

## **Vaulting Matilda**

Australia has been one of the best-performing economies in the OECD over the past two decades.

It has enjoyed 17 successive years of unbroken economic growth and has moved up the OECD income ladder from 16th place in 1992 to 8th place today.

Both Australia and New Zealand embarked on similar orthodox economic reform programmes from the mid-1980s and enjoyed productivity booms in the 1990s.

The list of common reforms is a long one: reduction of trade barriers, financial market liberalisation, a freely floating currency, similar Reserve Bank and fiscal frameworks, corporatisation and privatisation of government enterprises, producer and marketing board reforms and much else.

Commenting on the reforms recently, Australian Labor government minister Craig Emerson, who has responsibilities for competition and deregulation, said, "Some say orthodox economics is pie in the sky. Others say it's neo-liberalism gone mad. I say it works." He did not put Australia's success down to mining, important though that is.

Australia has maintained pro-growth policies consistently, which is important for business and investment confidence. Labor and Liberal parties fight over which is the most reformist.

By contrast New Zealand has reformed only in fits and starts and under the last government the emphasis was on income redistribution, not growth.

The government has an objective of raising New Zealand incomes to Australian levels by 2025. This will require major improvements in New Zealand institutions and policies, since these mainly determine economic performance.

An obvious starting point for improvements would be to study and adopt institutions and policies that are superior in Australia. This has clearly been the case with the government's recent decision to establish a Productivity Commission based on the well-regarded Australian model.

But in other instances, for example in the field of business law, New Zealand has had something of a habit of harmonising with inferior Australian arrangements and overlooking better ones.

One arguably superior institution in Australia is its electoral system. At the federal level and in all states other than Tasmania, Australia uses a constituency-based electoral system with candidates elected on a preferential vote. Many Australians look askance at the Tasmanian system and MMP, which they see as a recipe for weak government in both cases.

Over time another institutional model worth considering might be some form of integration of the judicial systems of both countries. The High Court of Australia is widely respected and our Supreme Court seems under-worked. Such a move could restore some of the international linkages and independence of the judiciary that were lost when appeals to the Privy Council were abolished.

When it comes to policies, a standout feature is the difference in the size of government. Even though Australia has three levels of government (federal, state and local) and the Rudd government has been spendthrift, total government spending, as forecast for 2011 by the OECD, is 36.1% of GDP compared with 43.7% for New Zealand. The 2025 Taskforce rightly noted that shrinking government spending relative to GDP is a prerequisite for faster growth.

Both Liberal and Labor governments in Australia have also done more to shrink government ownership of business enterprises – the Queensland Labor government is currently facing down union opposition to a large privatisation programme, for example – and to involve the private sector in infrastructure such as roads and water supply.

There is extensive involvement of the private sector in Australia in both health and education (around one third), including some private universities. Enrolments have increased in private schools by 208,000 since 1999 compared to 26,000 in government schools. Given that health and education are big sectors (combined, they account for around 10% of GDP), the discipline imposed by choice and competition is helpful.

The Rudd government has decided to raise the eligibility age for pensions to 67 by 2023 (it remains 65 in New Zealand).

Australia makes more use of the price mechanism for allocating resources: there are charges for local phone calls, market-based systems for allocating water, and interest payments on student loans.

There are no signs that Australia is about to implement an emissions trading scheme and it seems folly for New Zealand to move earlier.

To be sure, there are some New Zealand institutions and policies that are superior to Australia's (taxi licensing and GST come to mind) and many in Australia are not world's best practice.

Minister Emerson spoke of Australian businesses still being "shackled by lots of productivity-sapping regulations" and the "protection racket" of planning and zoning laws. Neither Australia nor New Zealand has good labour market regulations.

Hong Kong and Singapore are both freer economies with a much smaller size of government and higher per capita incomes than Australia and New Zealand. We need to take fast-growing and dynamic countries in Asia and elsewhere as models and adopt first-best arrangements if we are to out-perform Australia and close the income gap.

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