

# Chapter 5. The national reform agenda: origins and objectives

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## Introduction

The aim of this chapter is to examine the origins and the objectives of the National Reform Agenda. The Council of Australian Government's (COAG) National Reform Agenda is an important reform initiative that is close to the heart of many public policy makers across Australia. The Victorian Government has been advocating since 2005, particularly through COAG, that all governments need to develop a new National Reform Agenda with regulatory reform and human capital at its heart.

Throughout 2006, officials from all jurisdictions worked hard to make the National Reform Agenda (NRA) a reality. As work advanced on this — whether through ongoing discussions with the Commonwealth and other jurisdictions, or through the development of specific reform proposals — state jurisdictions remained convinced of the potential and necessity of a new reform agenda. Arguing for change has not been easy but there is strong evidence that supports the case for this reform proposal.

The chapter will cover the rationale for this agenda, outlining the evidence that has compelled policy makers and public servants to persevere. 'Evidence-based' policy has been a key tool in contemplating and developing the argument for a new reform approach. The chapter will then examine what the National Reform Agenda, including regulation and human capital reform, should look like and, finally, discuss the critical success factors for genuine national reform. It is important to note that, as this is a reform agenda that continues to evolve, the paper only covers the period to November 2006 and does not consider important developments that have occurred since that time.

## The impact and legacy of past reforms

Since 2005 the Council of Australian Governments has become a critical forum where a strong debate around a new National Reform Agenda has occurred. The Victorian Government, with support from the other states, has played a leadership role in this debate, consistently arguing at COAG and in COAG related fora that behind Australia's current prosperity is a legacy of reform by previous governments. The Victorian Government has also argued that more needs to be done. The first wave of reform from the early 1980s saw the floating of the dollar,

the deregulation of financial markets and the effective end of tariff barriers designed to protect Australia's industries.

The second wave of reform from the early to mid 1990s included agreement to implement National Competition Policy (NCP) as its centrepiece. Australia has enjoyed some 15 consecutive years of economic growth and these two major waves of economic reform are behind what has been described as 'the miracle economy' (The Economist 2003). Supporters of the NRA have argued that, while we should recognise our achievements to date, the evidence suggests there is no time for complacency and more reforms are required.

## **The evidence that supports new reforms**

Evidence of the need for continuing reform is compelling. Australia has enjoyed unprecedented prosperity in recent decades. We are experiencing the longest period of continuous economic growth since Federation, which is manifest in the steady increase in productivity and the steady decrease in unemployment. However, despite our recent successes, in 2004 Australia still ranked in the bottom 10 countries of the OECD in terms of labour productivity.

In addition, we also know that labour force participation rates of Australian men and women are generally lower than in the United States and the OECD average. There is significant room to improve our workforce participation rates for women with dependent children and for the older age cohorts. Supporters of the NRA have argued that we need to get better at assisting to women combine work and family and enabling older age groups to phase into retirement. A strong argument in the NRA arena has been that governments must look ahead and plan for the future.

Surveys of the global economic landscape by organisations such as the OECD reveal other major challenges facing Australia in the medium to long term. These challenges are well recognised by all Australian governments, commentators and the OECD (OECD 2006). In putting forward the case for the NRA, the Victorian Government has argued that the new set of challenges facing Australia over the coming decades are particularly linked to the ageing population and a more competitive international environment.

We know that our ageing population will present governments with considerable economic and fiscal pressures, particularly on the health system. In the next 40 years, around 45% of our population will not be participating in the workforce. This will place an enormous burden on those still in the workforce. At the same time, business will continue to depend on recruiting an efficient, skilled and healthy workforce.

We are also aware of the increasing impact of international competitive pressures and related opportunities. In coming decades China will overtake the United States as the world's largest economy and, with India, will make up the top

three. This will place pressure on both low wage and high wage jobs and industries. These economic changes will make skills increasingly important.

