Social protection in a competitive economy: what have we learned?

Asian Think Tank Development Forum

Danielle Wood, Program Director, Grattan Institute

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Social protection in a competitive economy

The pace of economic reforms has stalled

- Low hanging fruit already been picked?
- Harder to compensate losers in current budget environment?
- Reform fatigue? Politics of reform is harder

Structural adjustment and economic change

- Structural adjustment packages have sometimes been poorly targeted
- Economies continue to evolve: shift towards services and cities creates ongoing adjustment challenges

Broader social protections matter

- Social safety net – Australian tax and transfer system well-targeted by international standards
- Government provision of health and education

Getting reform right

- Implementation matters – naïve reforms do more harm than good

Australia has made fewer tough economic choices this past decade

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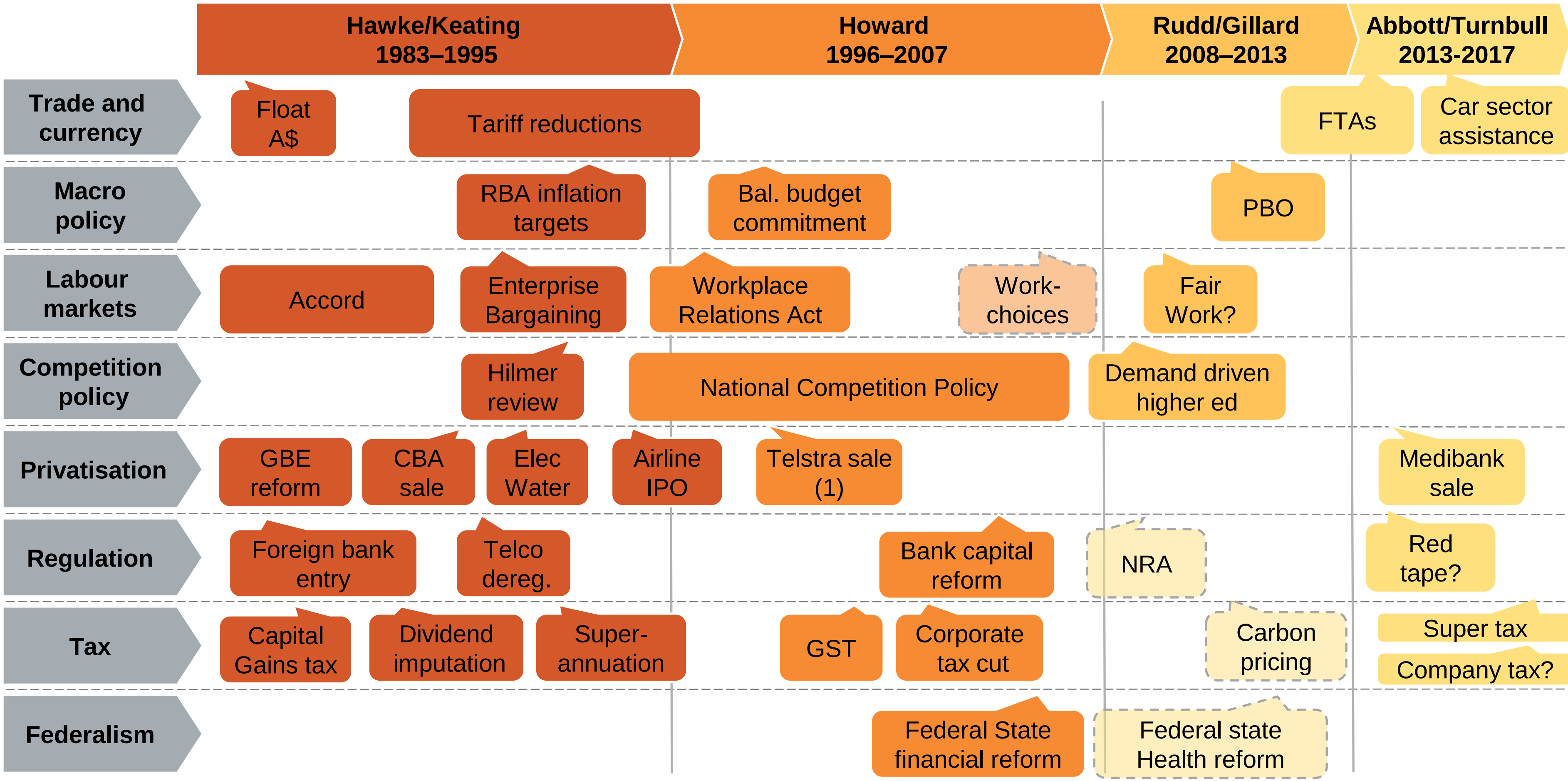


Note: The NRA is a broad set of microeconomic reforms largely focused on public sector efficiencies

Source: Access Economics; The Reform Dividend;1983-2004—Calculating the Payout; The Economist, Special report Australia, 28 May 2011; Grattan analysis.

Less money in the budget to "buy" reforms

Typical families with either one or both parents in the workforce, will be $40 to $50 a week better off even after the GST.

GST (2000)

Budget position:
$22 billion surplus

Current budget position: $18 billion deficit

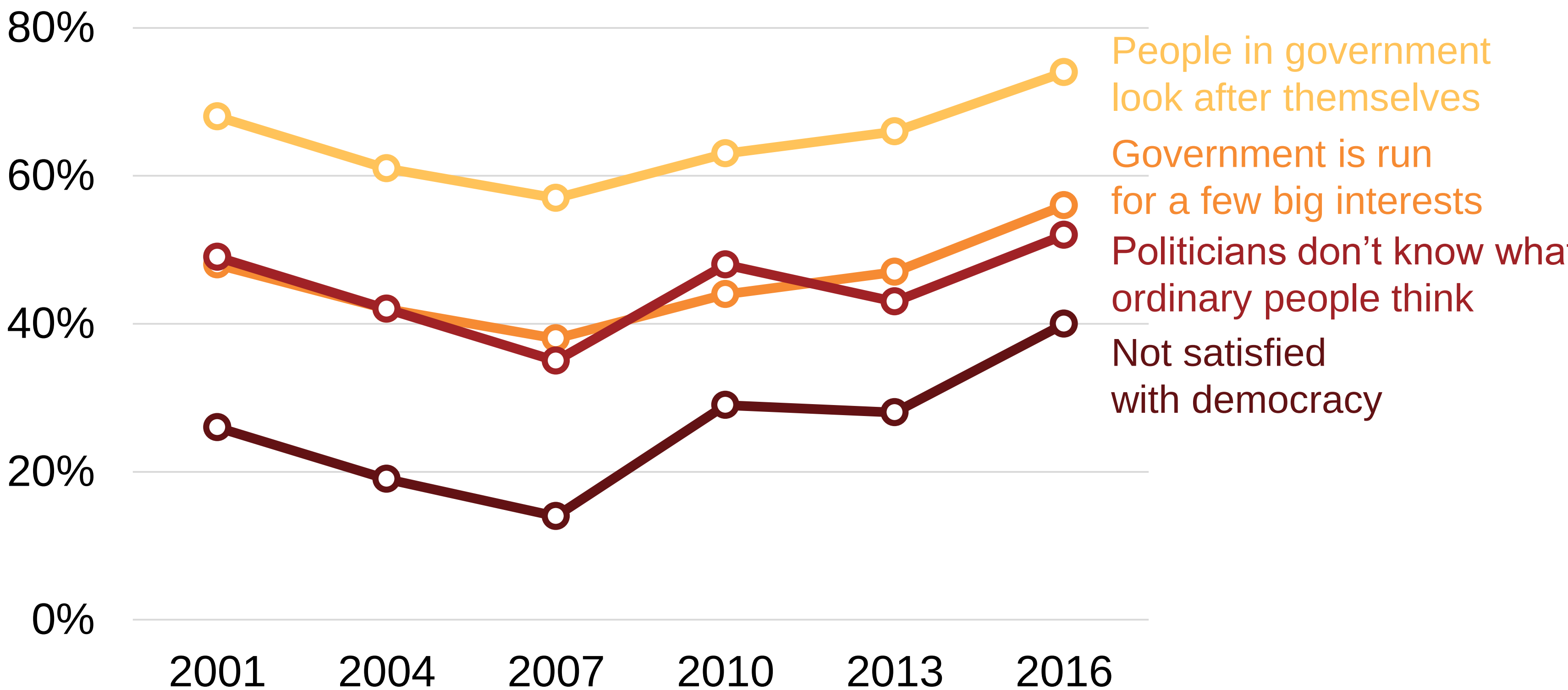
Carbon Pollution Reduction Scheme (2009)

Budget position:
$28 billion surplus

No low income family will be worse off and 90% of them … will receive windfall compensation.

