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Learning from Success— Competition Policy and Productivity

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Productivity growth— the key to economic prosperity

**2004; McKinsey
Global Institute**

“Productivity across 13 countries varies enormously and explains virtually all of the differences in GDP per capita”

**2010
Intergenerational
Report**

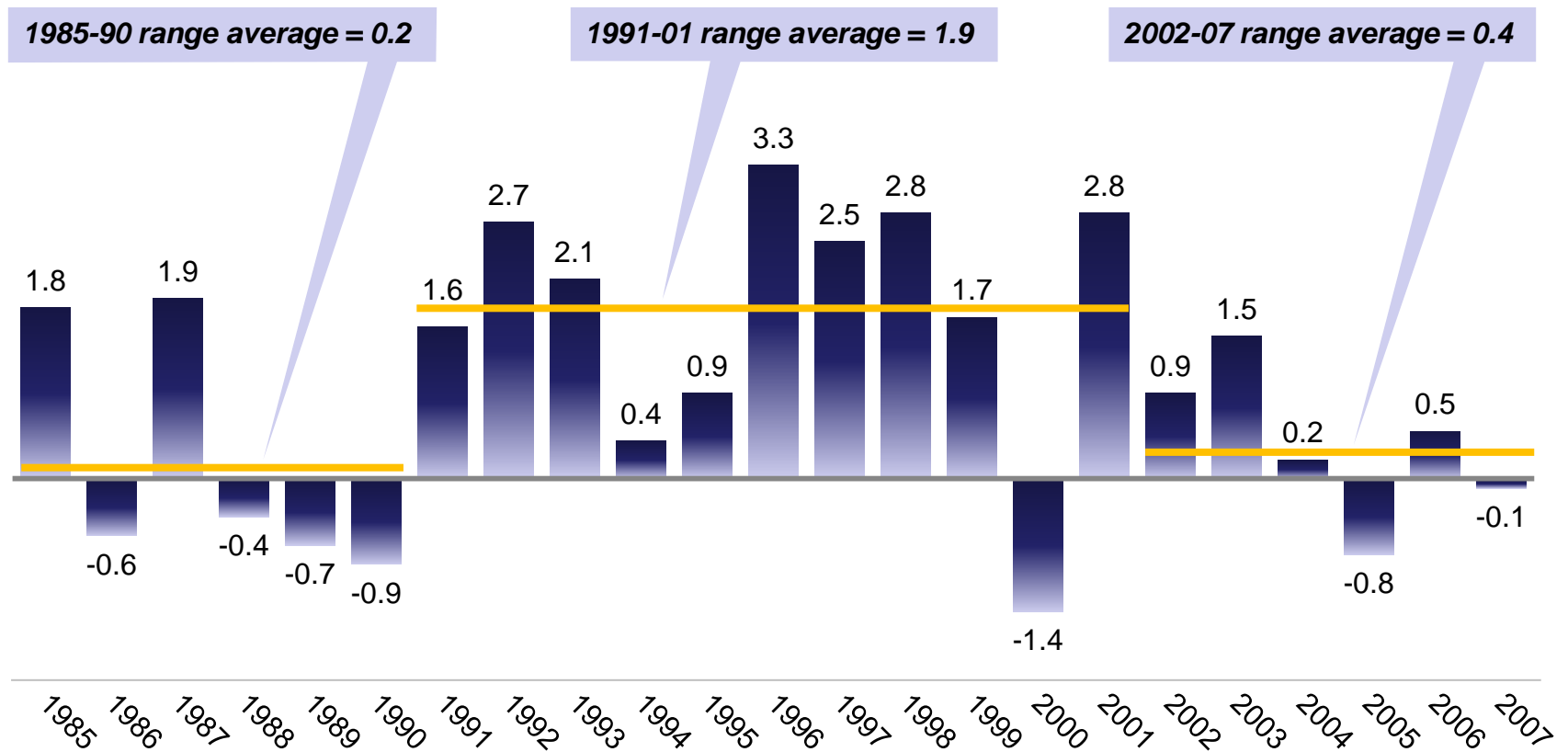
The 3 Ps essential—productivity, participation and population . . . “with productivity growth the main driver of economic growth and living standards in the future”