NRA policy makers have argued that preparing our workforce for the future will be a challenge for all governments and that the challenges ahead in the coming decades demand a reform agenda that is more ambitious than that of the 1980s and 1990s.

Data from the Groningen Growth and Development Centre (GGDC) in 2005 shows that Australia's ranking against other OECD countries, based on GDP per capita (USD in 2002), declined from the 1950s to the early 1980s but started to pick up in the early to mid 1990s, arguably coinciding with the first and second waves of reform. It has been argued that, in order for Australia to continue climbing the global income ladder, we need a new, ambitious agenda of national economic reform.

With considerable room for improvement in our current performance and the well recognised challenges of an ageing population and a more competitive international environment described above, there is a compelling argument for a new wave of reform. The argument has called for a third wave of reform which builds on and leverages our current successes so that we are well positioned to continue 'punching above our weight' on the global stage.

## **The third wave of reform explained**

In response to what Australian state governments considered as inadequate reform at the national level, coinciding with an understanding of the clear need to address the future challenges, the Victorian Government has argued for (and indeed COAG has accepted) three key components under the new NRA. These components are competition, regulation and human capital. In essence, competition is about more competitive markets, regulation is about reducing red tape and human capital is about a healthier, better skilled and a more motivated workforce.

From 2005, the Victorian Government actively argued at COAG that a clear vision for the next decade was needed, with all governments needing to work together to boost Australia's economic productivity and workforce participation. The evidence suggests and COAG has agreed, that this can be done by boosting productivity and lifting participation through a continued focus on business (through the lenses of competition and regulation mentioned above) and a new focus on human capital.

The NRA is a complex, interrelated and long term agenda with a simple message at its heart. It argues that governments need to work together for the common good to drive improvements to our productivity and lift workforce participation. The Victorian Government has also argued that the NRA requires a decade-long focus on reform in order to gain more immediate opportunities, such as

completing the NCP reforms and extending the NCP reform agenda to include regulatory and infrastructure reform.

## **Completing competition reforms and further reducing the regulatory burden**

The Victorian Government has argued that significant gains can be made through completing the competition reforms started in the 1990s and reducing regulatory burden. It also argued that the proposed new 'human capital' agenda offers the biggest economic potential and that additional reform opportunities should look at new reform initiatives linked to increasing the productive capacity of our people through health, education and training and work incentives. It has recognised the need to complete competition reform and also reduce the burden of regulation on our business. One line of argument pursued at COAG by supporters of the NRA has been that completing NCP and pursuing further regulation reform would allow Australia to drive further improvements to our already highly competitive and well functioning markets. While most NCP reforms have been substantially completed, there remains scope for further gains, including through further progress towards a fully integrated national electricity market, completing commitments to legislation review under NCP, improving infrastructure regulation and competitive neutral road and rail pricing.

Another significant opportunity for governments is to reduce the burden of red tape on our businesses. The 'regulatory burden' can be improved through addressing both the process (via gate-keeping arrangements) and outcomes (via targets that can be objectively verified). The Victorian Government has led by example in this area. In July 2006 it announced, in addition to COAG initiatives, that there would be no new regulatory burden with its introduction of an 'offsetting simplification' for new regulations — effectively the identification of a 'one in, one out' principle with regard to regulation. The Victorian Government also committed at that time to reducing the current burden by committing to a target of a 15% reduction in the cost of administrative burdens in three years and 25% in five years.

In 2006, progress was made at the national level on reducing the regulatory burden. The COAG Communiqué of February 2006 notes that COAG has agreed 'to a range of measures to ensure best-practice regulation-making and review and to make 'down payment' on regulatory reduction by taking action now to reduce specific regulation 'hotspots' (COAG 2006).

Following the February 2006 decision, jurisdictions have been working together on a range of issues. This includes best practice regulation-making within jurisdictions through improved gate keeping processes and across jurisdictions through developing principles for determining when uniform, harmonised or jurisdiction-specific regulation is 'best'.