Lack of faith in government makes reform harder

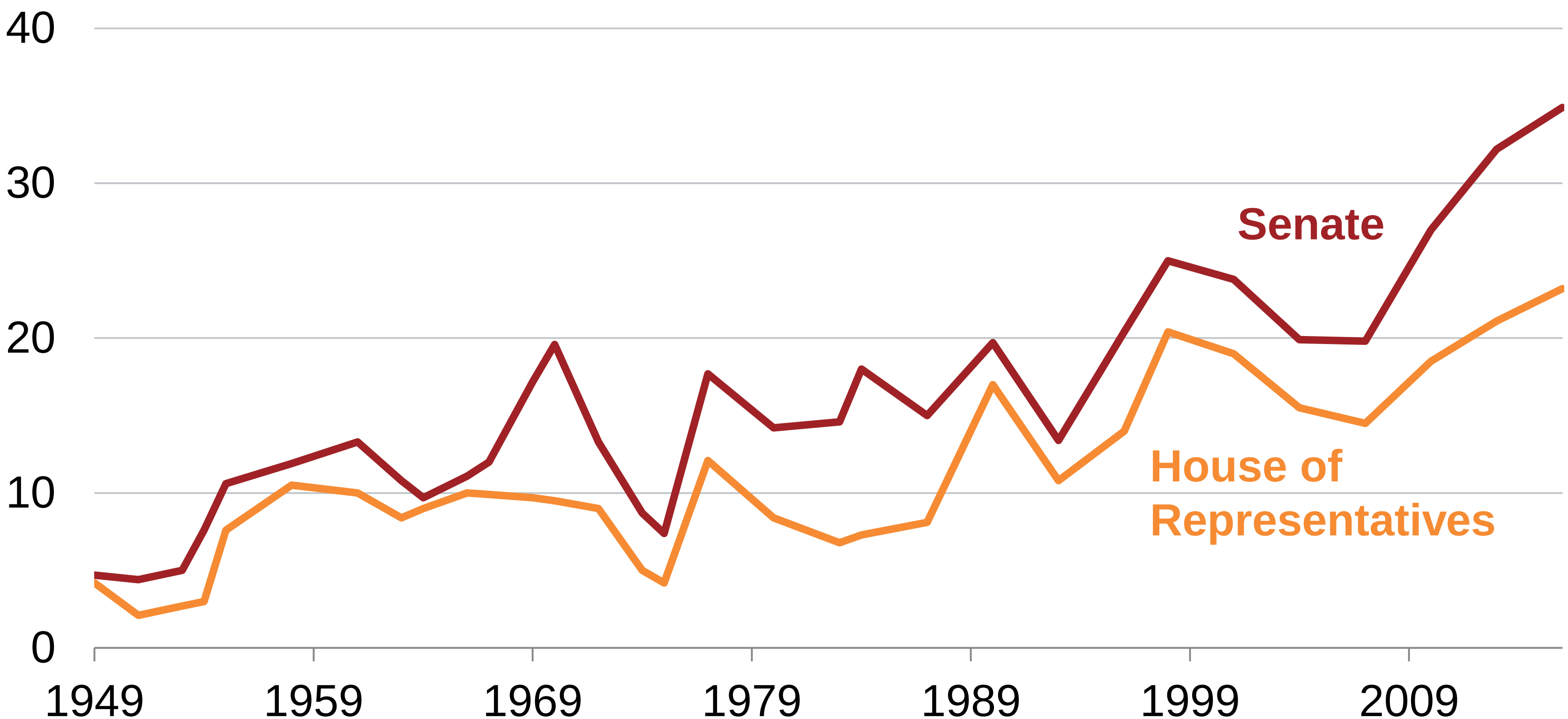
Percentage of survey respondents who agree with selected statements



Source: Grattan analysis of AES data, 2016, see also Scanlon Foundation Social Cohesion Survey 2016; and Edelman Trust Barometer 2017

And is changing our politics

Minor party first preference vote, per cent



Source: AEC, Grattan Institute analysis

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Structural adjustment programs have sometimes been poorly targeted

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Adjustment programs for industry (e.g. plant closures)

- Schemes to boost jobs following plant closures have a high cost per job
- Do not appear to significantly change the employment outcomes in a region
- Schemes focusing on job search and training assistance have better returns (at least for younger workers)

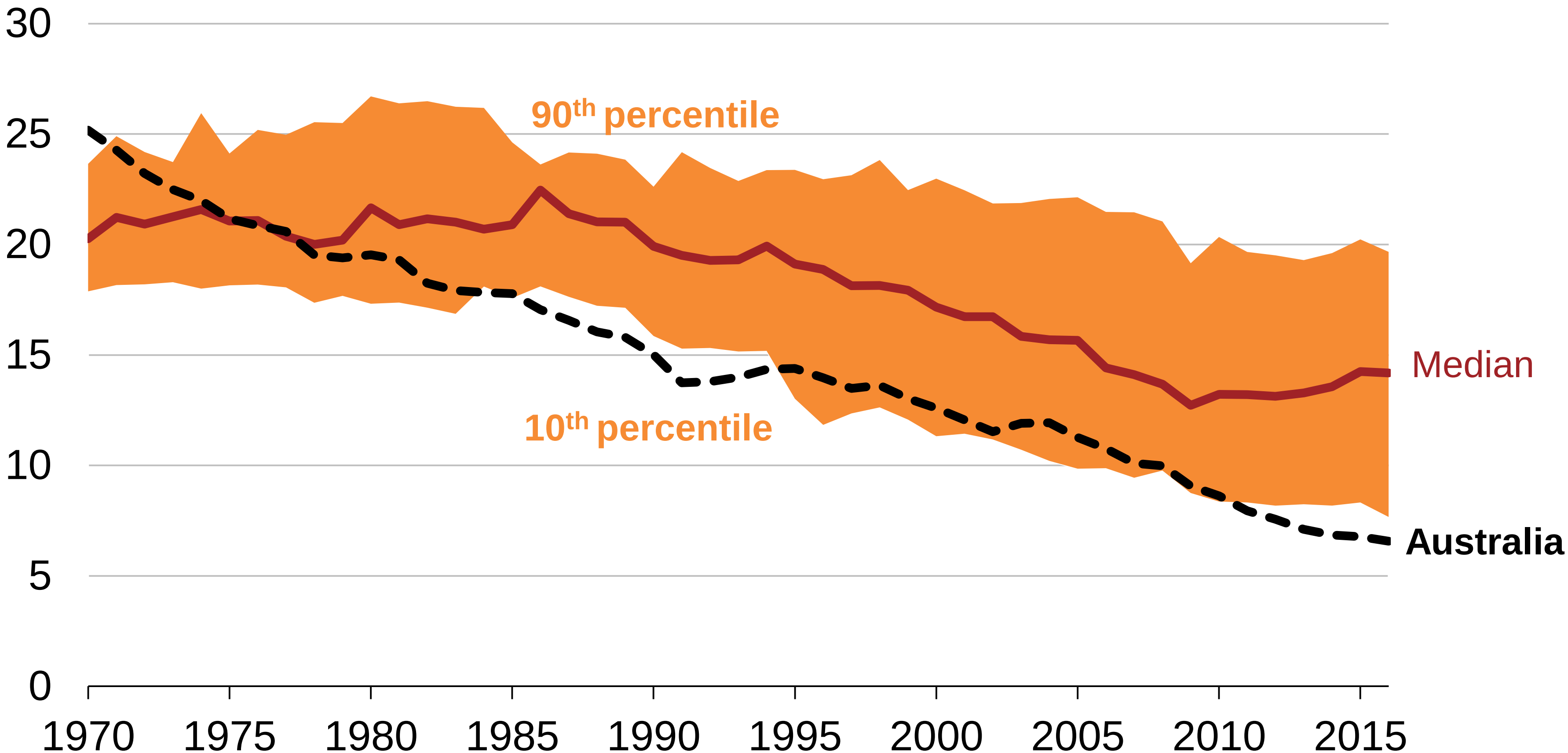
Adjustment programs for regional areas

- Substantial public expenditure on regional programs by all levels of government but effectiveness of these programs is unclear
  - May be appropriate in case of severe, pervasive shock if likelihood of permanent disadvantage
  - Focus on ‘people’ not ‘place’
- Public service decentralisation generally costly and ineffective way of promoting regional development
- Governments efforts better directed to boosting transport and services in regions to support remaining population

Sources: Productivity Commission (2017), *Transitioning Regional Economies;* Daley, J. and Lancy, A. (2011), *Investing in regions: Making a difference*, Grattan Institute; Daley, J., Wood, D., and Chivers, C. (2017). *Regional patterns of Australia’s economy and population*, Grattan Institute

And economies continue to evolve: manufacturing sector shrinking

Manufacturing output of OECD economies, per cent of GDP



Source: World Bank World Development Indicators dataset. Includes 1970 OECD members plus Australia and NZ. Updated from Grattan Institute, *The mining boom*

