

# SUBMISSION ON STIMULATING EMPLOYMENT OPPORTUNITIES IN QUEENSLAND

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Introduction +

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Details

In July 2009 the Economic Development Committee (EDC) of Queensland's Legislative Assembly released an issues paper ([Inquiry into identifying world's best practice by governments to effectively stimulate employment opportunities in Queensland](#)) as the basis for submissions in relation to "what government should be doing to create employment opportunities and ensure Queensland is well positioned for the inevitable economic upturn".

In brief the issues paper outlined:

- **the rise in unemployment** as a consequence of the global financial crisis (GFC);
- the nature of the EDC; current inquiry's terms of reference (ie identifying world's best practice by governments to achieve the above goal, with special attention to: S&T; natural resources; comparative advantages; skills requirements; and regulation); and inquiry's timeline;
- Queensland's **economic growth** - slowdown after strong growth with rising unemployment;
- **traditional and emerging economic strengths** - traditionally related to natural resources, but diversifying via innovation and value-adding; exports are important. Moreover:
  - government has identified 15 key industries and supports six Centres of Enterprise;
  - Department of Employment, Economic Development and Innovation (DEEDI) has programs to support regional, industry and business development;
  - Smart Industry Policy is current industrial development framework which aims to: connect industry with ideas; boost incentives for productivity; develop skilled people; build markets for smart products; promote innovative business culture;
- **unemployment** - rising as a result of global financial crisis; higher for unskilled; particularly impacts younger / older / indigenous workers; long term unemployment; under-employment; regional variations in unemployment;
- **government's role in job creation** - existing programs through DEEDI (skilling / reducing barriers / creating opportunities); Rapid Response Teams established following GFC; Green Army initiative; special indigenous programs; example of international employment programs;
- **skills needed** - international movement as economy globalises; areas of skill shortages; the need for more than training;
- interaction between **regulation** and economic growth / recovery - regulation is needed but can impede business; Queensland Office of Regulatory Efficiency (in DEEDI) promotes regulatory reform;
- **submission procedures** - including the threat of being held in contempt of Parliament if submissions are published without EDC approval

The issues raised by the EDC's inquiry are very complex. Due to the short timescale and other commitments, this submission merely presents notes on a way to think about those issues, rather than being the comprehensive and fully documented analysis that is really needed.

It is noted also that this submission is an electronic document which relies on other information accessible through Internet links and on JavaScript coding. It thus can not be read properly in printed form or without the JavaScript that is available on the author's web-site

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### **Themes of Submission**

A key theme of this submission is that (as was the case with inquiries into problems in Queensland's hospital system) the terms of reference of the EDC's Inquiry into improving employment opportunities seem too narrow.

The Inquiry's main focus appears to be on improving 'government programs' (ie what government, especially DEEDI, itself does), whereas success in dealing with the potentially serious economic and employment challenges that now exist arguably requires more emphasis on 'governing' (ie creating frameworks within which others can 'do things').

In other words enabling economic and community development in directions that do not have to be politically endorsed in advance is likely to be more useful than government 'assistance' programs. An emphasis on 'governing' (rather than micro-management) by boosting the ability of apolitical institutions to stimulate the development of economic systems would not only make Queensland's economy stronger and more adaptable, but also strengthen Queensland's civil society. It would thus have secondary advantages by reducing traditional weaknesses in the state's political system that have contributed to periodic abuses of political power.