COAG also agreed to take action with regard to 10 'hotspots' at its February and July 2006 meetings, that is, priority areas where regulatory overlap is seen as impeding economic activity. The hotspots include: Occupational Health and Safety (OHS); Building Regulation; Rail Safety Regulation; Environmental Assessments & Approvals; and Business Registration Processes. The rationale was that if governments could make real progress in these areas, they could demonstrate the potential for further reform. Many of these areas, such as OHS, are affirmed as a priority focus by the publicly expressed views of business interests, notably the Business Council of Australia. Jurisdictions have also been working together on a framework for the annual review of existing regulation in each jurisdiction for the purposes of reducing the burden on business. The Victorian Government has demonstrated a commitment to this agenda with the establishment of a standalone gatekeeper in relation to regulation — the Victorian Competition and Efficiency Commission (VCEC) — and with its 'Reducing the Regulatory Burden' initiative that includes the ambitious targets for reducing the regulatory compliance burden of 15 % over 3 years and 25 % over the next five years (Department of Treasury and Finance (Victoria) 2006).

## **The human capital agenda**

The human capital agenda mentioned above is a particularly innovative and compelling component in the 'story' about the need for reform. The Human Capital agenda argues that Australia needs a healthier, skilled, more motivated workforce so that our businesses can continue to compete and succeed in the global economy. We know that, in addition to the well-founded social reasons, there are strong economic reasons why governments should invest in improving people's health outcomes, improving the skills of our population and creating a motivated workforce.

The argument about the importance of Australia's human capital is at the heart of the NRA. The NRA approach at COAG is a marked change from a time in the past when governments came together at COAG to discuss social policy reforms which tended to focus in isolation on the 'latest crisis'. For example, the previous premiers' conferences focused on isolated policy content such as the number of hospital beds, 'drugs' in schools at COAG in 1999 and child protection at COAG in 2002. The NRA has tried to move away from 'crisis management' by encouraging a view across portfolios — looking for synergies in education outcomes and health outcomes. Promoting healthy living in schools is an obvious example. The NRA puts forward a long-term perspective, looking at government interventions across a lifecycle, for example from developing good diet and exercise habits in childhood to maintaining good habits as we get older and managing good health in the longer term.

This long-term perspective is particularly important. The NRA allows governments to make specific decisions about investing in early intervention

based on the evidence that this investment is critical if we are to make a difference to long-term outcomes. The NRA provides governments with a framework that promotes a long term view.

## **How big could the gains be?**

Modelling by the Victorian Department of Treasury has estimated that the benefits from reform are significant and will continue to grow for 20 years (Department of Treasury and Finance (Vic) 2005). They show that NRA's potential economic significance could add some 3% to 5% to annual GDP after 10 years, with more than a 10% increase after 25 years. This would amount to an additional \$65 billion to the Australian economy. The preliminary estimates from the Federal Government's Productivity Commission confirm Victoria's conclusion that the potential economic benefits from human capital reform are particularly significant and warrant a concerted effort from policy makers and political leaders (Productivity Commission 2006). One example of an area where reforms could lead to significant gains is by lowering rates of diabetes, an area which is part of the first tranche of specific human capital reforms that COAG agreed to consider in 2007. Further, the Victorian Department of Treasury's modelling of specific diabetes initiatives demonstrates that the vast bulk of these financial benefits will flow to the Commonwealth (as increased income tax and reduced calls on health spending and welfare payments). These outcomes raise the question of funding for these actions and the equitable sharing of the benefits of reform.

