

Achieving aspirations will be a struggle

Leadership is required if we are to achieve our social and economic goals, writes **Heather Ridout**.

The 2020 summit next month can and should be about identifying new and ambitious aspirations for Australia.

There also needs to be a measured consideration of the potential for the economy to underpin and support those growing aspirations.

An Australian Industry Group report released this week, *How Fast Can Australia Grow? Mark III*, contains research into the productive potential of the economy over the next 10 years. The message is sobering indeed. On its present trajectory, the economy will struggle to grow at an annual average rate of 3 per cent over the next decade.

Of course, a pace of close to 3 per cent a year for a whole decade is hardly a dismal outlook. Nevertheless, for a country that around 10 years ago was described by [US economist] Paul Krugman as the miracle economy, it is a prognosis that many will regard as somewhere between unexceptional and disappointing.

It is certainly an outlook that justifies directing considerable attention at the 2020 summit and other forums to measures to lift the growth potential of the Australian economy. Our growing aspirations, including better environmental management, will become that much more achievable if our economic wellbeing is expanding at a faster pace.

If gross domestic product grew at 3 per cent for 10 years, this would add an extra \$370 billion in real terms to annual output by 2017. This is an increase of slightly more than one-third of current GDP. If we could find an extra half a per cent a year on average over the decade, GDP in 2017 would rise by \$443 billion in real terms (more than 41 per cent above the current level). That's an extra \$73 billion a year.

To put the \$73 billion in



Workforce participation can be raised with better training.

Photo: JONATHAN CARROLL

perspective: it is more than 3½ times the current annual defence budget, and about three-quarters of annual commonwealth spending on social security and welfare. Clearly there is a lot to gain if we can lift the rate of expansion in wealth creation.

How Fast Can Australia Grow? Mark III, anticipates a slowing in potential GDP growth to about 2.9 per cent a year on average. This is based on a careful analysis of developing trends in labour productivity and labour supply.

For productivity growth, the 10-year outlook is estimated at around 1.67 per cent a year on average. While above recent very poor performances, there has been a clear step-down since the closing

years of the last century. A mix of factors lies behind this, with the most relevant for policymakers being the exhaustion of the gains from the major liberalising reforms of the 1980s and the 1990s.

The other component of potential GDP is labour supply, which is expected to grow by only about 1.25 per cent a year on average. Critically, this expectation is based on a continuing strong positive contribution from net immigration. Other sources of labour supply growth appear less promising.

Potential GDP, which is the sum of these labour productivity and labour supply outlooks, is estimated around 2.9 per cent per year over the coming decade. If further inroads

could be made into unemployment without fuelling wage inflation, average GDP growth could reach the 3 per cent level.

This estimate does not anticipate policy responses that may shift the trajectory of these trends by improving productivity or supplementing workforce growth. Rather, it is an estimate based on existing policy settings. In this sense it is less a prediction than a challenge to do better.

In short, doing better means lifting labour supply and labour productivity. For labour supply, the pressure points include the gains from attracting into the workforce women with children; people with disabilities and those over 55.

Also, the longer-term participation performance can be raised with greater emphasis on preventive health and education and training. Labour supply growth can also be raised by lifting levels of immigration: both permanent and temporary. Conversely, restricting immigration, as happened for example, during the Whitlam years, can have a dramatic negative impact on economic growth.

On the productivity front, myriad measures can contribute to a stronger performance. These include making judicious investments in infrastructure, particularly in higher speed broadband and transport to reduce urban congestion and overcome actual and emerging commuter and freight gridlocks. It also includes lifting our innovation performance, continuing to improve workplace relations and sustaining high levels of business investment. Perhaps, above all, it means investing in improving the skills of our present and future workforce.

We don't need to settle for a continuation of current trends. But it will take leadership to begin the new round of reform that is necessary if we are to be in a better position to achieve our economic and social aspirations.

■ Heather Ridout is chief executive of the Australian Industry Group.