… and more people are working in services

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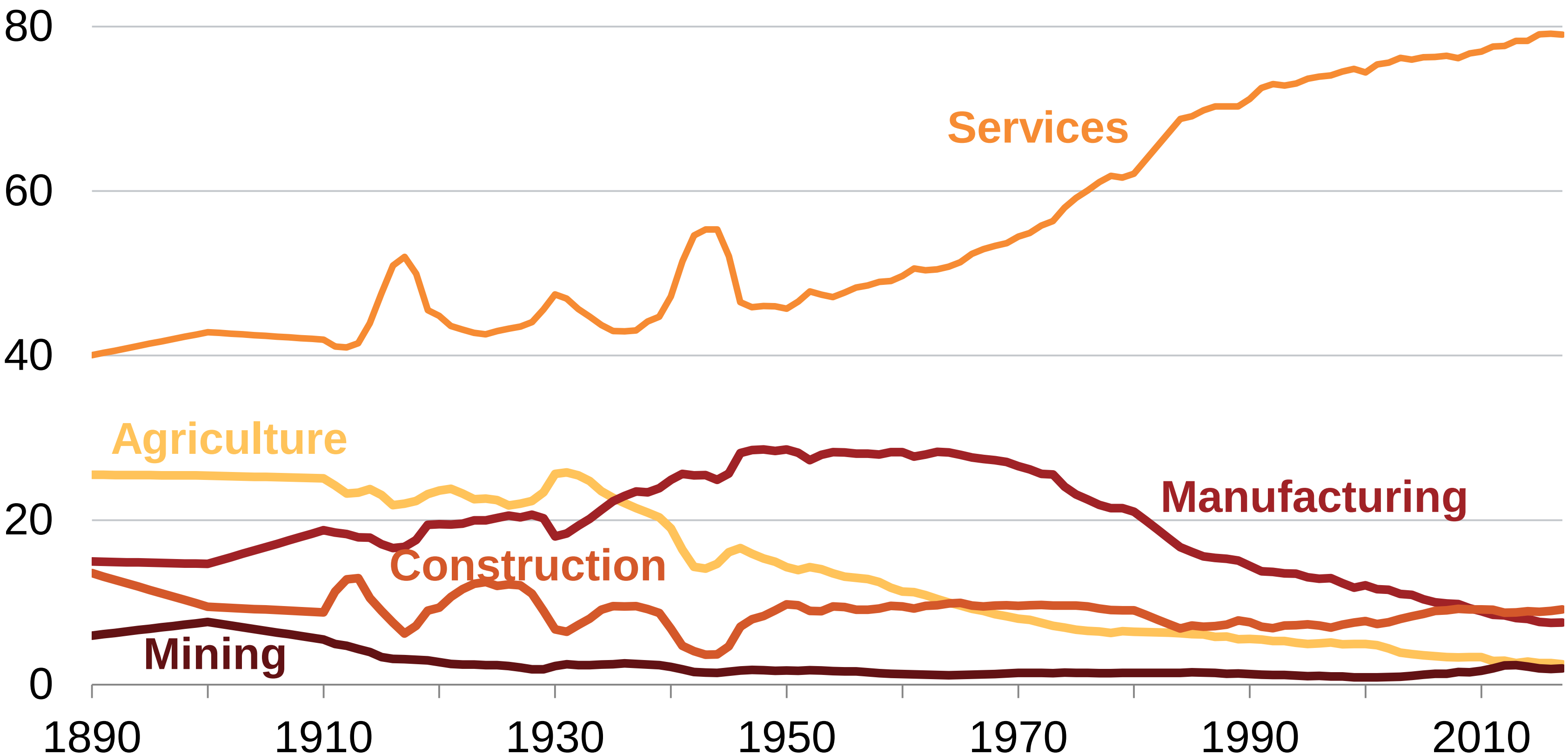
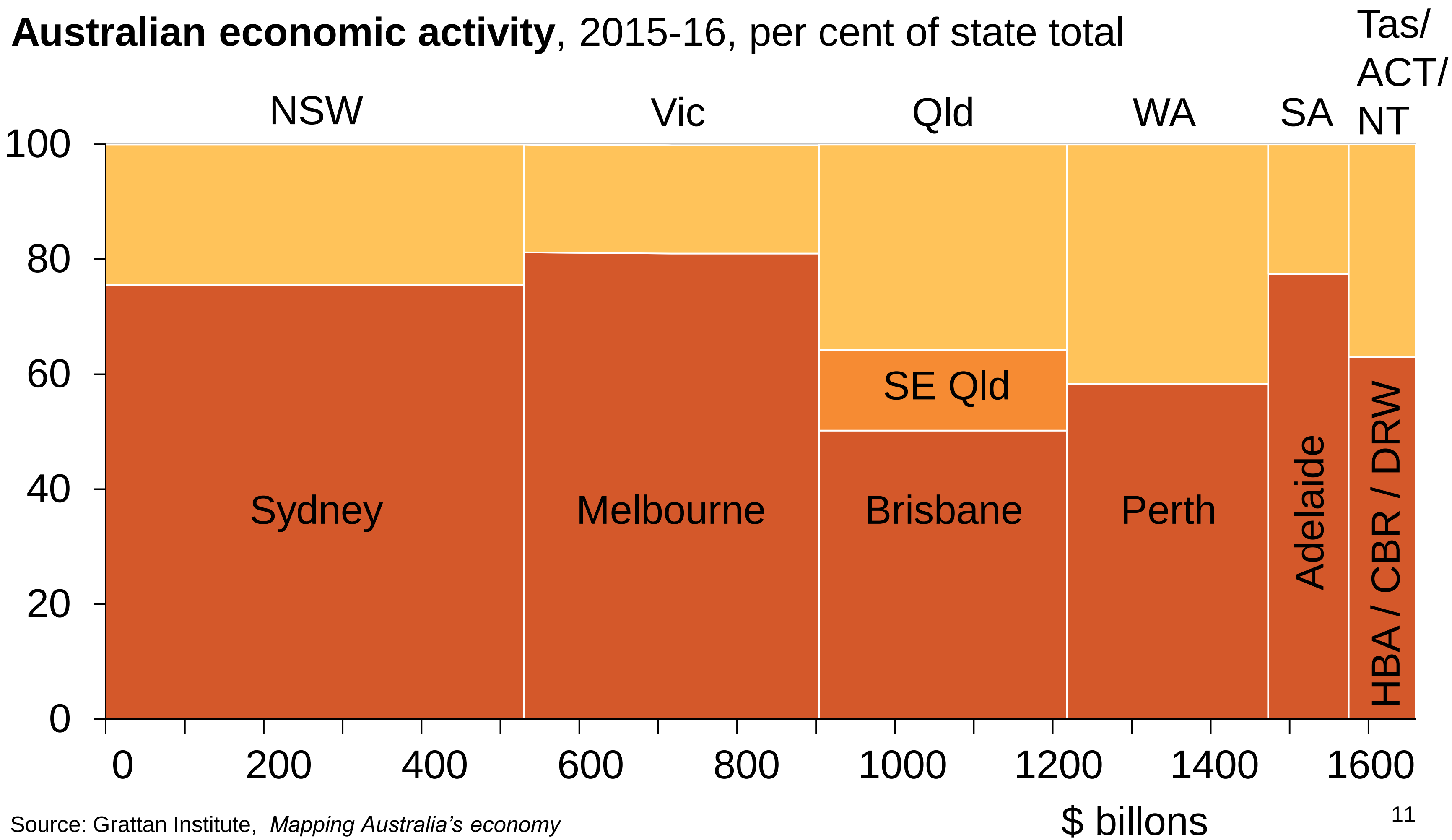
Industry share of workforce, Australia, per cent



Note: 1981-1983 interpolated using 1980 and 1984 data
Source: Grattan Institute, *Regional patterns in Australia's economy and population*

