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

Asian Think Tank Development Forum
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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

<table>
<thead>
<tr>
<th>Era</th>
<th>Policy Areas</th>
<th>Major Initiatives</th>
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<tbody>
<tr>
<td>Hawke/Keating</td>
<td>Trade and currency</td>
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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

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

- People in government look after themselves
- Government is run for a few big interests
- Politicians don’t know what ordinary people think
- Not satisfied with democracy

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

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

And economies continue to evolve: manufacturing sector shrinking

Manufacturing output of OECD economies, per cent of GDP

[Graph showing the percentage of manufacturing output of OECD economies as a percentage of GDP from 1970 to 2015. The graph includes two lines, the median and the 90th percentile, showing a downward trend over time.]

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

Median

10th percentile

90th percentile

Australia
Industry share of workforce, Australia, per cent

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

- < 0
- 0.6%
- 1.0%
- 1.3%
- 1.5%
- 1.9%
- 2.9%
- > 2.9%

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

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.
Australia has a well-targeted welfare system

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

Transfers to poorest 20%  Transfers to remaining 80%

Note: incomes are equivalised. Source: Grattan analysis of Whiteford (2010)
Households in bottom 40% receive much higher average government payments

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)

- Health: 20%
- Welfare: 24%
- Education: 13%
- Infrastructure: 6%
- Everything else: 25%
- Defence and public order: 8%
- General public services: 5%

Source: Grattan analysis of ABS Finance Statistics, 2016-17
As all OECD countries got richer, they spent more on health (except Iceland)

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

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<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
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<td>1910</td>
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<td>2000</td>
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Expected life quality for 65-year-old

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<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
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<td>2009</td>
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Source: Grattan Institute analysis of ABS (2008) cat no 3105.0.65.001 Table 7.6

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.

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Blind faith in market solutions is not the answer

The case for privatisation?
• Depends on the transaction costs associated with specifying contracts (reducing risks of ‘quality shading’) versus benefits of innovation

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)

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

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

Retail component of annual household electricity bills, Victoria, dollars

Incumbent offer

Extra profit margin on standing offer

Profit margin on market offer

Hedging cost
Cost to serve, maintain and acquire

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.
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