



Productivity reform: the next frontier for shared prosperity in NSW

In 2009, a column was submitted to the Sydney Morning Herald on the state of NSW.

It read:

“[NSW is] leading the country in the wrong direction...The unemployment rate is higher than the national average, [and] our projected economic growth is the lowest of all mainland states...”

The author of that column – Stephen Cartwright.

A lot has changed since then, especially after 7 years of hard work by our government to turn things around.

I am proud to say that on every economic measure, NSW is today performing strongly.

January’s CommSec State of the States report put us solidly out in front as the nation’s leading economy.

Growth is strong, construction work booming and unemployment the lowest in the nation.

This is not to mention our strong budget surplus, negative net debt and triple A credit rating.

I want to stress here our economic progress is only good because it also enables our social progress.

Economic success is only a means to achieve our real goal – to make NSW the best place to live, work, run a business and raise a family.

Infrastructure is driving the recovery

Our bold vision to rebuild NSW has been the driving force behind this dramatic turnaround.

To construct the rail, the roads, the schools and hospitals that had been neglected for years.

Right now we have a record infrastructure program – \$80 billion over four years.

It’s a massive effort, and it’s laying the foundations for the whole state to grow.

It’s also forecast to add about half a percentage point to NSW growth in each of the next two years.

And because of our asset recycling strategy, we are making that vision a reality without saddling the state with debt and deficit.

Challenges: future growth and wages

This massive building program is a big part of the reason businesses are choosing NSW to invest.

It's why Commsec found NSW was the only state with business spending levels above the decade-average – up by almost 6 per cent.

This is positive for our state and positive for our future.

But as Assistant Reserve Bank Governor Luci Ellis recently pointed out – an infrastructure boom can't last forever.

That's why we need to be ready for what's next – and meet those challenges head on.

Challenges like automation, the sharing economy and a growing knowledge services sector which are all disrupting the status quo.

At a time when data and technology are transforming the world of work and business, our economy must be prepared to make the most of what the future offers.

Our ageing population poses another challenge.

In 1976, there were seven workers for every retired person.

Today that figure has shrunk to 4.

By 2056, it will be just 2.4 people of working age supporting each person over 65.

This will have significant consequences for maintaining our standards of living.

Another stubborn challenge is wage growth.

Even though hundreds of thousands of jobs have been created since 2015 and the labour market keeps tightening, wage growth is still slower than we'd like in NSW.

That's no different from the rest of Australia, and most other advanced economies around the world.

Workers are still achieving moderate gains, thanks to lower inflation – but like any good Liberal, I'd like to see wages higher and taxes lower.

I should point out in the US, wage growth has now increased to 3% – and certainly some of that can be attributed to the cuts in the corporate tax rate, which has been passed on to workers.

Another challenge is ensuring that no one is left behind.

While it's true that our government has worked hard to do our bit to keep the budget under control and the economy ticking over, there are still families out there struggling with the rising cost of living.

Our job is to show that fairness and opportunity are not mutually exclusive – but two sides of the same coin.

So while our current performance is strong, our focus now is on securing the long-term fortunes of our economy and making sure that everyone enjoys the benefits of our continued growth.

What's next? Productivity reform

When you look at these challenges, there's a common factor we must tackle to deliver lasting prosperity in NSW – and that is productivity.

As US economist Paul Krugman has said, “productivity isn't everything but, in the long run, it is **almost** everything.”

Growing productivity means getting more value from the work we do and the capital investments we make.

It is fundamental to growing our economy and improving living standards.

It can lead to higher wages, more sustainable businesses and reduce cost of living pressures.

And it matters at a very real level for every single one of us.

The bad news is for the last decade – productivity growth has stalled – both around the globe, and in Australia too.

And the Productivity Commission's recent five-year review tells us that if we do nothing, growth is likely to fall over the medium term.

The reasons are complex, and economists are divided on the causes.

New technology, changes in the labour market, the participation rate, and the quality and quantity of investment all play a part.

But so too does government policy – that's something we have seen very clearly here in Australia.

The economic reforms of the Hawke and Keating Governments were like rocket fuel to Australia's productivity engine.