Other themes explored below include:

- a brief and shallow economic contraction, a 'Benign Market' scenario, seemed to be generally expected at the time this submission was being prepared;
- there is however a need for more sophisticated approaches to understanding the complex and rapidly changing global economic environment, and a possibility of a 'Fractured Market' scenario involving profoundly difficult economic and employment challenges;
- Queensland's ability to respond to either scenario is constrained. The economy remains relatively under-developed, because the tactics used to promote development have been inadequate. Market-focused (rather than politically driven) alternatives are available that might be more effective;
- international 'best practice' will not necessarily yield a locally

appropriate solution. In seeking a solution, consideration needs to be given to: improving productivity; building competitive advantage; the relationship with National Competition Policies; providing financial incentives to states for developing productive modern economies; and the macroeconomic / fiscal / tax implications of the state's budget; :

- boosting market-based capabilities to better support existing areas of economic strength and very generalised paths to diversification would be more useful than government efforts to identify and push 'winners';
- as well as prevention through more effective methods for economic development, support for economically marginalized individuals and communities arguably needs to come increasingly through motivating / empowering individuals to support one another, rather than from government programs;
- the major focus for regulatory reform should be on inhibiting the emergence of new 'red tape' by emphasis on non-political options for addressing new challenges.

## Submission

Economic Context  
Improving  
Understanding  
Economic Challenge  
Problems in Terms of  
Reference  
Strategic Directions  
Boosting Strengths  
Supporting the  
Marginalized  
Regulatory Reform

## Details of Submission

### Economic Context to Inquiry

The EDC's 'employment opportunity' Inquiry was commissioned because unemployment is rising in Queensland, and is expected to continue doing so, due to the impact of the global financial crisis (GFC).

The GFC's domestic impact in Australia apparently resulted primarily from:

- constraints on the availability of capital (noting Australia's heavy dependence on international capital inflow);
- declining demand in many developed economies, and a collapse in international trade;
- precipitate falls in economic production (mainly in Europe and Asia).

Within Australia this resulted in: reduced consumer confidence and demand for new housing; a fall in committed resource investment; capital problems facing various businesses; failures by firms with high debt levels; losses by businesses and banks; declining business orders / confidence / investment; falling commercial property values; difficulties funding infrastructure investments; worsening household finances; increased household savings; and sharp falls in government revenues.

State Government concerns about ensuring job creation were expressed in the context of Queensland's 2009-10 budget in June 2009 because the GFC had both: (a) adversely impacted state revenues; and (b) threatened a rapid decline in national revenue, economic activity and employment from mid 2009 - because of adverse effects on resource-related industries and property

development. Substantial declines in the Australia's terms of trade (reflecting a fall in commodity prices from boom levels) was a major source of expected problems from mid 2009.

A notable feature of the budget was a commitment to maintaining substantial state infrastructure spending (despite a rapid worsening of the government's financial position, and a resulting large budget deficit). This was seen as reducing the job losses likely because of the GFC's impact on the state's economy and government revenues (see [About Queensland's 2009-10 Budget](#)).

In the budget context various observers suggested, in relation to Queensland's economy, that: the state has suffered more than others, and has only its economic structure and financial arrangements to blame; unemployment will rise; mining / property booms have ended; business investment could fall 25%; and business has concerns (eg with higher costs which can't be passed on; and lack of payroll tax relief / strategy for fiscal recovery). However on a positive note it was suggested that: the budget deficits would reduce the risk of economic contraction and unemployment; Queensland's performance (despite setbacks) should still be better than others; and the worst may be over in 4 years with strong growth resuming in 2011-12.

By the time this submission was being assembled, there was increasing optimism that (mainly because of aggressive stimulatory policies adopted in the US and China) the risk of the very severe global economic contraction that had appeared likely in late 2008 could be avoided and that recovery to slow growth was imminent (see [Recovery?](#) in *Managing Australia's Economic Crisis*). Queensland business generally expected an improving economic outlook, though the economic news was actually worsening (CCIQ, 'Pulse survey of Business Conditions', June 2009). The RBA expected that the downturn would not be one of the more serious in the post-war period (Rollins A 'Risks to economy are receding', *Australian Financial Review*, 29/7/09)

### **Improving Queensland's Understanding of the International Context**

However the situation is not that simple. The above 'Benign Market' scenario is not the only possibility. .

It will thus be suggested below that, at the very least, there is a need for a more sophisticated approach to economic analysis in order to understand the opportunities and risks that will affect Queensland's economy and employment opportunities. Specifically qualitative changes in the nature of economic systems probably need to be considered, as well as the quantitative indicators that economists traditionally rely on.