Australia's economy is now dominated by its big cities

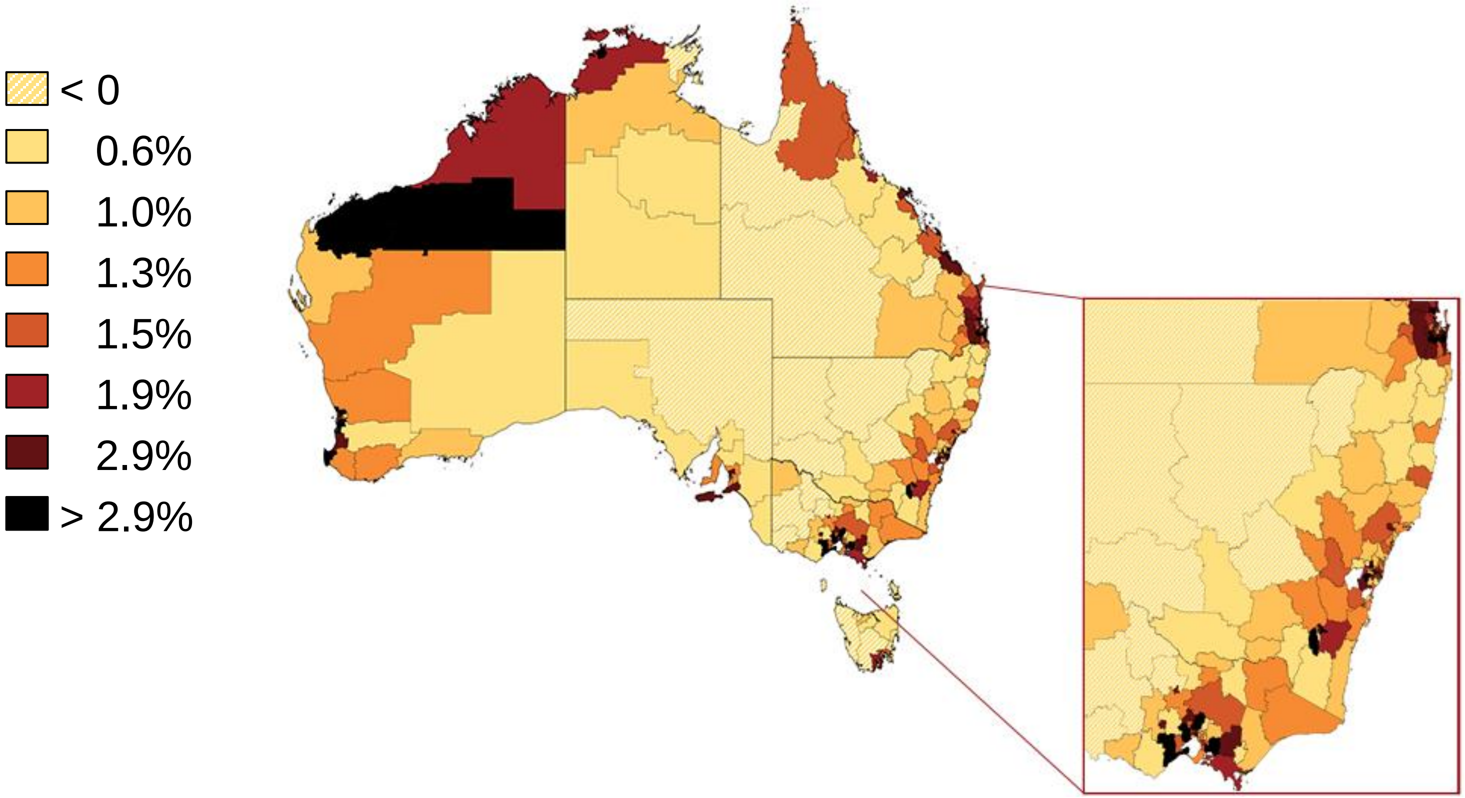
Australian economic activity, 2015-16, per cent of state total



Source: Grattan Institute, *Mapping Australia's economy*

Population growth is very focused on capital cities, the coast, and WA mining

Population growth by SA3, CAGR 2006-2016



Note: Sample is grouped into shrinking areas, and the remainder into seven subsets of equal population.
Source: ABS Census 2016; Grattan Institute, *Regional patterns of Australia's economy and population*

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Gross income is unequal in Australia but taxes and transfers make it more equal

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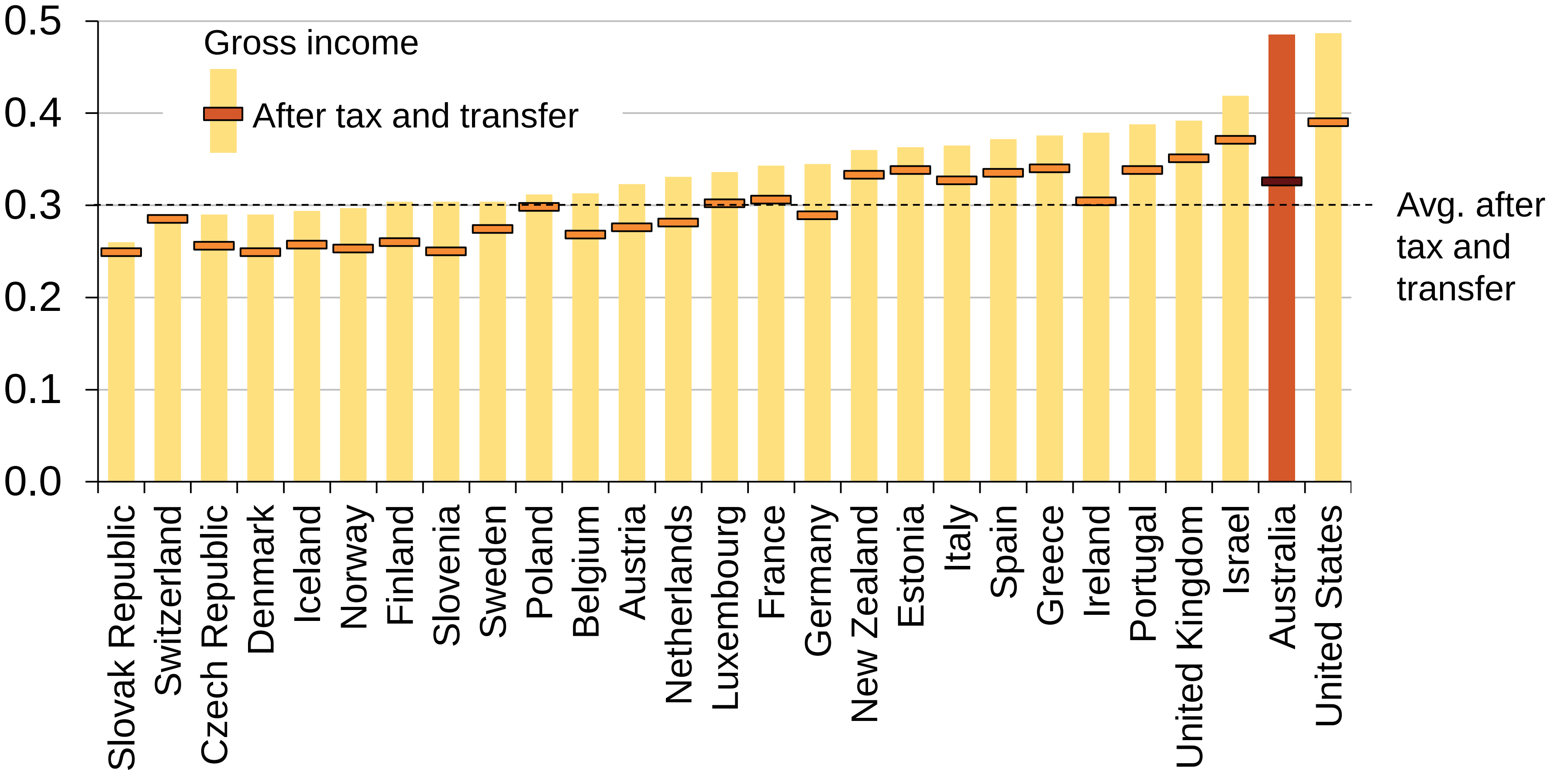
Gini coefficient (higher more unequal), OECD countries, 2012



Note: Countries with no Gini estimate for gross income or disposable income in 2012 are excluded from the comparison.
Source: http://stats.oecd.org/Index.aspx?DataSetCode=IDD

Australia has a well-targeted welfare system

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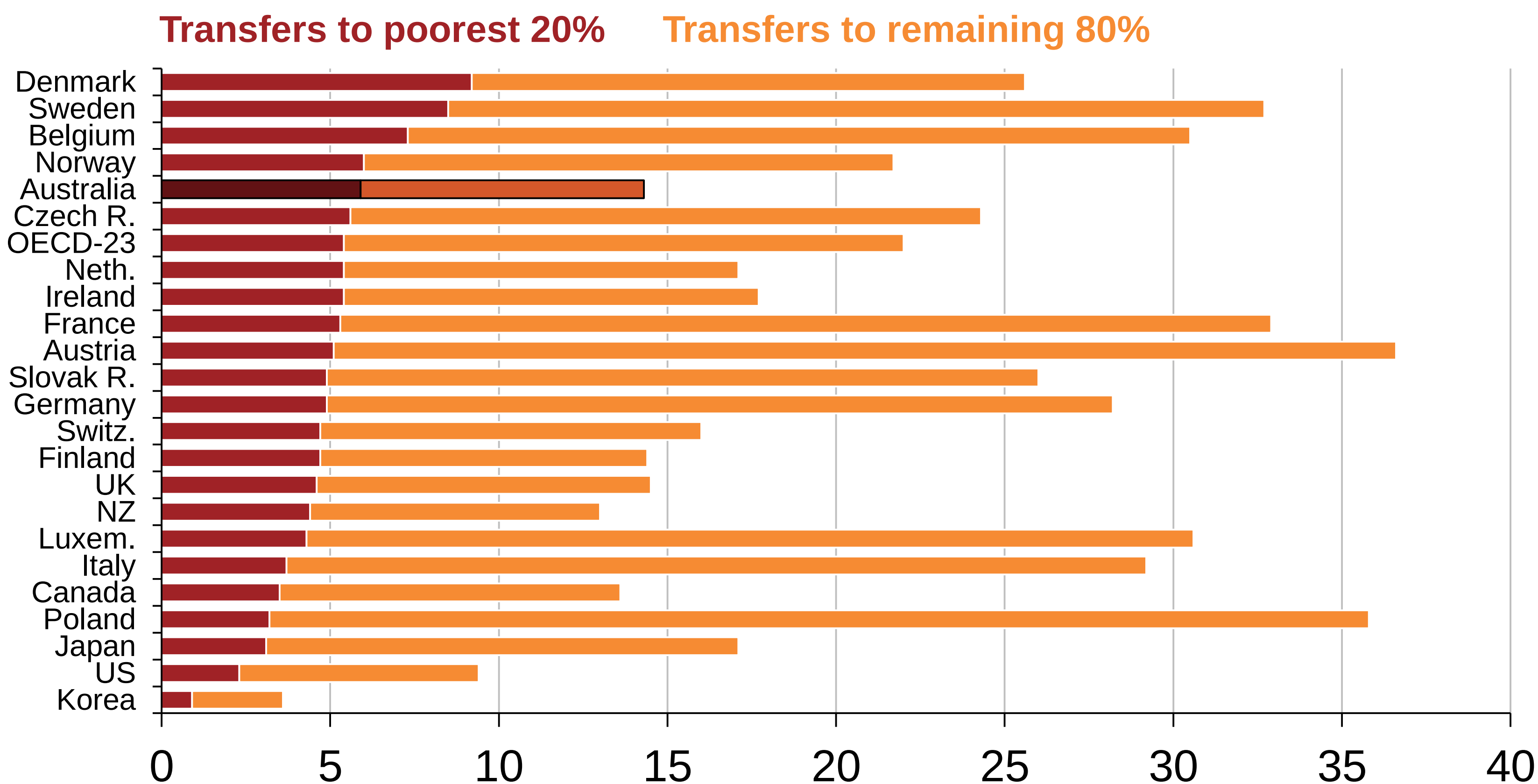
Public payments to households as a proportion of population disposable income, mid-2000s