Hawke and Keating smashed tariffs, ended centralised wage fixing, and privatised the banks and Qantas.

They were such major reforms and they were so long overdue that the gains were significant and long-lasting.

But that was three decades ago, and those gains have well and truly petered out.

According to the former Commonwealth Treasury Secretary Martin Parkinson, there has been a “lack of significant new productivity-enhancing reforms since the turn of the century”.

It is clear that if we want better living standards and higher wages, the time for a new wave of reforms has arrived.

That means micro-economic reform

This new agenda is a shared challenge for Federal and State governments who both have skin in the game.

The recent five-year review from the Commonwealth Productivity Commission focused on what economists have called “enablers” like health, education and training.

This included things like directing more health funding to better management of chronic conditions, upskilling teachers through better professional development and improving access to further education for people of all ages.

Those are broad areas where NSW will continue to drive big picture gains over the long term, working with the Commonwealth where necessary.

But it's also clear from this report – and others – that regulatory reform is an essential part of the solution.

This is where I believe state governments can have the biggest impact.

Bad, costly, unnecessary regulation is the enemy of enterprise.

Arbitrary rules can slow simple processes to a painful grind.

Old regulations that were once useful can become irrelevant or counter-productive.

All this stifles innovation, strangles opportunity and sucks the creative, productive life out of the economy.

Based on the Commonwealth Productivity Commission estimates, reducing regulatory compliance costs by about 20 per cent could boost NSW's gross state product by \$6 billion in the long run.

The NSW Business Chamber has also estimated businesses spend over \$10 billion every year complying with regulations across all levels of government.

This is not a problem that is unique to NSW.

While I was in the US a few weeks ago, President Trump delivered his first State of the Union Address.

He made the point that while the Empire State Building was built in just 1 year, it's not uncommon for the approval process for a road to take 10 years.

It's the kind of comment that rings a bell with all of us, because I can guarantee that everyone here in this room has a regulatory horror story they can share.

To be clear – regulation will always be a necessary part of living in a productive, prosperous society.

But it should be necessary, simple, effective, relevant and targeted.

Our Government has already made some significant inroads in this area.

We have transformed the state's workers compensation insurance scheme, reducing premiums and paperwork.

We have slashed the 48 forms to start a new hospitality business to a single streamlined online portal.

Our recent planning reforms have also simplified processes – although I note estimates suggest it costs around \$150,000 more to build an apartment in NSW than in Victoria.

And with the help of our now Treasury Secretary Mike Pratt, we have introduced Service NSW – a one stop shop for services to help end the silo mentality in government which causes so much inconvenience for our citizens.

By putting the citizen at the centre, helping people to help themselves and smart use of technology, Service NSW has set a new benchmark in excellence when it comes to interacting with government.

I believe these incredibly simple and successful ideas can be applied just as effectively to regulation as they can to customer service.

Despite these achievements however, it's fair to say that up until now, reform has been piecemeal.

And there are many benefits still to be achieved.

The time is now right to do more to cast off the heavy burden of regulatory compliance, to tackle the next frontier in reform.

And we need to do it by equipping Government with the firepower to make real and lasting change.

NSW Productivity Commission

That's why today I am announcing the first ever NSW Productivity Commission, headed up by a dedicated Productivity Commissioner.

Based within Treasury, the Commission will drive the development of a whole of government productivity agenda.

It will ensure a user-centred approach to regulation that is responsive to users' needs and changes in the market.

And it will be at the frontline, using a light touch approach that is focused on outcomes rather than on rules.

Professor Gary Banks AO, former Chairman of the Commonwealth Productivity Commission, has generously agreed to advise us in establishing this new function.

While IPART today provides valuable advice to government generally relating to pricing and regulation, the Commission will have a much broader focus around four core themes:

- Making it easier to do business.
- Lowering the cost of living.
- Making housing more affordable.
- And making NSW the easiest place in Australia to move to – whether you're a business or an individual.

This is the biggest strategic shift in decades when it comes to a concentrated focus on productivity in NSW.

I'd like one of the Commission's first tasks to be a review of payroll tax administration, which the Business Chamber estimates can cost an individual business up to \$10,000 every year.