**2010 House of
Representatives
Inquiry**

“Achieving multifactor productivity growth rates above Australia’s long-term average of 1.1% is a critical long-term national goal”

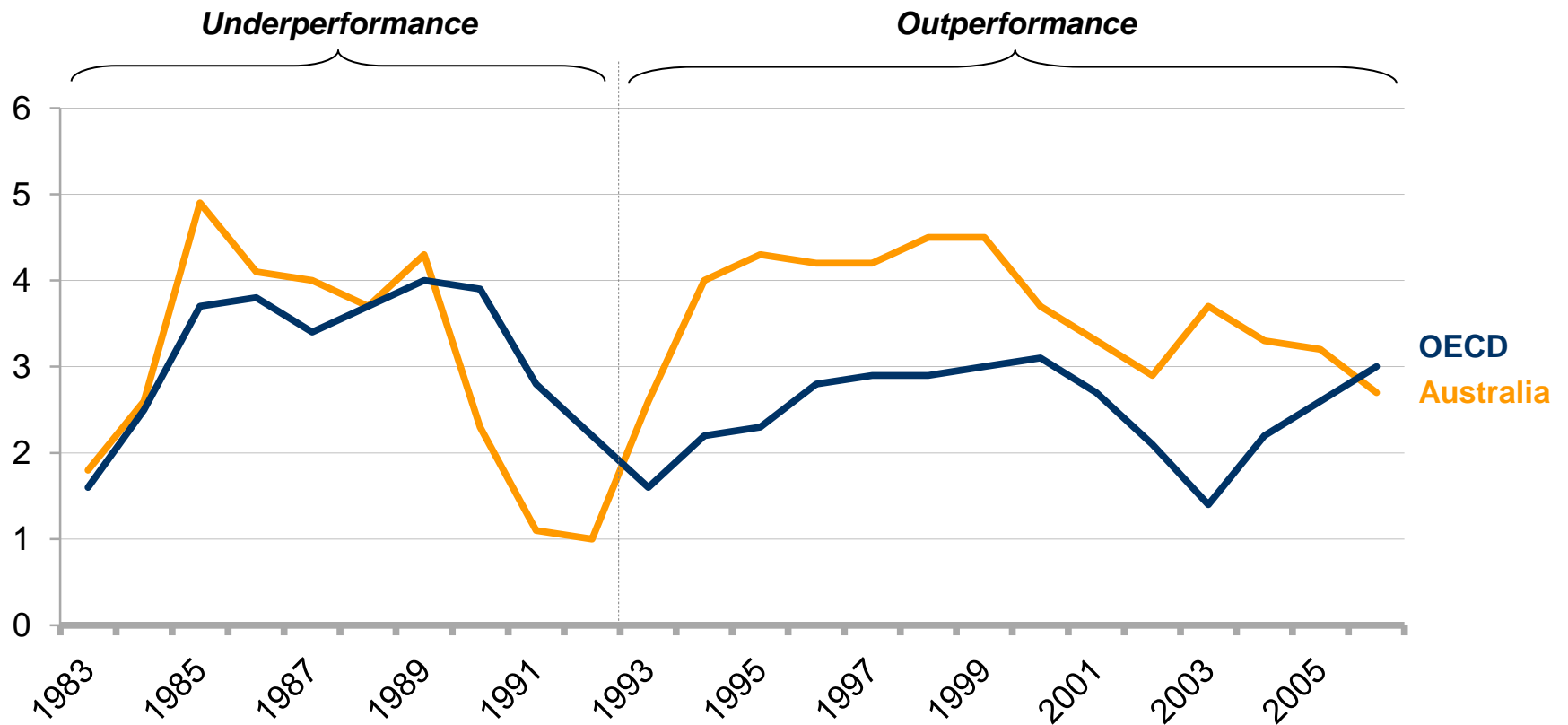
Australia's MFP growth declining since early 2000s

