

Never Let a Good Crisis Go To Waste

John Freebairn

University of Melbourne

6 November 2009

Themes

- Australia faces many structural changes, many for which information is limited.
- Adaptable and flexible governments, businesses and individuals are required for economic success.
- Recent events have:
 - revealed major weaknesses
 - reinvigorated rent seekers protecting the status quo
 - provided opportunities for required changes
- Will we grasp the opportunities or resist change?

Examples of Structural Changes

- Global economy, effects on terms of trade, and then on industry and employment structure
- Relatively more expensive prices for pollution emissions
- Economic cycles will recur
- Demographic changes
- New technology
- Changes in consumer tastes and preferences

A Framework for Positive Responses to Structural Changes

- Governments:
 - macroeconomic stability and policy credibility
 - provide a safety net
 - maintain good property rights for markets to operate, and correct market failures
- Private sector:
 - flexible product and factor markets in a neutral playing field which rewards innovation and responds to structural changes

Monetary Policy

- Main cyclical counter-puncher.
- Independent RBA with credible objectives works well.
- Some future challenges include:
 - Should consideration be given to asset prices, and if yes what instrument?
 - What are the “normal” interest rate and NAIRU?
 - Appropriate regulation of the financial system

Fiscal Policy Issues (c/w, states and locals)

- Submit all investment proposals to transparent and public benefit cost assessment.
- Question anti-deficit fetish, even over the business cycle, when we have productive public investments on offer.
- When, if at all, to use discretionary fiscal policy in addition to the automatic stabilisers.
- Sort out expenditure over-laps across the three levels of government, including for health, education, infrastructure.

Industry and Product Markets Policy

- General Principle:
Open market competition, unless explicit market failures.
- Current industry policy failures include:
 - Assistance to selected industries, eg cars, farmers and drought, taxis, government purchase preferences
 - Rent seeking under CPRS proposal, and elsewhere
- Institution reform to better guide investment in and pricing of infrastructure
- Regulatory reform process has some way to go
- Reform of education, health and aged care

Factor Markets

- Labour market issues include:
 - Improve education and human capital for all
 - Remove disincentives and complexities with current tax and social security system (Henry Review)
 - Monitor operation of industrial relations system
- Capital market issues include:
 - Need for a more neutral system of taxation on different saving and investment choice options (Henry review)
 - Regulation of financial market
- Natural resources allocation issues include:
 - More systematic and specific approach to environmental amenity
 - Clarify conditions and rights of access to some minerals and energy