An account of the causes and complexities of the GFC is in [Global Financial Crisis: The Second Test](#). That document also included speculations about

the requirements for a global solution.

**Apparent Causes** include: prior asset inflation; declining US housing prices; an oil price spike; loss of effective regulation due to globalization; failure of post-war international financial regime to recognise macroeconomic consequences of Asian economic models, and the need which other emerging economies had to export-led development to guard against financial crises; emergence of an unregulated 'shadow' banking system in US; high levels of household debts which caused consumer spending to fall as financial losses emerged; innovations in financing and monetary policy; decisions by regulators and businesses; government social policies; complex financing arrangements that rendered consequences incomprehensible; possible intrinsic disequilibrium in financial markets that was not perceived by deregulators; community irresponsibility; a lack of top-level US government economic expertise because of the 'war on terror' focus; a 'savings glut' in East Asia that was vital to economic models adopted in the region; Japan's ambitions and 'carry trades'; the way Lehman Brothers failed; very high levels of corporate debt in Europe; risky investments in emerging market economies; and policy actions by governments in reacting to the emerging crisis.

**Apparent complexities** include: inadequate efforts to repair financial markets; side effects of radical efforts to combat crisis; deflationary demand deficit built into East Asian economic models; trade downturn; demographic transition; political risks (eg of protectionism); undermining past basis of economic globalization; need for new methods for macroeconomic management; cultural factors influencing the role of money and the methods used to promote international financial / economic regimes; and possible emergence of new global reserve currency.

An important question related to the GFC ("Why did no one see this coming?") was posed by Queen Elizabeth. In some respects the answer involves the limits of rationality in dealing with very complex systems. However at another level it reflects the fact that economists tend to focus on 'real economy' variables and have assumed that financial markets would take care of themselves - an assumption that proved incorrect because the character of those markets was changing and rendering them unstable for many reasons (eg regulatory changes; financing innovations; and the emergence of radically different East Asian economic models).

Unfortunately it seems possible that the mid 2009 perceptions about a short / shallow downturn before inevitable recovery (ie the Benign Market scenario) might simply reflect the same inadequacies of analysis that failed to see the GFC coming, for reason outlined in False Dawn?

**Key points:** 'Toxic' assets in (mainly European / US) financial institutions have not been adequately dealt with and will constrain

ongoing credit operations. Higher interest rates are likely due to cost of government to fiscal stimulus and bank bailouts. Global financial imbalances have been vitally important to East Asian economic models, but won't be sustainable in the post-GFC environment.

A 'Fractured Market' scenario involves the GFC resulting in a protracted / deep downturn, and leading to significant changes in Queensland's economic environment. Major post-GFC economic adjustments might well be needed in Europe, North America and Asia - and business / government strategies in Queensland could not be viable unless this is evaluated.

An 'Asian Century' scenario is a further possibility leading to significant changes in the criteria for economic 'success' (which would affect what is needed to create employment opportunities) - if the financial crises experienced in major Western-style economies lead to long term setbacks.

**An Asian Century?** Radically-different economic / financial practices prevail in East Asia (see Understanding East Asian Economic Models). There is some similarity to 18th-century European mercantilism under which the goal of economic strategy was to build the power of national elites, rather than improve the welfare of citizens as consumers. Accumulating a stock of 'treasure', rather than boosting value-added, could become the criteria for economic success if this becomes the 'Asian century' and East Asian economic models prevail.

A 'Global Collapse' scenario - under which economic breakdown triggers international political discord and widespread conflict - is also not unimaginable.

While only the 'Benign Market' and 'Fractured Market' scenarios are considered below, Queensland's businesses, communities and governments need to develop the capacity to evaluate changes in the international economic environment in terms of their macroeconomic implications for the state's economy as a whole and their microeconomic implications for various industries. In particular, because of Queensland's exposure to Asia and expectation of major economic opportunities in the region, significantly enhanced Asia-literacy is needed to maximize employment opportunities (see also China as the Future of the World?).

