



POLICY THAT COUNTS

REFORM STANDARDS FOR
THE 2007 FEDERAL ELECTION



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INTRODUCTION

The Business Council of Australia (BCA) is an association of the chief executives of more than 100 of Australia's leading corporations, which have a combined national workforce of almost one million people. The BCA was established in 1983 to provide a forum for Australia's business leaders to contribute directly to public policy debates in order to build a strong economy, a more prosperous society and help make Australia the best place in the world in which to live, learn, work and do business.

In advocating a comprehensive and reinvigorated reform agenda, the aim of the BCA is to maintain and build on Australia's current prosperity – that is, to establish the conditions to pass this prosperity on to future generations.

Over recent decades Australians have enjoyed a marked rise in living standards (see Exhibit 1). This improvement provides the foundation for Australia to create new and better opportunities for Australians now and into the future.

Our goal is for Australia to rank among the top five economies in terms of living standards by 2012.

This is a worthwhile and achievable goal (see Exhibit 2 overleaf). But, for this goal to be achieved, we must work to maintain strong economic growth and build on the benefits that past reforms have delivered.

EXHIBIT 1: Australia's standing improves: GDP per capita ranking

1990		2005	
1	Luxembourg	1	Luxembourg
2	Switzerland	2	US
3	US	3	Norway
4	Norway	4	Ireland
5	Iceland	5	Iceland
6	Japan	6	Switzerland
7	Netherlands	7	Australia
8	Denmark	8	Netherlands
9	France	9	Denmark
10	Belgium	10	Austria
11	Canada	11	Canada
12	Austria	12	Belgium
13	Finland	13	UK
14	Sweden	14	Sweden
15	Italy	15	Finland
16	Germany	16	France
17	Australia	17	Japan
18	UK	18	Germany
19	NZ	19	Italy
20	Spain	20	Spain

Source: BCA Budget Submission 2007–08.

EXHIBIT 2: The benefits of sustained strong growth and higher GDP per capita

Continuing reform leading to strong growth (of 4 per cent per annum) over the next 20 years compared with a lower growth outcome (of 2.4 per cent) would, by 2024–25, result in:

- real per capita GDP being \$16,500, or over 30 per cent higher;
- real per capita wealth being \$74,000, or 25 per cent higher; and
- Commonwealth revenues being 9 per cent of GDP higher – a result that could be returned to taxpayers by reducing average personal tax rates by 30 per cent, or used to fund much of the Commonwealth’s projected spending on health and education in 2024–25.

By 2012, sustained growth of 4 per cent per annum could see us move into the top-five band of the OECD in terms of GDP per capita.

Why is improving GDP per capita a worthwhile goal?

GDP per capita is the standard measure for comparing living standards.

- Higher GDP per capita is a good predictor of life expectancy, of where people want to live, and is correlated with ‘fairness’ in the sense that higher-income nations typically have a more even sharing of national income than poorer nations.
- Other indicators of broader human progress are available, but they are highly correlated with GDP per capita. The ABS notes that: ‘Australia’s national income provides the basis for many other dimensions of progress.’

Sources: GDP projections are from *Locking in or Losing Prosperity: Australia’s Choice*, Business Council of Australia, 2005. Discussion of GDP per capita is excerpted from the report by Access Economics titled *Workplace Relations – The Way Forward*, pp. 12–13, published as part of the BCA *Workplace Relations Action Plan for Future Prosperity*, and ABS Catalogue No. 1370.0, 2002, p. 39, cited in *Workplace Relations – The Way Forward*.

While Australia currently ranks 7th in terms of GDP per capita, its ability to step up to the next level – that is, to rank among the world’s most competitive and dynamic economies – is by no means assured.

Australia has a unique opportunity to set its sights higher as a nation and strive to depart from past economic cycles that have seen its fortunes decline because of a failure to manage prosperity effectively. The challenge is to consolidate the benefits of past reforms and build the foundations for a future of sustained strong growth. To do so, governments and policy makers need to shift their thinking to better addressing and managing longer-term challenges and issues.

There must also be a broad consensus in favour of sustained strong growth and a vibrant business sector.

The BCA recognises that in an election year it can be difficult to lift policy horizons. But if we are going to tackle long-term challenges and opportunities it is in election years that strategic vision and discipline must come to the fore. Australia cannot afford for elections to be another reason for political parties not taking the hard decisions necessary to sustain and pass on prosperity.

