

# Return to productive pursuits

Roy Green welcomes the Cutler review's focus on the workplace of the future

**T**HE significance of the Cutler review of Australia's national innovation system lies not just in its many recommendations, important as they are, but in the assessment it provides of the challenges that lie ahead for our economy and society. In particular, the report highlights the dramatic slowdown in productivity growth since the 1990s.

After increasing at a higher rate than the average for Organisation for Economic Co-operation and Development countries in the '90s, Australian multi-factor productivity growth stalled after 2003. In the absence of further policy initiatives to stimulate innovation and technology development, apart from an extraordinarily divisive, backward-looking obsession with work choices, this country began to experience the effects of diminishing returns from the previous Labor government's micro-economic reform agenda.

In fact, it was worse than policy indolence. We should not forget that the Howard government presided over a 4 per cent decline in public funding of higher education between 1995 and 2004, compared with an average 49 per cent increase among other OECD countries. Even taking into account private funding, total funding per student dropped by 1 per cent, as against a 9 per cent increase across the OECD. As a result, Australia lags in the most recent OECD composite measure of investment in knowledge, which includes expenditure on research and development, higher education and software as a proportion of gross domestic product (see diagram).

The Cutler review provides a sobering analysis of Australia's position in a globalised world where other

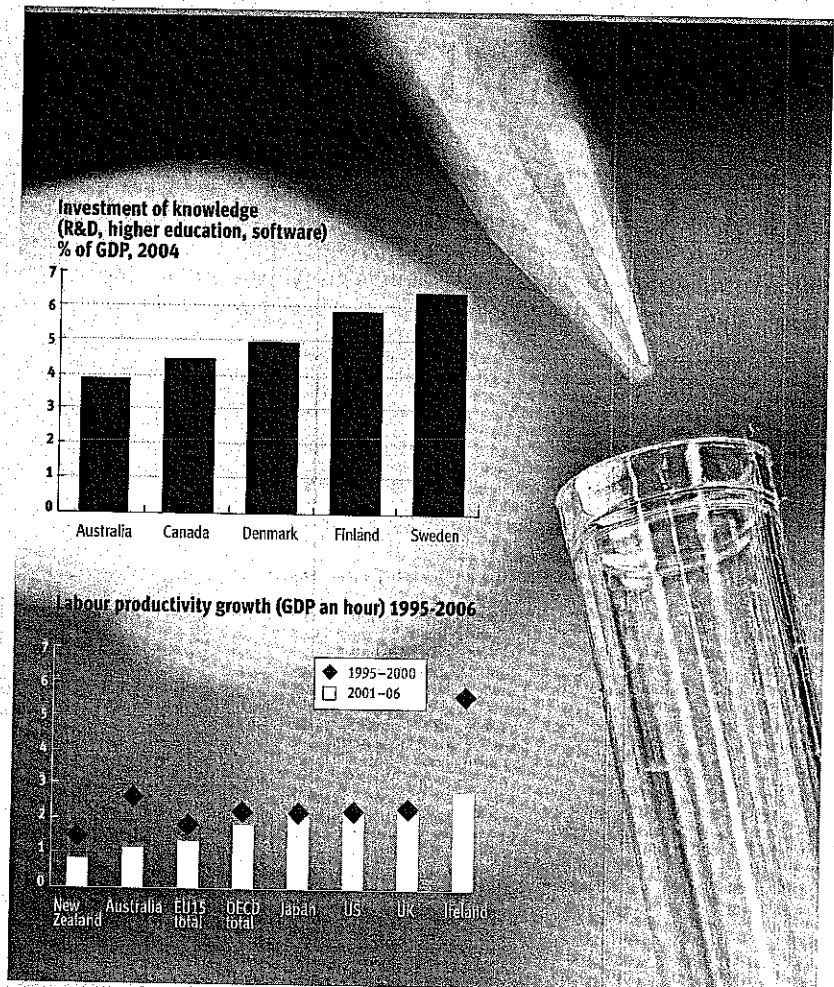
countries have based their policy development on the recognition that competitive advantage lies increasingly in knowledge and ingenuity. They have not stood still, let alone gone backwards. Our good fortune in recent years is due not to wise stewardship but in being able to compensate for the productivity slowdown with the wealth effects of an entirely fortuitous commodity boom, which has reversed, at least for a time, the longstanding deterioration in our terms of trade.

How long will Australia's good fortune last? A recent Treasury working paper suggests that the rise in our terms of trade and exchange rate will be sustained, but this scenario is contingent on assumptions about prospects for world growth and trade.

A prudent risk management strategy on the part of government would have to factor in the possibility that these assumptions may be overtaken by events in financial markets, with downstream implications for the real economy. Indeed, given the vulnerability of resource-based economies, any other approach would recall Samuel Johnson's "triumph of hope over experience".

Although the Cutler review is certainly about risk management in this context, it also brings into sharp relief opportunities to leverage Australia's knowledge capital for the creation of long-term growth and jobs, a fairer and more inclusive society and new ways of addressing environmental challenges.

Some discussion has already taken place on its recommendations for a well-resourced national innovation council to generate agreed innovation priorities, new approaches to supporting research and development



and the promotion of better linkages between public agencies, industry and research and education institutions.

However, the critical success factor for a world-class innovation system is its capacity to translate priorities into action at the level of the enterprise and workplace. This is where the Cutler review breaks new ground. It draws on submissions from a range of organisations, including the Australian Industry Group, the Business Council of Australia and the Society of Knowledge Economics, and it retrieves the unfinished business of the 1995 Karpin review of management education, to propose a new

focus on building innovative capability in Australia's workplaces.

The policy implications of this approach are highly significant, as they embody a shift from the structural adjustment focus of industry policy in the '80s and '90s, which prepared trade-exposed firms for tariff reductions and international competition, to one that places the emphasis on a transformation of workplace culture and organisation. To this end, the Cutler review makes the case for a "national forum on the workplace of the future" to develop "a shared vision of the future of Australia's workplaces".

The review of the textiles, clothing and footwear industries, to be launched shortly, will have more to say on this approach, as innovative capability is the key to survival for firms in these industries. More broadly, the emerging policy focus on innovative workplaces will provide a springboard for the revival of Australia's productivity performance in the context of a coherent and effective national innovation system.

Roy Green, dean of the Macquarie Graduate School of Management, soon will take the position of dean of business at the University of Technology, Sydney.