### **Queensland's Economic Challenge**

Queensland's economic challenge depends on the duration and intensity of the international economic dislocation associated with the GFC. Under the 'Benign Market' scenario, the challenge is to prevent serious damage from a short term downturn (eg a significant rise in unemployment that would have feedback effects through reduced consumer spending and mortgage defaults). Under the 'Fractured Market' scenario, Queensland potentially faces a major shock that dislocates current economic activities and

expectations.

Queensland needs to do a great deal to improve its ability to respond under either scenario because, despite, rapid population and economic growth, it has remained relatively under-developed economically (see Evidence in Queensland's Economic Strategy). For example:

- GSP / capita (a measure of the economy's productivity - which in turn tends to reflect its ability to adapt to economic change) has been low by national standards - and Australia's GDP / capita has not been high by international standards;
- the economy has remained highly dependent on natural resources - which are subject to boom and bust cycles (whose consequences are now being demonstrated) and can tend to be capital intensive (and thus often a poor basis for competing with moderately-skilled low-wage economies). Those limitations led to: (a) a loss of business and government enthusiasm for such activities in the 1990s; (b) slow responses to the resources boom triggered more recently by China's explosive growth; and (c) vulnerability to a possible breakdown in the East Asian economic models in the post-GFC environment (see Are East Asian Economic Models Sustainable?);
- economic growth (especially in SE Queensland which accounts for a substantial share of the state economy) has also been highly dependent on rapid population growth - and this dependence has negatives in terms of high costs to taxpayers and growth pains;
- business and the community remain highly dependent on external investors and government to ensure their economic welfare (a common source of economic weakness in relatively resource rich regions)..

Though the national situation improved during the 1990s (arguably as a result of market liberalization), significant gains were no longer being made even before the emergence of the GFC (see Impact of Economic Liberalism in Australia)

Attempts to develop and diversify Queensland's economy have been made for about 25 years and, though partly successful, these have been much below potential arguably because substandard methods for economic development that have been adopted - involving efforts to push changes that were politically seen to be 'desirable'. Methods such as those suggested below to develop the economy and thus allow market-driven diversification could potentially achieve better outcomes in future.

More market-focused approaches to economic development have not been seen to be necessary arguably because state governments (who have the major responsibility for economic development in Australia) face inappropriate incentives. There may achieve political gains from meeting the expectations of influential interest groups that are seen to be economically 'progressive' (eg by funding education / research). However, because of Commonwealth Grants Commission practices, under which

revenues are determined on a 'needs' basis and compensate for weaknesses in local tax bases, state governments have no financial incentives for ensuring that their state's economy is highly productive through meeting leading-edge market demands. Moreover state revenue sources tend to reflect the level of economic transactions, rather than whether those transactions are economically productive (see Providing Incentives for Effective Economic Development).

If the 'Fractured Market' scenario eventually unfolds, serious efforts to boost the supply side of Queensland's economy will be vital needed (to grow out of recession), rather than marking time waiting for the resumption of growth similar to that in the past - whilst accumulating huge public debts that would constrain future growth.

Methods whereby the supply side of the economy might be strengthened, and thus Queensland's ability to generate well-paid employment opportunities, are suggested in A Case for Innovative Economic Leadership. The latter recognises that improving productivity and creating employment opportunities in a relatively high-wage economy can be achieved through innovation (ie commercially exploiting new technological and market trends). Developing such a capacity in Queensland has been the goal of successive state administrations for the past 20 years (eg through 'Smart State' programs). However success has been limited arguably because of the emphasis on political 'push' (through government programs) rather than on methods that would emphasise market 'pull' (see Commentary on Smart State).

