# Glenn Stevens: "Reform" and economic growth

Remarks by Mr Glenn Stevens, Governor of the Reserve Bank of Australia, to the National Reform Summit, hosted by *The Australian* and *The Australian Financial Review*, Sydney, 26 August 2015.

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Thank you for the invitation to take part in this very important discussion. It is pleasing to see so many influential people coming together for a discussion about the country's economic future.

In a sense, I am really an observer here, because the things you need to grapple with today are mostly outside my remit. Australia's monetary system is still – I trust – well supported by all the key stakeholders here. It has helped to deliver good outcomes. Our financial sector is robust and stable. But a stable monetary standard and a strong financial system, while necessary conditions for prosperity, are not sufficient ones. More is needed – and that's why you are here.

Your topic is "reform" in the broad. It's a term that will be used frequently over the next few hours.

What does it mean?

Often it is presented through the lens of allocative efficiency, otherwise known as productivity. And this is very important. Ideally, production and demand each face and respond to, without distortion or impediment, underlying relative costs. Those relative costs are given by the state of human and physical capital, technology, natural resource endowments and so on.

Generally, economists think optimal allocative efficiency is achieved by removing barriers to competition in markets – be they tariffs, subsidies, protectionist devices, unnecessary regulation – and allowing relative prices to allocate productive resources. For most products, competitive markets will deliver the greatest choice at the lowest price to informed consumers.

Granted, there are various exceptions to the generalisation above. Where markets are "natural monopolies" or externalities exist, for example, regulation is called for. Good outcomes won't occur if consumers are not well informed. And so on.

Nonetheless, I would venture that the biggest gains to prosperity over the past 25 years have come from more competition. (Aside, that is, from gains from the terms of trade, about which we can do nothing and which usually don't keep coming). Competition lowers prices and costs. It promotes the drive to do better, which spurs innovation.

Minimising distortions due to the tax system also has a role in enhancing allocative efficiency.

These things remain important. You should talk about them today. The "to do list" remains substantial.

In arguing the case for reform, though, the way the discussion is framed matters.

I would like to suggest that "reform" is a term which excites the intellectual elites and the various interest groups (including those who feel they have something to lose from reform) but doesn't do much to excite the general public. And getting buy-in from them is ultimately critical. To be sure, they have to be led. But they have to be convinced too.

I submit that the general public is much more likely to grasp, intuitively, a conversation about growth. Growth in jobs, in incomes, in their standard of living, wealth and prosperity. Better allocative efficiency, if we could secure it, would doubtless add to growth. That growth is worth having.

But the story is also about how to secure more dynamic effects: increasing the resources available to be deployed in economic activities of various kinds; fostering conditions under which innovation and genuine risk-taking flourish. In that regard, how to minimise adverse effects on work effort, enterprise, capital accumulation and innovation, due to tax or other factors, would be a worthwhile question – accepting, as a condition, that there is an amount of revenue the government must raise to fund the provision of services only the government can supply. Minimising those adverse effects means a larger economy; more income; more revenue and so on.

In parallel, there is no avoiding the need to have the right labour market arrangements. The question is how to have suitable rules that offer basic fairness, but with minimum adverse effects on enterprise, employment, and the scope for free agents to come together in ways that mutually suit them – and that grow the economy. Whether we have that balance right is a question you might address.

Growth is important. And for a while now, there has not been quite enough growth. There has *been* growth, and more than in many countries. But, recent labour market outcomes notwithstanding, not as much as we ought to be capable of. Growth rates have mostly started with a "2" for a while now – despite the lowest interest rates in our lifetimes, banks able and willing to lend and measures of consumer and business confidence generally about average (notwithstanding what we keep reading in the media). This may be simply a feature of the post-financial crisis world – the need for balance sheet repair. It may be about changing demographics. It *may* be that potential growth is a bit lower than we used to think – though I don't think we can know whether that is so at present.

But whatever the factors at work, we are unavoidably and inexorably being led to the question: how do we get more growth? The fiscal policy debate, usually framed as "when will we get back to surplus?" is actually about: how do we get more growth? Other discussions, so often framed as about "fairness" – that is income distribution – might be better framed as: how do we grow the pie? That isn't because distribution doesn't matter. It's because distributional issues surely get easier with growth but much, much harder in its absence.

Reasonable people get this. They also know, intuitively, that the kind of growth we want won't be delivered just by central bank adjustments to interest rates or short-term fiscal initiatives that bring forward demand from next year, only to have to give it back then. They are looking for more sustainable sources of growth. They want to see more genuine dynamism in the economy and to feel more confidence about their own future income.

So in your deliberations today, a key question worth asking is: how do we generate more growth? Not temporary, flash-in-the-pan growth, but sustainable growth. How do we craft a credible, confidence-enhancing, narrative about growth?

That's actually what "reform" is about: making things work better for higher income and wellbeing. If there are some things of substance that you could agree on, it would be a step forward.

Present here in the room you have the intellectual resources, the stakeholders, the leadership and the communication capabilities. In short, you have the ingredients.

Over to you.