

ECONOMIC POLICY FOR THE 21ST CENTURY

John Quiggin
University of Queensland

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A POLICY AGENDA FOR THE KNOWLEDGE ECONOMY

- Policy debate dominated by discussions of 'reform'
- Policy agenda set in 1980s
- Irrelevant or counterproductive today
- We need a 21st century policy agenda
- Previous reform era provides a way to think about this.

AUSTRALIA IN 1980

- ✪ A small rich industrial country (Arndt)
- ✪ Value chain model (primary, secondary, tertiary)
- ✪ State-driven industrialization generated large secondary sector
- ✪ No answer to the crisis of the 1970s
- ✪ Postwar policy agenda exhausted and unsustainable

AUSTRALIA AT THE CROSSROADS

- Freebairn and others
- Two paths forward
- Mercantilist vs Libertarian
- Advocated libertarian path
- Australia abandoned mercantilism, but did not fully adopt libertarianism

THE POLICY PROBLEMS OF 1980

- Inflation and crisis of Keynesian macro
- Wages and labour market rigidity
- Structural adjustment
- Tax reform
- Fiscal crisis of the state
- Failure of financial regulation

THE POLICY RESPONSE: MICROECONOMIC REFORM

- Inflation targeting
- Labor market deregulation
- Tariff reform
- GST + Option A
- Trilogy (fiscal constraints)
- Financial deregulation

STILL DRIVES POLICY DEBATE

- Reflexive responses not analysis
- Examples
 - Crisis rhetoric around debt and deficits
 - Fear of wage breakout
 - Car industry as the historical enemy

FATIGUE OR EXHAUSTION

- Elite policy discussion suggests public suffering from 'reform fatigue'
- Reality is that reform program is exhausted
- Key elements either completed, overdone or irrelevant

AUSTRALIA IN 2015

- A knowledge economy
- An exporter of education
- An island of macroeconomic success in a world of policy failure
- Increasingly(?) vulnerable to climate shocks
- A complex and diverse society

TWO VIEWS OF THE FUTURE (FROM QUEENSLAND)

- Four pillars (Newman)
 - Agriculture, mining, construction, tourism
- Smart State (Beattie)
 - Knowledge-based industries
- 20th century vs 21st

THE POLICY PROBLEMS OF 2015

- Knowledge economy
- Climate change
- End of (last?) mining boom
- Financial sector
- Inequality and inherited (dis)advantage
- Global failure of macro policy

THE KNOWLEDGE ECONOMY

- Obsolescence of value chain model
- Information and Internet
- Public goods and household production
- Education and training
- Research, development and communication

THE KNOWLEDGE ECONOMY

- Computing and telecommunications key to innovation
- Stagnation in transport, previously the leading sector
- Australia's productivity debate misses the point

DEATH OF THE VALUE CHAIN

- Creation, dissemination and use of knowledge central to economic activity
- Does not involve processing of physical inputs
- Irrelevance of C20 notion of value added

THE RISE OF THE INTERNET

- Developed as by-product of university research communications
- Architecture depends mainly on open-source software
- Value depends primarily on user-generated content: blogs, Twitter, Facebook
- Important but secondary role of physical infrastructure
- Info superhighway metaphor both illuminating and misleading

CONTRIBUTION TO GROWTH

- Currently accounting for 20-30 per cent of GDP growth
 - McKinsey, World Bank, OECD, Allens
- Implies more than 50 per cent of TFP growth
- Even larger impacts on household sector
- Still ignored in policy debate

SCALE ECONOMIES IN INFORMATION

- Cumulative and interactive nature of knowledge
- Implies potential for unlimited (qualitative) growth, even with finite resources
- Central difference between endogenous and classical/exogenous growth theory

INFORMATION AS A PUBLIC GOOD

- Non-rival
- Cumulative
- Exclusion difficult/inefficient
- 'Publicness' increases as dissemination costs fall
 - By orders of magnitude in Internet era

CENTRALITY OF NON-MARKET ACTIVITY

- Wikipedia the canonical example
- But even commercial services are almost entirely non-market.
- 500 million tweets per day,
Twitter revenue \$0.01/tweet
- Facebook 300 billion user hours/
year, FB revenue \$0.03/hour

IMPLICATIONS FOR REFORM AGENDA

- Prices and incentives less relevant
- Financial sector has extracted wealth but not created it
- 1990s dot-com bubble
- Need to take human capital seriously

AUSTRALIA'S POLICY: FAILURES AND SUCCESSES

- Telecommunications failure: reform produced an incumbent monopolist hostile to innovation
- Education broadly successful: but deregulation agenda looks to failed US model
- Research, development, innovation: policy spasmodic and perfunctory

A POLICY AGENDA FOR THE KNOWLEDGE ECONOMY

- Knowledge as the driver of productivity
- Universal access to high-speed Internet
- Universal post-school education
- Expanded and democratised program of research and communication

HIGH-SPEED INTERNET

- Australia lags badly
- Failure of first round of telecoms reform (Telstra)
- NBN: A missed opportunity?

UNIVERSAL POST - SCHOOL EDUCATION

- High school completion already accepted as a norm (over 80%)
- Need to do the same for university/ TAFE/trade training
- Success since 1980 but
 - Deregulation/competition agenda going in the wrong direction

RESEARCH, DEVELOPMENT & COMMUNICATION

- Spasmodic commitment to research
- Misguided focus on commercialisation
- Communication to broad public is essential
 - Done better before 1980?
- The Conversation: A model for the future

COMING, READY OR NOT

- Experience of 1980s reform shows attempts to resist structural change are futile
- Knowledge economy is already here and will only become more important over time

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