**What might be done:** A Case for Innovative Economic Leadership refers to the possibility of accelerating changes in the economic systems that provide support to individual enterprises, through democratically endorsed institutional arrangements which are able to: (a) identify opportunities for such changes before they are likely to be widely (ie politically) understood; (b) explore multifunctional enterprising options for addressing those opportunities in such a way that private initiatives can be taken; and (c) enable those who lead such processes to gain reasonable rewards.

Similar methods might also usefully be applied to the development / enhancement of market-based capabilities to support (for example): (a) agribusiness; (b) minerals and energy related industries; (c) growth oriented SMEs; and (d) larger regional economies.

### **Problems in the Inquiry's Terms of Reference**

Government's best option for creating employment opportunities would involve 'governing' (ie creating a framework in which others can do things - such as creating the capacity within business and the community to better understand the international economic environment) rather than itself trying to 'do' those things itself. There are constraints built into the political process which (for example) render politically acceptable ideas likely to be



commercially out-dated (see Economic solutions are beyond politics).

There are 'n' Queensland organisations (eg enterprises, associations, institutes, civic entrepreneurs) who can contribute to the Inquiry's goal, and it would be more constructive to focus primarily on what they (rather than executive government) can do. Government's most useful contribution might be to legislate democratically-acceptable protocols and potential revenue sources that might enable **independent** initiative in enhancing broader economic / employment systems - even though those systems have some public interest implications for the community as a whole.

A beneficial side effect of such an approach would be to strengthen civil society in Queensland - and thus lift the community's capacity to provide up-to-date and practical contributions to political debates - thereby raising the ability of the Parliament to effectively hold the Executive accountable. Though stronger economic insight in itself would be insufficient (as social, environmental, governance etc expertise is also required), stronger civil society seems to be a key to reducing the potential for abuses of political power that arise periodically (see Journey Towards a More Effective 'Fitzgerald Inquiry'). It would also (by strengthening economic insight within the community) make a useful contribution towards coping more effectively with the challenges posed by close exposure to the crony capitalism implicit in neo-Confucian styles of socio-political-economy (see Lack of Asia Literacy in Competing Civilizations).

Unfortunately the Inquiry's main focus seems to be a review of industry development and employment programs undertaken by DEEDI. Such programs (which might expect public servants to 'assist' business, industry or individuals in various ways) will often tend to be the problem, rather than the solution (eg initiatives to fill emerging market gaps can create obstacles to real development of the economy). A fundamental change in philosophy is needed to emphasise economic / community development so that focus is placed on upgrading assistance through normal market / social processes.

Moreover, to be really effective in creating employment opportunities, there is a need to change the way in which the performance of public service staff is assessed (ie so that value is not primarily placed on managing large and costly operational programs).

#### **Other Strategic Directions for EDC Inquiry**

The Inquiry should be cautious about assuming that there is any 'best practice' that can simply be copied. While it is useful to study international practices, differences in political, administrative, economic, social and cultural contexts complicate what can be learned - in relation to Queensland's needs. Moreover given possible changes in the structure of the global economic / financial environment (see above), past experience may not be an adequate guide.

The Inquiry needs to recognise the importance of competitive advantage (ie

that which can be created by strategy) rather than emphasising the traditional notion of comparative advantage (ie the factors that are innate in a given region) that were mentioned in its Terms of Reference.

The Inquiry should focus on methods to improve productivity (ie a value added measure) rather than targeting 'employment creation' directly, as sectors with increased productivity will tend to grow and create highly paid employment opportunities (because prices then fall and demand rises). Focusing directly on 'jobs' is likely to limit productivity, slow growth and ultimately result in fewer job prospects / lower incomes.

The Inquiry thus needs to consider the implications of National Competition Policy (NCP) as this has been viewed as the major source of improvements in economic productivity for most of the past two decades (ie by changing the way in which governments operate). NCP has arguably tended to complicate government as much as improve it and involved an unbalanced economic approach (as it created the incentive to be competitive, but did not ensure that the systemic capabilities were created that individual / enterprises must be supported by if they are to compete successfully).