Growth in multifactor productivity; percentage



Australia versus OECD —real GDP growth

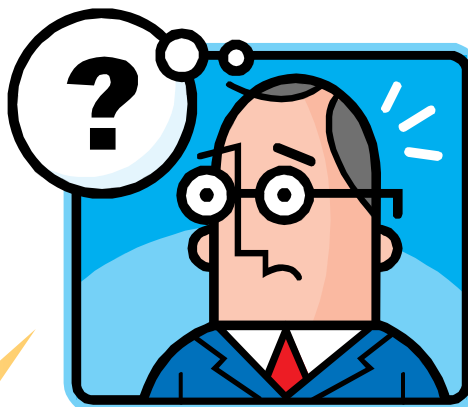
Real GDP growth; percent; 3 year rolling average



Many explanations

Infrastructure and skills inadequacies

Low R&D/innovation



A three-sector problem*

Slowing micro-economic reform

* Agriculture, mining and utilities

Current response

Initiative	Example
Investing in infrastructure	Infrastructure Australia <i>Planning, funding and implementing the nation's future infrastructure needs . . . advice about gaps that hinder growth . . . Identify priorities, policy and regulatory reforms</i>
Improving education and skills	The Education Revolution <i>. . . “most important economic policy issue”</i>
Cutting “red tape”	COAG – March 2008 <i>27 deregulation priorities aimed at cutting red tape, making it easier for businesses to operate across State and Territory lines, and making key industries more competitive</i>
Encouraging R&D/innovation	Innovation Policy Agenda to 2020 <i>“Increasing our capacity to create new knowledge and find new ways of doing business is the key to building a modern economy based on advanced skills and technologies”</i> 2010 House of Representatives Inquiry <i>“When governments intervene to boost . . . productivity the focus should be on . . . technological capacity . . . and technical effectiveness”</i>

The argument

Current approach to productivity improvement is unlikely to lift pace of improvement significantly



Productivity improvement depends on 'enablers' and 'incentives'



Incentives are more important



The current approach emphasises enablers over incentives



Incentives and enablers

Three key incentives	Multiple enablers
● Competition	● Infrastructure
● Tax	● Skills
● Corporate Governance	● Legal and institutional framework ● Labour market flexibility ● Technological progress

Incentives are key

“Just because firms and individuals can improve productivity doesn’t necessarily mean that they will do so”

Many studies highlight critical importance of competition

- OECD growth project
- Productivity Commission
- McKinsey Global Institute
- Numerous scholarly papers

Case study: Japan

	<i>Type 1</i>	<i>Type 2</i>	
○ Examples	Globally competitive <i>(Automotive, consumer electronics, robotics)</i>	Examples <i>(Chemicals, retail transport)</i>	
○ Supporting infrastructure	Good	Good	} Enablers same
○ Education and training	Excellent	Excellent	
○ Competition	High	Low	} Incentives different
○ Intervention	Low	High	
○ Productivity	High	Low	} Result different

Other case studies: Weak enablers/strong incentives

- India: Automobiles versus textiles
- South Korea: Steel versus services
- Europe:

“Weak competition in service and product markets may help explain why productivity growth and ICT diffusion has remained disappointing in many European countries”

Tax structure matters

	Lee & Gordon	OECD growth project
• Corporate tax	↓ 10% points	↑ 1% points
• Growth rate	↑ 1–2% points	↓ 0.3% points