## **COAG's commitment to the NRA**

In 2006, building on discussions that took place in 2005, COAG reached significant agreements on the NRA. In February it agreed to, among other issues: endorse the NRA; an overall framework of multilateral and jurisdictional-specific policy proposals; the creation of a COAG Reform Council (CRC); and to a fair sharing of costs and benefits (COAG 2006a). In July 2006, among other agreements there was: a re-affirmation of a 10 year NRA framework and a fair sharing of costs and benefits; agreement to 11, indicative high-level human capital outcomes; that the COAG Reform Council would assess costs and benefits; agreement to an initial focus on three human capital areas, as a first step, by the next COAG meeting; and agreement that the next COAG, to be held in early 2007, would consider specific reform proposals being developed by the Human Capital Working Group and Competition and Regulation Working Group (and their subgroups) with representatives from all jurisdictions (COAG 2006b).

## **Factors to ensure the success of the third wave**

A number of factors underpin the success of the NRA, which brings together a number of related objectives. These objectives primarily include economic prosperity, social cohesion and healthy federalism.

First, the NRA has economic prosperity as a key objective, through improving productivity and participation and by being able to meet the new economic challenges of an ageing population, international competitive challenges and an increasing premium on skills in the economy.

Another objective is social cohesion, thereby enabling the best outcomes for the individual and by improving social cohesion more generally. The NRA has argued for the benefits and necessity, of promoting social inclusion and mobility, through a lens of economic reform. The joint goals of participation and productivity link closely to the proposed human capital agenda in terms of the need to improve literacy and numeracy at school; more successful youth transitions; raising adult skills; and improving workforce participation by preventing illness and disease.

Finally, NRA has building a healthy federalism as an objective. Public policy makers in Victoria have argued that, through establishing a framework that creates the right incentives for all governments to work together towards common outcomes, the NRA can improve the health of the Australian federal system. The NRA has challenged governments to change the way they work together, to focus on agreed outcomes rather than contestable 'inputs' and 'outputs' and to focus on a truly fair sharing of the costs and benefits.

COAG has agreed on the solid conceptual framework for the National Reform Agenda. That is, having agreed the vision, objectives and reform priorities, governments agreed to focus on outcomes and measuring progress against those outcomes. This is a significant shift from the 'old' ways of COAG, where there was an undue emphasis on specific inputs and actions. The 'old' way of doing things had fostered an unproductive game of 'points scoring' and 'blame shifting' and resulted in a financial framework between governments (for example, specific purpose payments), that could be too focused on administration and red tape and too little on outcomes. By agreeing on what governments want to achieve and how they will measure progress towards that achievement, the debate moved away from 'who does what and for how much' towards 'what we need to do and for what benefit'.

## **A new way of states working with the Commonwealth**

The NRA proposed a new way of working with the Commonwealth that included four key elements: collaboration; an outcomes-based approach; jurisdictional flexibility; and a long-term and integrated reform agenda across portfolio areas. The Victorian Government has argued that collaboration is about agreeing to

implement policies in more integrated ways, including collaboration on interface issues. An outcomes-based approach is about focusing policies on achieving outcomes for the community, not prescribing actions. Jurisdictional flexibility relies on moving away from a one-size-fits-all approach to reform that allows jurisdictions to pursue outcomes in ways that reflect different systems, circumstances and priorities. Finally, the Victorian Government has argued that the NRA is about a long-term and integrated reform agenda across portfolio areas where COAG would focus on the outcomes that matter to the economy and community and collectively undertake long-term integrated reform across portfolio areas.

We are not starting on a green field site. Australia has successfully implemented collaborative national reform previously. The NCP is widely acknowledged as one of the most successful collaborative reform efforts since Federation. The Productivity Commission's review of National Competition Policy reforms identified four key success factors that made NCP so successful (Productivity Commission 2005). These were: recognition by all governments of the need for reform; broad agreement on the priority problem areas; a solid conceptual framework and information base to guide policy prescriptions; and some highly effective procedural and institutional mechanisms to implement reform.