Note: incomes are equivalised. Source: Grattan analysis of Whiteford (2010)

Households in bottom 40% receive much higher average government payments

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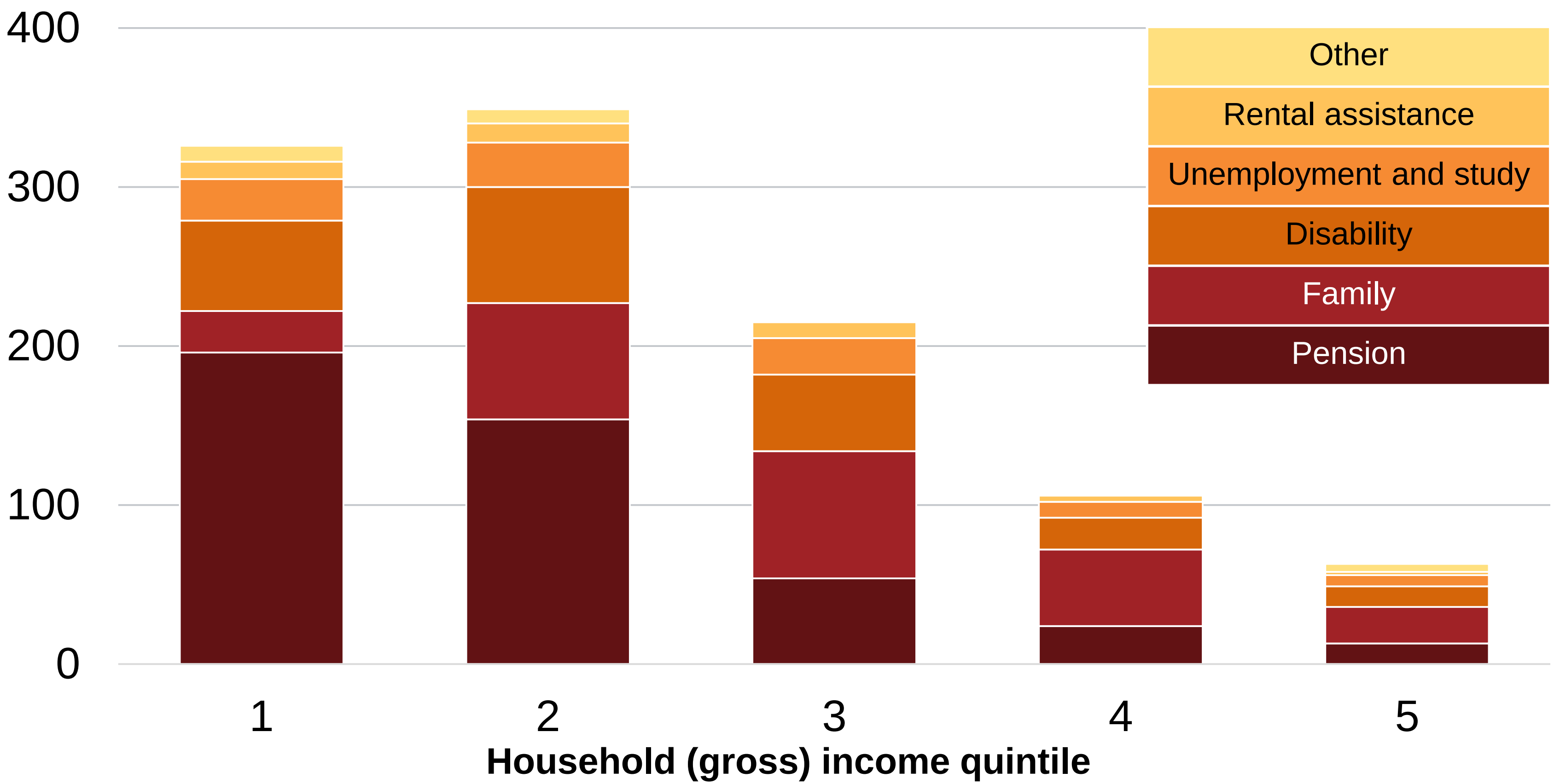
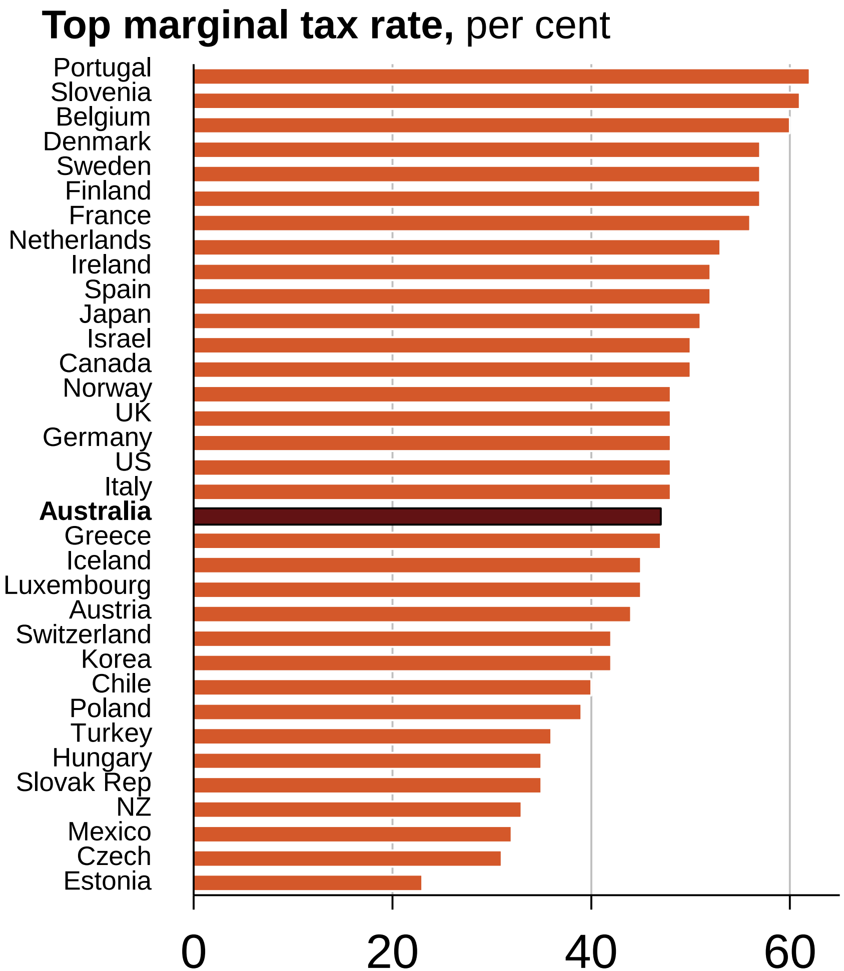
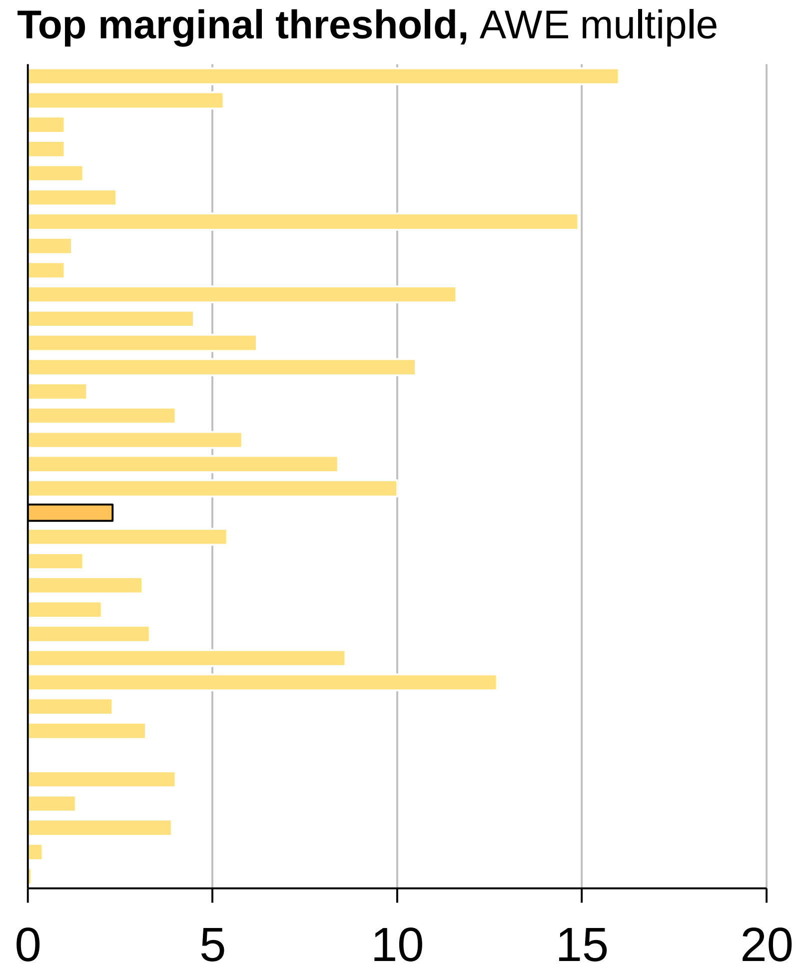
Average welfare payments per week by household gross income quintile, $ 2013-14



