CHALLENGING PC ASSUMPTIONS

Ross Gittins

The Productivity Commission's job is to make us care about the main driver of economic growth: productivity improvement. Its latest advertising campaign certainly makes it sound terrific. But ads can be misleading. And productivity isn't improving as quickly as it used to. We're told this is a very bad thing, but I'm not so sure.

The Commission's latest report on our productivity performance, *Advancing Prosperity*, offers a neat explanation of what productivity is: the rise in real gross domestic product *per hour worked*. So, it's a measure of the efficiency with which our businesses and government agencies transform labour, physical capital and raw materials into the goods and services we consume.

GDP can grow because the population grows, with all the extra people increasing the consumption of goods and services, and most of them working to increase the production of goods and services. It also grows when we invest in more housing, business machinery and construction, and public infrastructure.

Over time, however, most growth comes from productivity improvement: the increased efficiency with which we deploy our workers – increasing their education and training, giving them better machines to work with, and organising factories and offices more efficiently.

Here's the PC's own ad for productivity improvement:

> There has been a vast improvement in average human wellbeing over the last 200 years: measured in longer lives, diseases cured, improved mobility [transport and travel], safer jobs, instant communication and countless improvements to comfort, leisure and convenience.

Indeed, it's been a wonderful thing, leaving us hugely better off. But neither GDP nor GDP per hour worked directly measures any of those wonderful outcomes. What GDP measures is how much we spent on – and how much income people earned from – doctors, hospitals and medicines, good water and sewerage, cars, trucks and planes, occupational health and safety, telecommunications, computers, the internet, and all the rest.

The ad man's 200 years is a reference to all the growth in economic activity we've had since the Industrial Revolution. We're asked to believe that all the economic growth and improved productivity over that time *caused* all those benefits to happen. Well, yes, I suppose so. But right now, the Commission is asking us to accept that our present and future rate of growth in GDP and GDP per hour worked will pretty directly affect how much more of those desirable outcomes we get.

That's quite a logical leap. Maybe it will, maybe it won't. Maybe the growth and greater efficiency will lead to more medical breakthroughs, longer lives, cheaper travel, etc., or maybe it will lead to more addiction to drugs and gambling, more fast food and obesity, more kids playing computer games instead of reading books, more time wasted in commuting on overcrowded highways, more stress and anxiety, and more money spent on armaments and fighting wars. Maybe further economic growth will lead to more destruction of the natural environment, more species extinction and more global warming.

It doesn't follow automatically that more growth and efficiency lead to more good things rather than more bad things. It's not so much growth and efficiency that make our lives better, it's how we get the growth, the costs that come with the growth, and what we use the growth to buy. The trouble is that, apart from extolling growth and efficiency, the Productivity Commission has little to say about how we ensure that growth leaves us better off, not worse off.

Economics is about means, not ends. Its focus is on how to be more efficient in getting what we want. The neoclassical ideology – where ideology means your beliefs about how the world works and how it *should* work – says that what we want is no business of economists, nor of governments. What we want should be left to the personal preferences of consumers.

The Productivity Commission has long championed neoclassical ideology. It wants to minimise the role of government and maximise the role of the private sector. It would like to reduce the extent to which governments intervene in markets and regulate what businesses can and can't do. It has led the way in urging governments to outsource the provision of 'human services', such as childcare, aged care and disability care, to for-profit private providers. It wants to keep government small and taxes low to maximise the amount of their income that households are free to spend as they see fit, not as the government sees fit.

However, in that list of all the wonderful things that economic growth has brought us, governments played a huge part in either bringing them about or encouraging private firms to do so. We live longer, healthier lives because governments spent a fortune on ensuring cities were adequately sewered and had clean water, then paid for hospitals, subsidised doctors and medicines, paid for university medical research and encouraged private development of pharmaceuticals by granting patents and other intellectual property rights to drug companies.

Governments regulated to reduce road deaths. They improved our mobility by building roads, public transport, ports and airports. Very little of that would have been done if just left to private businesses.

Jobs are safer because governments imposed occupational health and safety standards on protesting businesses. The internet, with all its benefits, was first developed by the US military for its own needs.

The Commission says that, when we improve our productivity, we can choose whether to take the proceeds as higher income or shorter working hours. In theory, yes. In practice, however, all the reductions in the working week we've seen over the past century have happened because governments imposed them on highly reluctant employers. Ditto annual leave and long-service leave.

I don't share the Commission's worry that productivity improvement may stay slow. It won't matter if we do more to produce good things and fewer bad things. But that, of course, would require more government intervention in the economy, not less.

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