Other items on the to do list include examining the build to rent sector, exploring common expiry dates for multiple vehicles, reviewing government procurement practices and investigating mutual recognition of licenses and certificates.

The public will also be able to have its say on how government processes can be improved and what we can do to make it easier to live, work and run a business in NSW

We will also soon launch an online portal for citizens and businesses to identify the most important regulatory roadblocks and provide fresh ideas to reduce the burden.

Our announcement today has not come about in isolation.

It has emerged as the product of the Independent Review of the NSW Regulatory Policy Framework, conducted by former Premier Nick Greiner.

Last year we released a draft report from that review, and today we are releasing the final Greiner report in full.

I want to take this opportunity to thank Nick and the panel for their work on the review, and I look forward to putting those reforms into effect.

This initiative is also part of our ongoing plan to bolster our economic firepower and increase growth.

While I'm incredibly proud to have what I consider the best and brightest department in government, I want the big and bold ideas to keep coming.

So in addition to the new Commissioner for Productivity, today I can announce we also intend to appoint the state's first ever Chief Economist.

This will be a role that gives NSW Treasury a new voice and a fresh stream of big ideas.

The chief economist will be charged with invigorating Treasury's role as a thought leader in Australia's economic debates.

They will be a new force for innovative and visionary economic policy in NSW.

They will strengthen our state's capacity to respond to global and local economic trends,

And they will work with Treasury leadership, public and private policy leaders, academics and the business community.

We are opening applications today and I look forward to announcing both these appointments in the near future.

Federal incentives need to pave the way

The NSW Productivity Commission will give us huge momentum to change NSW for the better.

It will also be a boost for the nation, because more economic activity, more income, and more consumption in NSW means more tax for our dear friends in Canberra.

But there's no guarantee any of that tax will end up back here in NSW.

Because under our current federal system, when a state like NSW does the hard yards, it's the non-reforming states who soak up the benefits through the distribution of GST.

It's a chorus I like to sing loud and long, but we cannot persist with a system that penalises states that do the right thing, and subsidises the rest.

We want NSW to lead when it comes to productivity.

But the reality is we cannot do this alone.

That's why we'd like the Federal Government to look closer at the incentives for reform.

That's something NSW has embraced in the past, taking the lion's share of incentives under the Harper competition framework, not to mention the \$2 billion in asset recycling incentives we have secured for our state.

It's another example of what Premier Berejiklian has called dynamic federalism, where NSW will lead the way and should be rewarded for our initiative.

Challenges

While we are making what I consider to be two game-changing announcements today, we are under no illusions as to the challenges that lie ahead of us.

Let me be blunt.

Change is hard.

Reform is hard.

It's even harder in a 24/7 newscycle, with the ever present influence of social media.

It's why some modern governments often find it easier to manage than to lead.

Vested interests and political opponents will target any Minister who dares to stick their head above the reform parapet.

You only need to look at the bruising battle over ride-sharing in NSW to see how rocky the road can be.

For reform to succeed, politicians need to have the will to do what is right, and we also need to bring the community on the journey with us.

In that effort, you – the business community – have an important role to play.

There is no doubt that the NSW Business Chamber remains a vitally important voice in driving reform for the better in NSW.

In fact many of the reforms I have announced today have been shaped by the constructive feedback of the NSW Business Chamber.

So I want to thank you for that continuing contribution.

We will do our part, and with your support, I am confident our new Productivity Commission will succeed in driving practical reform across government.

Conclusion

To conclude, I want to go back to that editorial Stephen [Cartwright] penned back in 2009, Because that editorial wasn't just a complaint – it was a call to arms too.

He said:

"It is business, not government, which drives the economy of NSW. We need to create an environment that supports a thriving private sector for the benefit of the NSW as a whole and everyone who lives here."

After 7 years of laying the infrastructure foundations of our future state, we now have a precious opportunity to reset, tackle tough reform, and leave no room for doubt that NSW is the best place to live, work, run a business and raise a family.

That's the goal we must never lose sight of, and I look forward to working with you to make it a reality.

Reference: <https://dominicperrottet.com.au/productivity-reform-next-frontier-shared-prosperity-nsw/>