The NCP procedural and institutional mechanisms were important and included transparent and independent monitoring of progress and outcomes, robust accountability arrangements and financial incentives to states and territories. Gary Banks, the chair of the Productivity Commission has proposed that the framework to drive successful reform into the twenty-first century should contain 'independent monitoring and assessment of progress in implementing agreed reforms', 'robust accountability arrangements (including) progress measures'; and 'financial incentives to the states and territories to enable an appropriate sharing of the costs and benefits of reform' (Banks 2006).

These are all elements which the Victorian Government has advocated as critical to the success of the NRA. The evidence suggests that without the appropriate incentives and a robust framework, governments will not be able to deliver the ambitious reform agenda required to meet the challenges ahead.

## **The importance of the right institutional arrangements**

Ensuring that the right institutional arrangements exist to provide the right incentives to deliver against agreed outcomes is the critical success factor for the NRA. Having an effective independent body to monitor the reform agenda is part of this. COAG in July 2006 went some way towards achieving this, in agreeing to establish the COAG Reform Council (CRC). The Productivity Commission has also recognised the importance of incentives. Gary Banks, Chairman of the Productivity Commission in a 2006 speech to the 'Making the

Boom Pay' conference in Melbourne succinctly described this issue in the context of regulation:

While many regulatory reforms will be clearly beneficial to the jurisdictions implementing them, reforms directed at achieving national consistency may not yield benefits to individual jurisdictions commensurate with national gains. In such circumstances, there may be a case for the Australian Government to provide financial incentives for jurisdictions to take a broader view.<sup>2</sup>

The case is even more stark in the area of human capital reform, where the States and Territories will do the bulk of the 'heavy lifting'. Modelling suggests that the Commonwealth will receive the majority of the benefits. While COAG has agreed in principle to the fair sharing of the costs and benefits of reform, it remains to be seen how this agreement will be implemented.

## Early support

This case for the need for a third wave of reform has been supported by key stakeholders like the International Monetary Fund (IMF) and the Business Council of Australia, who have argued strongly for a new wave of national reform. At the meeting of the IMF Executive Board in October 2006, directors 'welcomed the agreement between the Australian and state governments on the ambitious NRA to lift productivity and labour participation over the next decade' (International Monetary Fund 2006). The Productivity Commission *Annual Report* in October 2006 noted that:

The NRA is wide-ranging and ambitious. It lays down some challenging objectives for reform within its 'human capital' stream, along with more specific initiatives in the competition and regulatory reform streams to complete and build on the NCP.<sup>3</sup>

As these quotes indicate, support for the NRA is strong among and widespread. There is explicit recognition that Australia must undertake ambitious reforms and that incentives serve as the best way to drive this process. There is also a sense that reform commitments, particularly in relation to competition and regulation reform, need to be put into action quickly.

## Conclusion

We are at an interesting point in the history of our Federation. There are pressures on our federal system through the changing expectations of the Australian population, the evolving legal landscape and the increasing pressure on governments to deliver 'more for less'. If implemented completely, the National Reform Agenda offers governments a way to respond to these pressures and creates a framework for a decade of collaborative national reform. It also can provide us with the opportunity to equip Australians with better skills,

better health and better systems to respond to the economic demands of the future.

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## ENDNOTES

- <sup>1</sup> I would like to acknowledge the assistance of Elizabeth Langdon in completing this chapter.
- <sup>2</sup> Gary Banks, 'Regulation for Australia's Federation in the 21<sup>st</sup> Century'. Paper presented at the Melbourne Institute Conference *Making the Boom Pay: Securing the Next Generation of Prosperity*, 2–3 November 2006. Accessed 20 May 2008 at: [http://www.melbourneinstitute.com/conf2006/pdffiles/Session%205/Gary%20Banks\\_paper.pdf](http://www.melbourneinstitute.com/conf2006/pdffiles/Session%205/Gary%20Banks_paper.pdf)
- <sup>3</sup> Productivity Commission 2006a. *Annual Report 2005-06*, page 9, Productivity Commission, Canberra at <http://www.pc.gov.au/research/annrpt/annualreport0506/annualreport0506.pdf>