CONSOLIDATING THE BENEFITS OF PAST REFORMS

Perhaps the most important precondition to securing future growth and prosperity is to ensure that the benefits of past reforms – that is, today’s growth and prosperity – are not taken for granted (see Exhibit 3).

EXHIBIT 3: Prosperity Cycles: Going Backwards (1950–1983) and Catching Up (1983–2004)

The following is a summary of research conducted by Access Economics for the BCA incorporated in *Locking in or Losing Prosperity: Australia’s Choice* (2005). Since that report was released, unemployment has fallen further to 4.5 per cent, an additional 350,000 jobs have been created and GDP growth has been sustained, albeit at a slower pace than achieved over the mid to late 1990s. The benefits of reform are clear; what is increasingly uncertain is how long they can be sustained in the absence of the implementation of a reinvigorated, comprehensive reform agenda.

Going Backwards: 1950–1983

The recession of the early 1980s bottomed in 1983. Australia’s unemployment rates were at their highest since the Great Depression. Our economic performance relative to our OECD peers had plummeted, with the GDP per capita ranking falling to 17th. Productivity was languishing, interest rates and inflation were high, and the federal Budget was deep in deficit. Our share of exports fell below where it was at the start of the 1900s.

This crisis reflected the end of several decades of protectionist policies that sheltered the economy from competition. Heavy-handed regulation and centralised market intervention, particularly in the area of industrial relations, constrained the economy’s ability to adapt and change.

Catching Up: 1983–2004

Faced with clear evidence that protectionism, excessive regulation and centralised intervention in markets had failed to deliver growth and prosperity, successive governments have embarked on a major overhaul of the Australian economy to improve flexibility, bolster competitiveness and improve economic performance and prosperity.

Reductions in protection, financial and wider deregulation, labour market reforms and policies designed to instil competition transformed the Australian economy in the space of one generation.

Analysis by Access Economics of the impact of reforms found that:

- 315,000 additional jobs were created in 2003–04 as a direct result of past labour market reforms, resulting in the unemployment rate being 2¼ percentage points lower than it would otherwise have been at that time;
- Australia’s improved productivity performance delivered a boost of \$3,000 per person, on average, in terms of higher GDP per capita; and
- real wealth, on average, was over 10 per cent higher per person in 2003.

Note: A more detailed list of important reforms implemented can be found in *Action Plan for Future Prosperity and BCA Budget Submission 2005–06*, p. 10.

BUILDING THE FOUNDATIONS FOR FUTURE GROWTH

The good news is that many in Australia do not take growth and prosperity for granted. There is no shortage of debate on the need for ongoing reform. There is far less clarity, however, regarding the outcomes sought from reform.

The more clearly we can define the ultimate outcomes sought from reforms now and into the future, the better placed we will be to determine which policy options have the best chance of getting us there.

Australia should seek to lift its living standards to among the highest in the world, but further reforms are needed to achieve this goal.

These reforms must focus on enabling a strong, competitive and dynamic

business sector – one well placed to respond effectively to future challenges and opportunities. Only a robust business sector is able to provide the investment, job creation and innovation needed to underpin future growth and the provision of sound safety nets and social infrastructure in the long run. This is particularly so in light of the significant challenges associated with population ageing and the need to deal with climate change.

In macroeconomic terms, the BCA's agenda is aimed at lifting productivity and ensuring the availability of an effective and high-quality labour force (i.e. labour supply) as the key drivers of sustained competitiveness and growth (see Exhibit 4).

EXHIBIT 4: The nuts and bolts of growth accounting

Economic growth is determined by two broad factors: **labour supply** and the **productivity** of labour.

Labour supply in the context of economic growth means the total number of hours worked over a period of time. Total hours worked depends on:

- the number of people available to work, that is, the size of the working-age population; and
- whether people are prepared to work (i.e. to participate), are actually working (i.e. employed rather than unemployed) and for how many hours. These factors are summarised under the term 'participation'.

Note: This discussion is based on a growth accounting framework, which has become increasingly popular in the development and presentation of economic trends and policies. It has some limitations, but is very useful in summarising more complex economic policy issues. The federal Treasury coined the '3Ps' terminology (the '3Ps' being population, participation and productivity) and has used the approach extensively in its presentations and public communications.