Notes: Pension includes Age and Veteran's Affairs Pension. Family payments include Family Tax Benefits and Parenting Payments.
Source: ABS (2015); Grattan analysis.

Australia's top marginal tax rate is unremarkable, although the threshold is relatively low

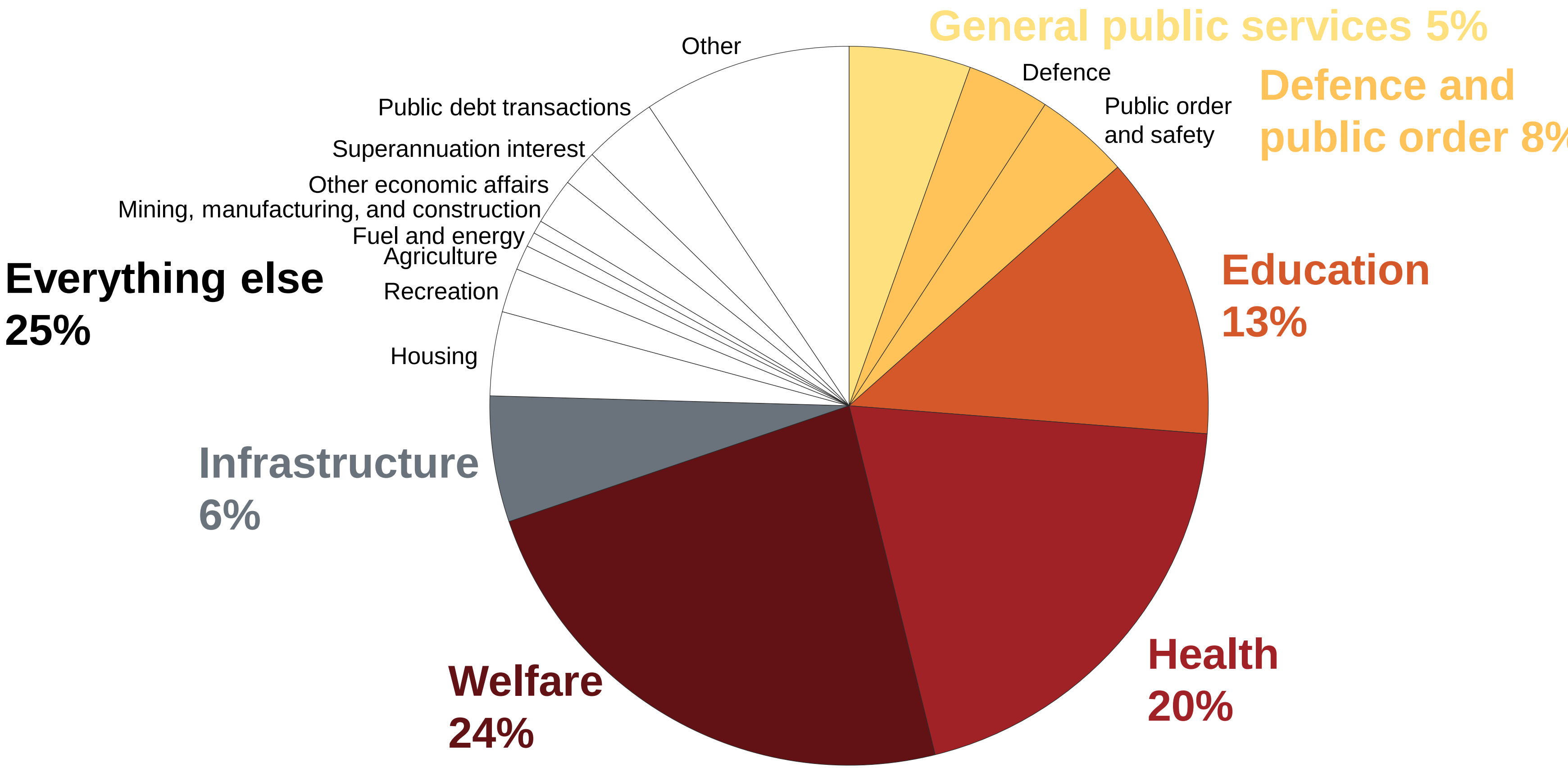




Source: Treasury, Re:think; Grattan analysis

Governments also invest a lot in health and education

Per cent of total for 2017 FY (Commonwealth and state government spending)



Source: Grattan analysis of ABS Finance Statistics, 2016-17

As all OECD countries got richer, they spent more on health (except Iceland)

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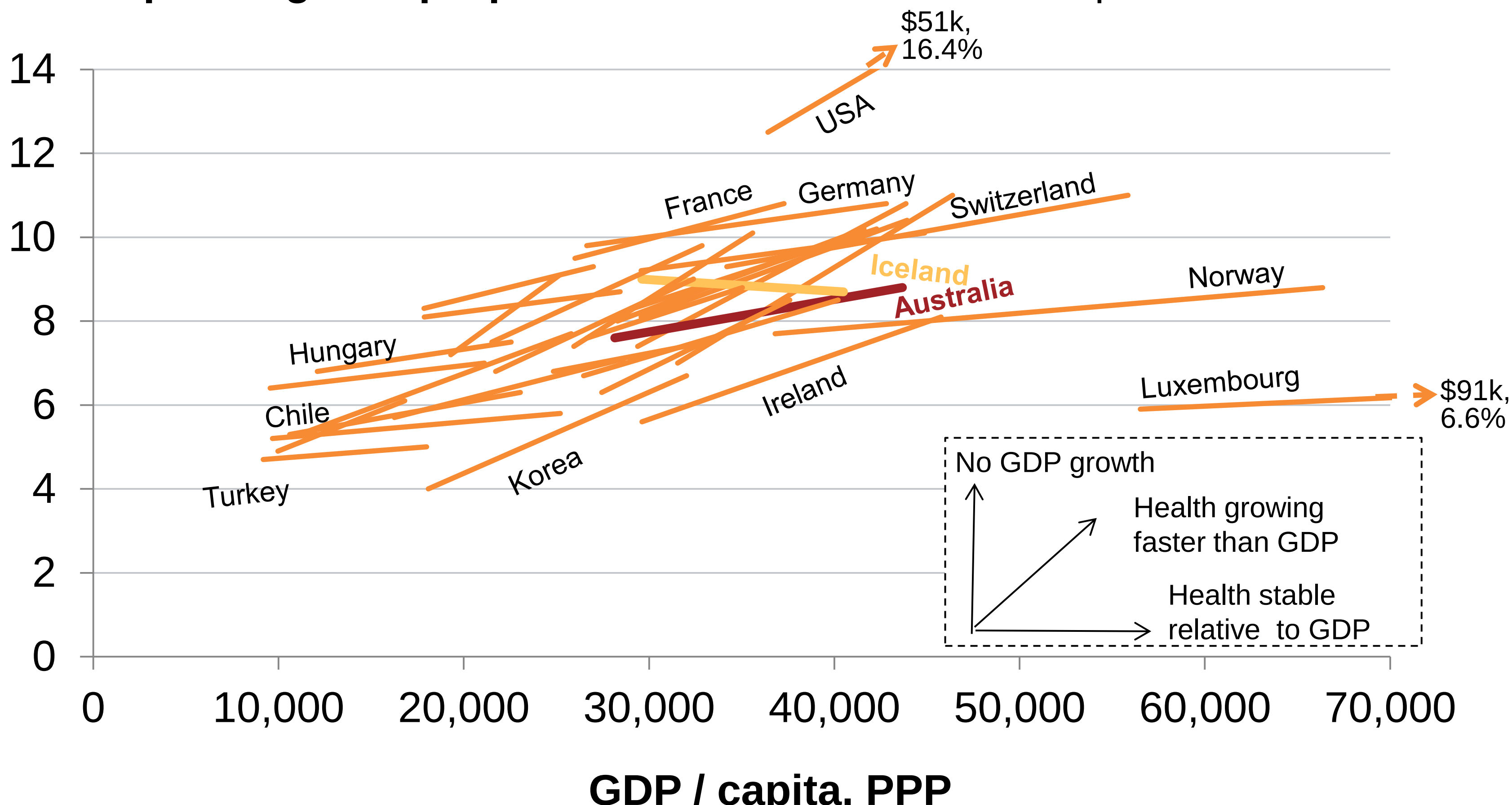
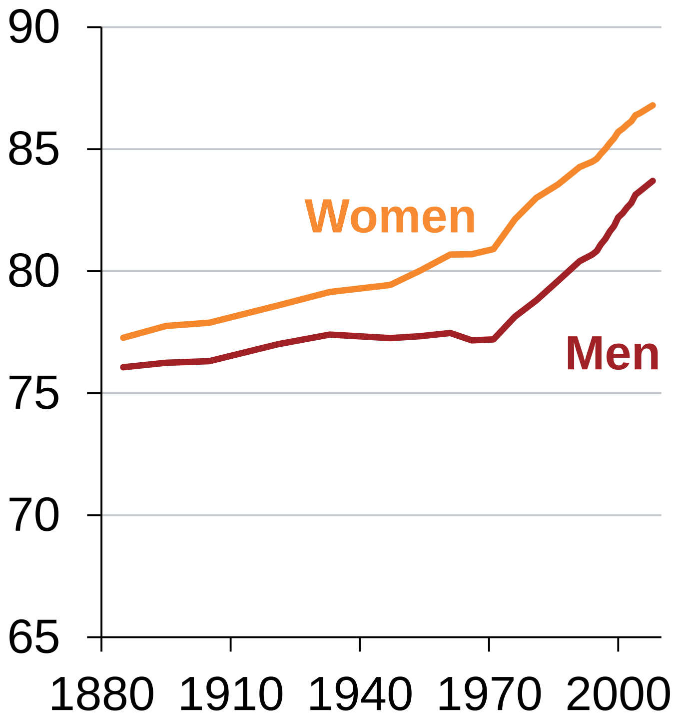
Health spending as a proportion of GDP, 2000 to 2012, per cent



