

The research paper sets out the importance of economic resilience and identifies broad principles to build resilience and productivity, and in turn, support sustainable economic growth.

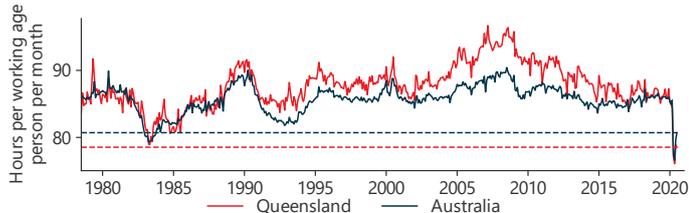
Economic resilience is the ability of an economy to withstand and recover from shocks. It is influenced by a wide range of factors both within and outside the control of government.

A more resilient economy minimises both the immediate harm and long-term consequences (such as weaker business investment and structural unemployment) of shocks.

The current crisis shows the importance of resilience

COVID-19 and the subsequent health response is expected to cause the first recession in nearly 30 years; household and business demand have contracted, and unemployment has risen quickly, particularly in the state's services sector. Labour utilisation, the broadest measure of employment, is at its lowest level in Queensland since the series began.

Figure 1 Labour utilisation, 1973–present



Sources: ABS 2020 cat. no. 6202.0; QPC estimates.

Over the last decade, income and labour productivity growth have been weak.

Beyond the immediate relief effort, policy needs to consider how to transform the economy to increase resilience and support stronger productivity and economic growth.

Queensland's economy has been buoyed by mining activity over the most recent 15 years, but this has masked slowing income growth, declining labour utilisation, slowing investment in the non-mining sectors and weak multifactor productivity growth (Table 1).

Table 1 Labour productivity growth, Queensland

	2007–12	2012–17	2017–19
Market sector	1.7%	2.1%	0.3%
MS without mining	2.4%	0.8%	0.2%

Source: ABS cat. nos. 5520.0, 5260.0.55.002; QPC estimates

There are three overarching principles for resilience

Government can build resilience by:

1. Supporting a competitive business environment
2. Removing unnecessary impediments to business activities, employment and investment
3. Ensuring effective and efficient government spending and service delivery

Regulation should be justified and well designed

While regulation can provide a broad range of benefits, all regulation imposes a cost on regulated entities, government and the community. Care needs to be taken to ensure that regulation is efficient, fit for purpose (in achieving its objective) and remains relevant.

Taxes should be efficient and encourage flexibility

Taxes reduce flexibility in capital and labour markets by increasing transaction costs, such as the cost of transferring assets, ultimately making adjustment to shocks more costly. States have access to some efficient tax bases but make relatively little use of them. A general shift towards a more efficient tax base would increase growth and improve resilience.

Infrastructure spending and industry assistance should be well considered and well targeted

Infrastructure spending is a frequent method of stimulus spending. When the right projects are selected, government can help to both support resilience and economic growth. Public infrastructure investment is complex—projects that do not have a strong business case or lack a rigorous and independent assessment run the risk of undermining productivity in the long run.

Similarly, any industry assistance should be carefully considered. Poorly designed industry assistance can even weaken long-term growth and resilience. As with infrastructure, all the potential costs and benefits of industry assistance should be fully considered, and framework conditions should be used to encourage flexibility and innovation. These principles equally apply to procurement.

Government service delivery should be efficient and involve clear incentives

Government services should be delivered to efficiently meet the needs of the community. This should involve:

- separation between design, implementation and review,
- appropriate incentives for operators and consumers,
- user choice, where possible,
- aligned decision making, funding and accountability, and
- improved information flows between users, operators and government.