The economics and the politics of productivity

Chris Richardson
13 December 2016
The big picture: World income shares
China is only part way through a tricky transition.

Investment spending as a share of 170 different economies.
Real living standards per head have stalled

$25,000
$30,000
$35,000
$40,000
$45,000
$50,000
$55,000
$60,000

Interest rates are a long way from ‘home’

Yield on safe US 10-year bonds

Great Depression
Post-WWI inflation
Civil War
Great Inflation
WWII
July 6, 2016: 1.37%

Data: Global Financial Data
And ageing is an issue

The participation rate
So Australia’s need for reform has risen

• **We can’t simply slipstream China**, and hope that prosperity will once again drop into our lap.

• **We can’t cut interest rates further**, and use house prices as a prop to prosperity.

• **And nor will demographics help to turn the corner for us.** In fact they’ll work the other way.
But our ability to reform has fallen

Yet although the demand for reform has risen, the ‘supply’ of it coming out of our political processes has fallen:

• **That’s no coincidence – when the pie is shrinking, then the task of the politicians is harder.** The siren song of the populists falls on more fertile ground.

• **Besides, we’ve already picked a bunch of the low hanging fruit** – you can only float the dollar once.

• **Worse still, the growing competition in the market for votes has rained on the productivity parade** – the behavior of both sides while in Opposition has worsened. The result is that it is getting easier to become Prime Minister, but harder to do anything once you’ve done so.
I’m looking at the man in the mirror: I’m hoping he will change his ways

So the politics of productivity have become diabolical. And that’s a structural shift. I don’t think a recession would shake Australia out of complacency and into action. So what can we economists do?

• **We can accentuate the positive:** we agree on lots, and yet we tend to concentrate on our disagreements (and the media tends to report those disagreements rather than our areas of broad agreement).

• **We can be Bernie, not John:** and accept partial progress.

• **We can help to hold Oppositions (of all political stripes) to the same standard that we do Governments.** Any given reform is just three banner headlines away from being buried. Let’s help avoid them.