Source: OECD

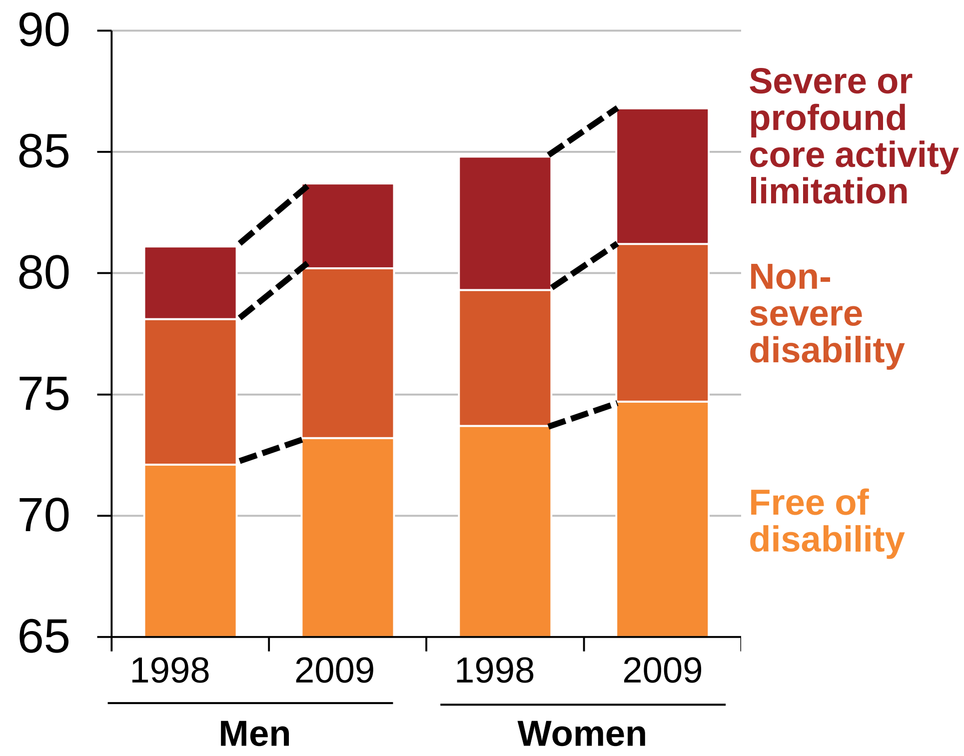
People value the outcomes of health spending: longer and healthier lives

Life expectancy at 65 years of age
years



Source: Grattan Institute analysis of ABS (2008) cat no 3105.0.65.001 Table 7.6

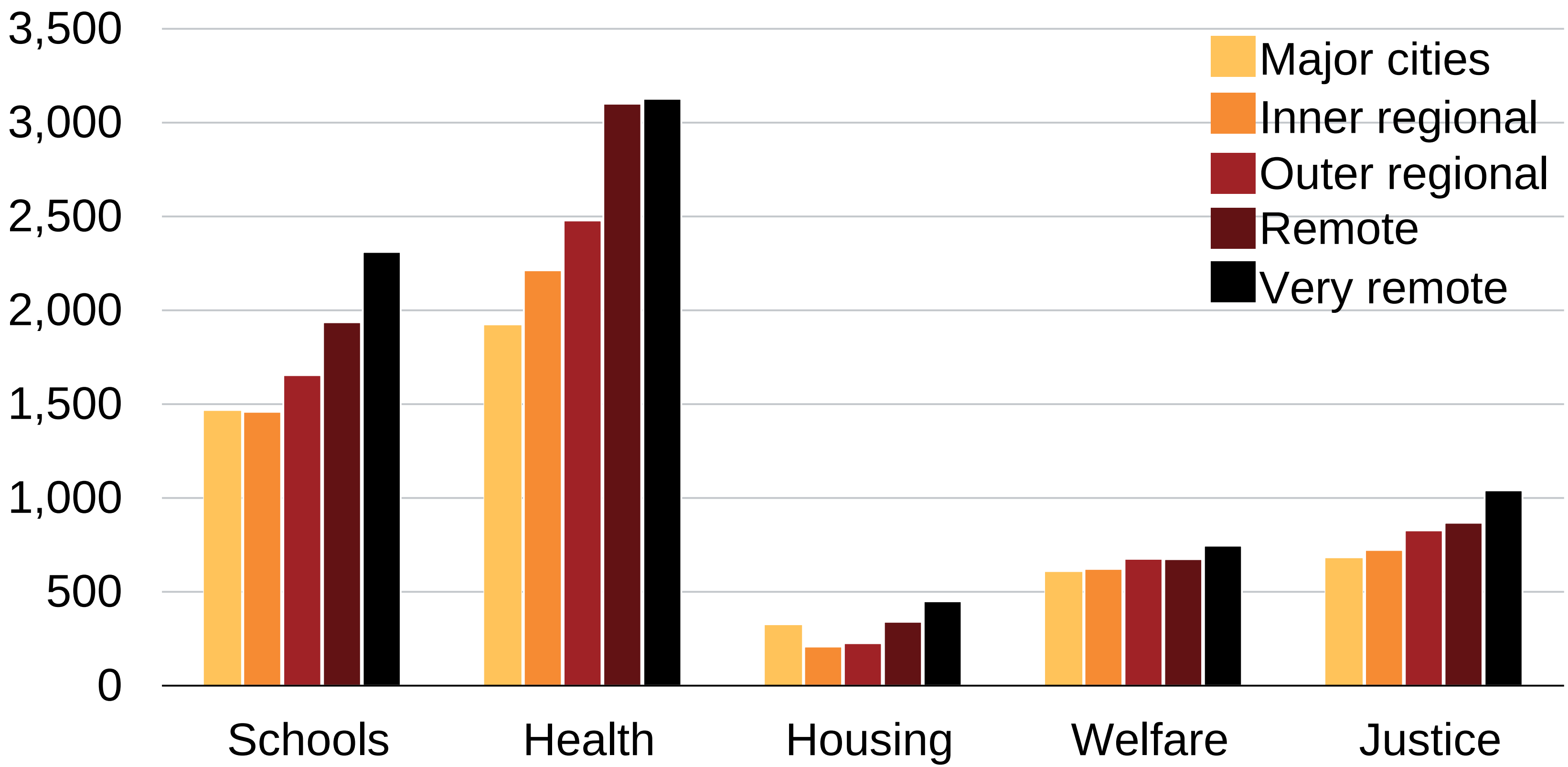
Expected life quality for 65-year-old
years



Source: AIHW (2012), Figure 13

Government subsidies for services are bigger in the regions

Average per capita spend by state governments, $ 2013-14



Notes: Differences are those attributed by the CGC to remoteness rather than socio-demographic composition. For example, the impact of larger Indigenous populations in remote areas has been excluded from this impact.
Source: Commonwealth Grants Commission (2015), Report on Sharing GST Relativities 2015 Review.

