 6 is the observation that workers are rightly suspicious of the term ‘productivity’, and that a clearer definition of this term is required if real progress is to be made. As the report notes:

In making any changes, it may be helpful to better explain the meaning of the word ‘productivity’, which is currently undefined in the Fair Work Act (getting no mention in the explanation of terms in s. 12 of the Act). There has been a tendency for employer groups to suggest that increases in hours worked or some other reduction in conditions are productivity improvements, which is not true (PC 2015b, pp. 790–792). This understandably may make employees and their representatives sceptical of clauses intended to improve productivity. Clarifying what is meant by productivity could help pave the way for more positive attitudes to its relevance for enterprise bargaining, while assisting the decision-making of the Fair Work Commission.

However, much of the discussion of BOOT requirements, in the report and elsewhere, seems to reflect assumptions that adverse changes of the kind sought by employers should not be restricted by requirements such as BOOT.

**Recommendation: An economically sound definition of productivity, taking account of costs to employees of changes in work practices, should be included in the Report.**

Unfortunately, the Interim Report continues a long-standing practice of using the terms ‘rigidity’ and ‘flexibility’ with the implicit assumption that rigidity is bad and flexibility is good. In reality, flexibility is, to a large extent, a zero-sum good. Management flexibility is maximised if workers can be called in, and sent home, as required (in the UK context, ‘zero hours contracts’), dismissed without procedural restrictions and debarred from going to work for competitors (non-compete clauses). Flexibility for workers is maximised if they control their own hours, can refuse changes in work organisation and maintain job security, while being free to quit at short notice.

**Recommendation: It would be better to focus on ‘mutually beneficial flexibility’, and to avoid endorsing changes that enhance managerial flexibility at the expense of workers.**

The discussion in the Report implicitly assumes that changes in labour market regulation and bargaining practices since the 1980s have been for the better. Aggregate outcomes (relatively weak productivity growth and a declining labour share) do not support this assumption. Previous claims, such as the emergence of a ‘productivity miracle’ due to micro-economic reform in the 1990s have been effectively abandoned, but the assumption that extending the 1990s package of reforms will enhance productivity remains unexamined

**Recommendation: A more careful reassessment of the successes and failures of Past Reports is needed**

The discussion of migration focused entirely on economic benefits to employers and skill-complementary workers. But any expansion of skilled migration is likely to come at the expense of family reunion and refugee intakes which yield large benefits to migrants, their family members and to Australia's standing as a member of the global community

**Recommendation: The Report should not take a position on the size of the immigration intake and should focus on the composition of the skilled migrant intake.**

Attachment: Quiggin, J. *Australian Bulletin of Labour* 2006 Stories about productivity