As does governance: Tian & Twite

Australia: 2000–2005

***Non competitive
industries***

***“Smaller boards,
more non-executives
and stock
compensation deliver
higher productivity”***

***Competitive
industries***

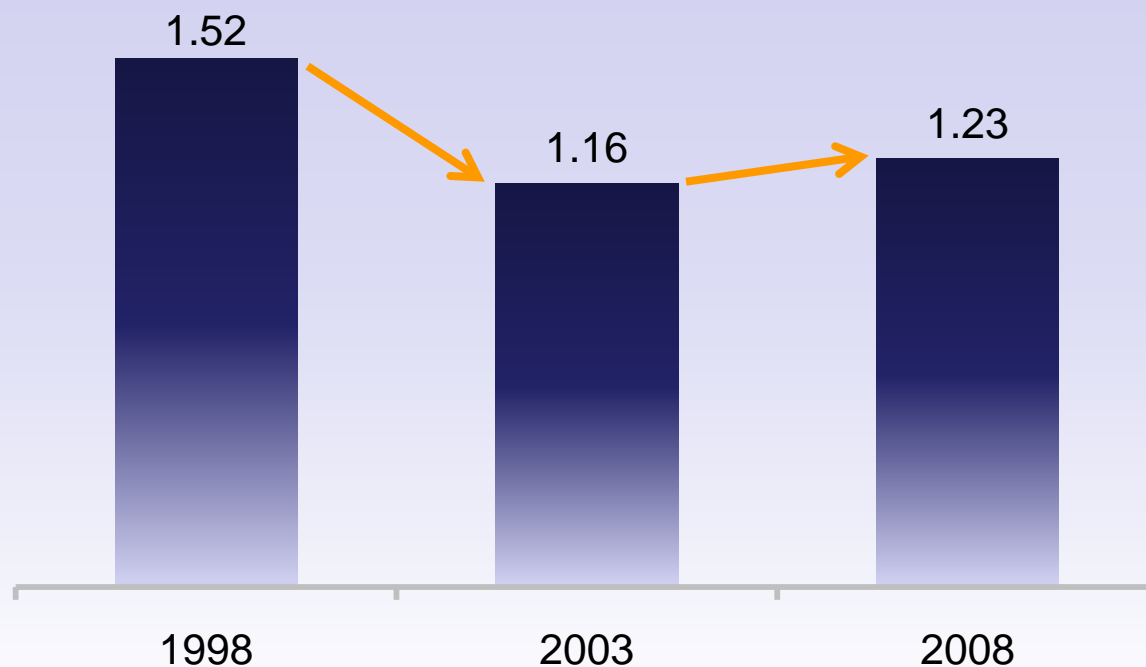
***“Corporate
governance
matters little”***

Comparing eras

	1990s	2000s
● Competition	↑	↓
● Product market regulation	↓	↑

Current approach

OECD Product Market Regulation Indicator for Australia



Comparing eras

	1990s	2000s
● Competition	↑	↓
● Product market regulation	↓	↑
● Taxation	↓	=
● Government focus	<i>Performance</i>	<i>Compliance</i>
● Labour flexibility	↑	↓

Enablers now getting most attention

	1990s	2000s
● Infrastructure	=	↑
● Education Revolution	↓	↑
● Innovation	↑	↑

Conclusions

- Focus on enablers is worthwhile
- Renewed emphasis on incentives, particularly competition, urgently needed
 - Competition “lost its place” for largely political reasons
 - Current productivity performance means revitalised policy critical

Conclusions

- Could be achieved by
 - Revitalising National Competition Council
 - Keeping policy responsibility with Treasurer
 - Reviewing areas where progress stalled

Sources

- Slide 2: William W Lewis, 'The Power of Productivity', *The McKinsey Quarterly*, 2004, No. 2
2010 Australian Government Intergenerational Report: 'Australia to 2050: future challenges', p 21
2010 House of Representatives Inquiry into raising the productivity growth rate in the Australian economy, April 2010, p xix
- Slide 3: OECD database, growth in multifactor productivity
- Slide 4: OECD Stat Gross Domestic Product (output approach), volume index
- Slide 11: Porter and Sakakibara, 'Competition in Japan', *Journal of Economic Perspectives*, Vol 18, No. 1, 2004, pp 27-50
- Slide 12: 'The Policy Agenda for Growth – An Overview of the Sources of Economic Growth in OECD Countries', 2003, p 7
K Kundu, 'Productivity – the Key to India's Growth', *Asia Times Online*, 4 January 2005
William W Lewis, 'The Power of Productivity', *The McKinsey Quarterly*, 2004, No. 2
- Slide 13: Young Lee and Roger H Gordon, 'Tax structure and economic growth', *Journal of Public Economics* 89 (2005), pp 1027-1043
'The Policy Agenda for Growth', OECD, 2003, p 8
- Slide 14: G Tian and G Twite, 'Corporate Governance, External Market Discipline and Firm Productivity', <http://ssrn.com/abstract=1539118> (2010)
- Slide 15: A Wolf, I Wanner, T Kozluk and G Nicoletti, 'Ten Years of Product Market Reform in OECD Countries – Insights from a Revised MPR Indicator', Economics Department Working Papers, No 695, OECD (2009)