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Blind faith in market solutions is not the answer

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The case for privatisation?

- Depends on the transaction costs associated with specifying contracts (reducing risks of ‘quality shading’) versus benefits of innovation

…public-private choice should be seen as a matter of effiicency, not ideology.

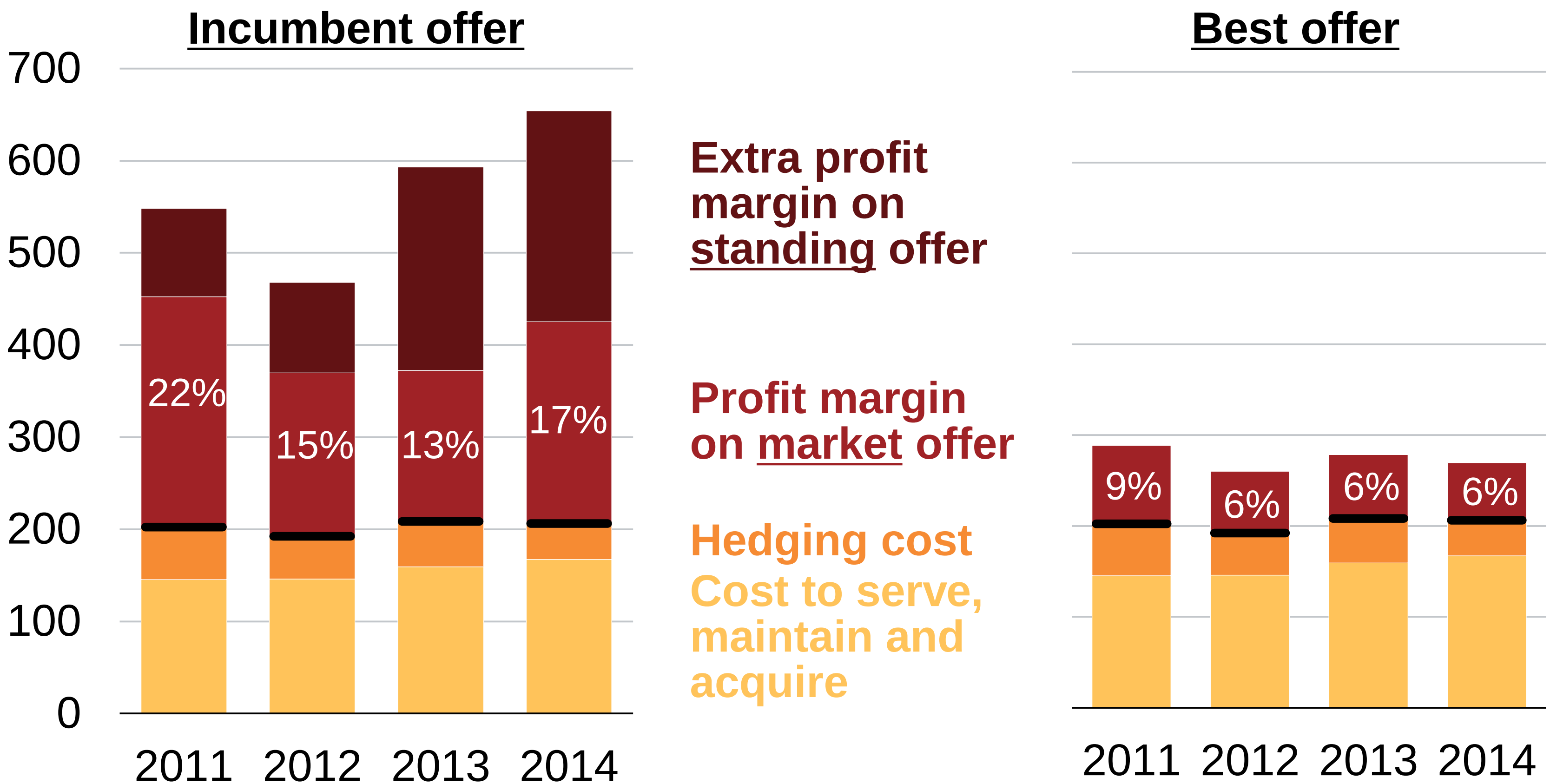
Oliver Hart: Lecture in accepting the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2016

Regulatory design matters

- Considerations of incentives (including providers and consumers) needs to inform market design
- Don’t lock in barriers to entry (e.g. port privatisations)
- Active regulatory oversight is important (e.g. vocational education and training market)

Case study: retail electricity

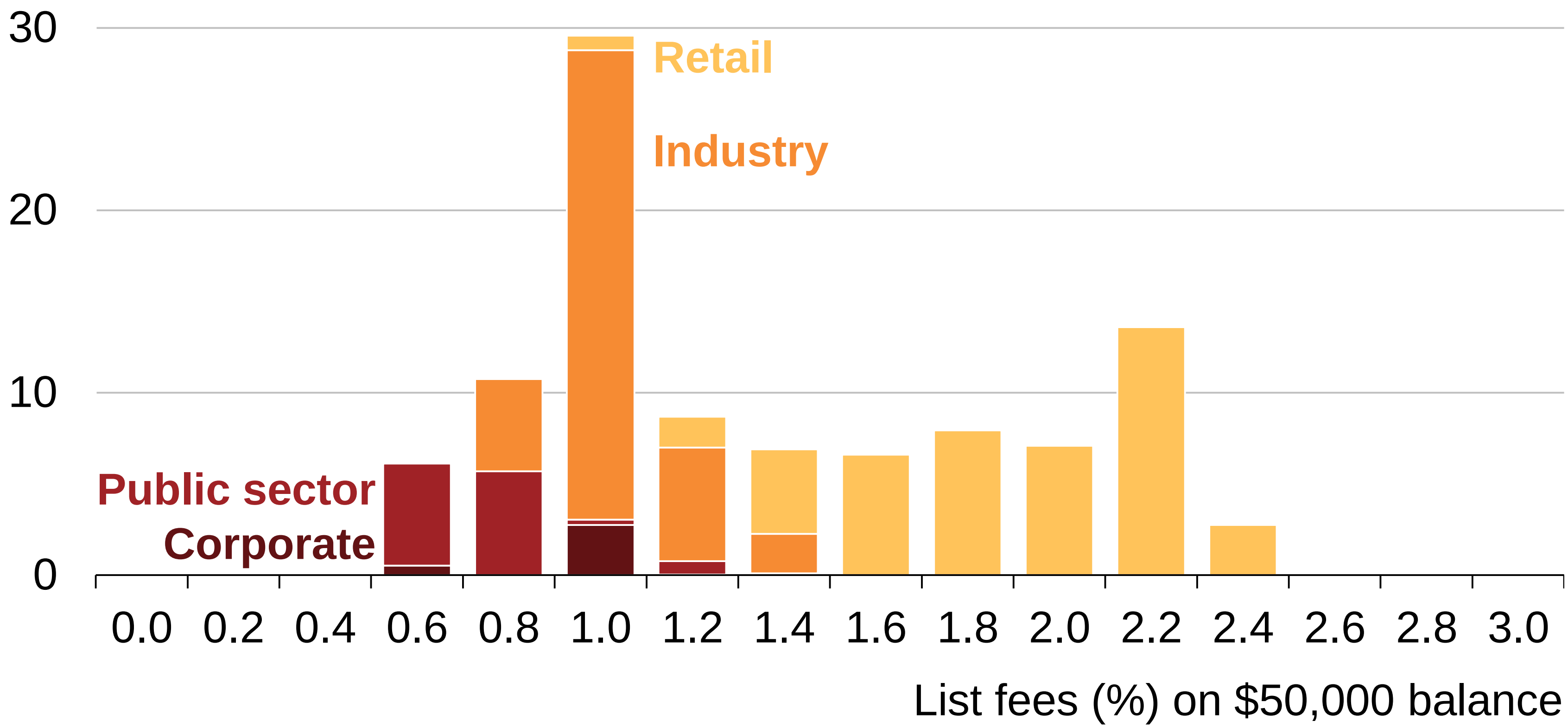
Retail component of annual household electricity bills, Victoria, dollars



Notes: Offers in each distribution network zone have been weighted by the number of residential customers in that zone to calculate a single, Victoria-wide average. Bills are exclusive of GST.

Case study: Superannuation fees

Percentage of total superannuation funds under management



Note: Fees recorded for public sector and some corporate funds may not include all relevant costs as some are paid by the employer. Excludes some smaller products offering a broad range of investment options. Excludes self-managed superannuation funds.
Source: Grattan analysis of SuperRatings (2014) (fee) and APRA (2014a) (FUM) data.

For more …

- Independent
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- Practical

Analysis of Australian domestic public policy

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