The Inquiry could draw attention to the possibility of increasing the financial rewards to state governments if they are successful in developing a productive modern economy by changes to federal financial arrangements (see Economic Development Incentives).

The Inquiry needs to consider the the relationship between the microeconomic issues that are mentioned in its Terms of Reference and the macroeconomic initiatives that have been taken to boost job creation through the state budget (involving large budget deficits in the hope that the economic downturn will be short and shallow - see Queensland's 2009/10 budget). This is needed to ensure consistency, and because: (a) there seem to be serious difficulties emerging in the budget position which must become critical under the 'Fractured Market' scenario; and (b) taxes are a major concern of business in relation to job creation.

### **Boosting Economic Strengths**

Efforts are suggested above to develop: (a) market-based capabilities to better support existing areas of economic strength; and (b) very generalised paths to future development.

'Picking winners' (ie the 15 key industries that the EDC's issue paper mentioned) and creating arrangements for public servants to 'assist' business and industry in developing them, are likely to be far less effective than creating arrangements whereby market support can emerge for 'winners' that are determined by demand signals.

Many of the components of the DEEDI's current industry programs would be of value (eg enterprise centres; technology transfer; market development) but should be created through institutions whose market responsiveness is

not constrained by potentially-dated political understanding and interest group expectations.

Likewise DEEDI's skills development programs are undoubtedly of value, but the major operations need to be hosted by institutions which ensure that the programs are more directly responsive to market demands rather than to political aspirations. It is inappropriate to seek to identify the skills Queensland needs in future through submissions to an Inquiry. There is a need rather for the Inquiry to suggest institutional arrangements that would create a more direct relationship between demand and supply

Government programs can have a constructive role in education, in support for basic research and in stimulating action to deal with emerging public policy priorities, but the economic benefits that derive from these are likely to much greater if any spin-off economic gains are not constrained by governmental attempts to 'help' or boost government revenues.

### **Supporting the Economically Marginalized**

Individuals and communities can become marginalized economically - especially in an environment in which economic change is rapid (as it has been in Australia as a result of economic globalization and market-liberalization reforms, and is likely to be the case in future).

For example, the long-term unemployed and older workers can lose touch and confidence. Young people can find difficulties if they come from dysfunctional family backgrounds or lack education / skills. They also face the sheer complexity of launching a career in a modern environment. Individuals with indigenous ancestry probably face particular constraints partly because of a general failure to examine the practical consequences of traditional cultural assumptions. Low quality job prospects and under-employment (ie being forced to accept jobs below skill / education levels) are risks where a region's economy is poorly developed.

Over the past decade a large increase in transfer payments by the federal government compensated many who were marginalized by rapid economic change, and so reduced the level of resulting incidence of obvious social inequality. However such transfers are less likely to be viable in future - because they were funded from the escalation of capital gains revenue associated with a transitory economic boom.

More effective measures for economic development (eg along the lines suggested above) would be useful in preventing economic marginalization in future. A better developed economy would provide more support to enable individuals and enterprises to succeed in a competitive environment.

However there is also a need for support at the level of individuals and communities- and this might best be achieved by more effectively motivating / empowering individuals to support each other within family / community / business contexts (see Overcoming Social Disadvantage). As

the latter notes, methods for combating disadvantage through state support have been under challenge (eg because of concerns about 'welfare dependency' and emerging difficulties in funding state welfare programs).

### **Reform of Regulations**

'Red tape' is a constant source of frustration for business. However there is little point in trying to rationalize existing regulations (as has been attempted in the past) unless something is done to stem the flow of new regulations that arise from the expectation that political processes should be used to impose solutions to emerging problems. Exploration by the EDC of apolitical machinery for addressing new challenges might be of greatest value in terms of reducing regulatory burdens.

A particularly important area of regulation arguably involves industrial relations - where there seems to be a need to emphasise enterprise-based industrial relations systems because of the necessity for both economic flexibility and the equitable sharing of business income.