The BCA's reform standards articulate the policies that directly address the factors that determine labour productivity and supply. These factors include:

- the amount of investment or capital available to each worker;
- the skills that those workers have and/or able to effectively apply;
- the incentive for people to work and for how long;
- how effective or innovative we are in the way we use our resources; and
- the preparedness of investors and business to take the measured risks that lead to innovation and competitiveness.

THE CASE FOR REFORM STANDARDS

As noted earlier, it is often difficult to maintain policy discipline in the lead-up to an election. It is also difficult for those in the broader community to cut through policy commitments and rhetoric to assess election promises and their alternatives.

For these reasons the BCA is articulating a set of reform standards to assist in assessing policy proposals in the otherwise 'noisy' environment of a federal election. The reform standards directly address the issue of economic management for future

prosperity. The standards aim to map out the key outcomes sought by Members of the BCA and the key policy steps necessary to achieving those outcomes.

The standards reflect the detailed research and policy development undertaken by the BCA over recent years as well as the longer-term challenges facing Australia including population ageing, technological change, and increasing global competition for investment, skills, goods and services.

Australia needs to improve on recent productivity outcomes, maintain strong population growth and build on recent trends in participation if we are to sustain strong growth, further lift living standards and pass on prosperity to future generations.



REFORM OUTCOMES

Lifting living standards

The BCA's goal is to achieve strong economic growth, of around 4 per cent per annum, consistent with lifting Australian living standards (GDP per capita) to among the top five ranked OECD countries by 2012.

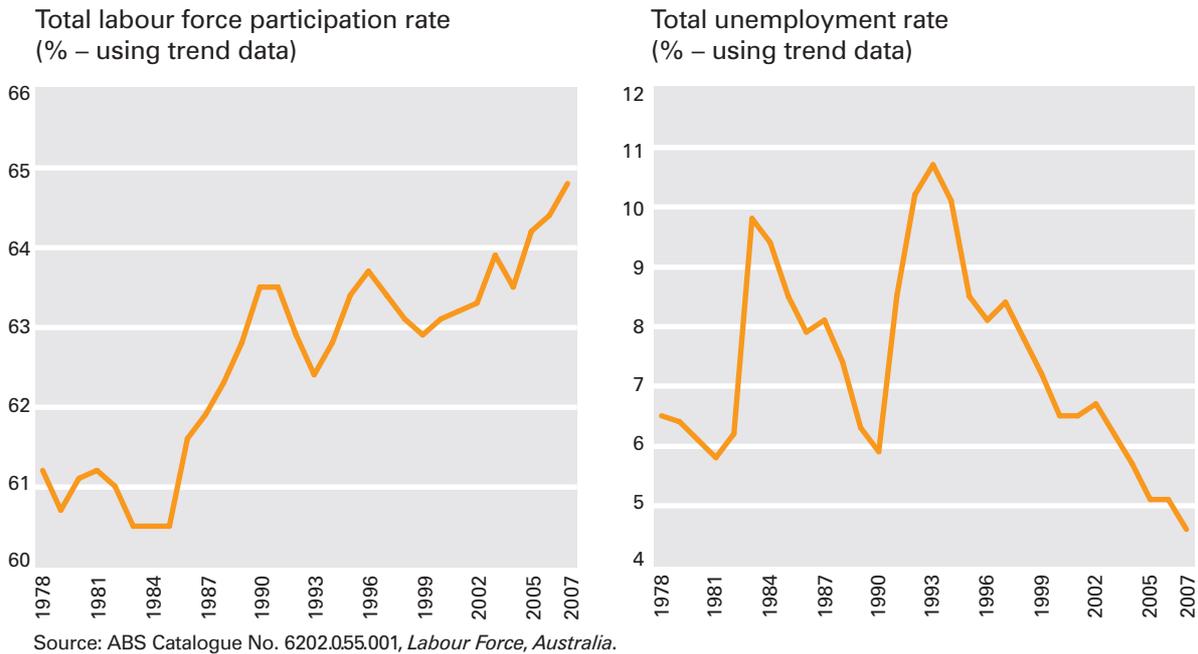
- To put this goal into context, annual growth in Australia averaged around 4¼ per cent per annum over the period from 1995–99, and has averaged around 3 per cent per annum since 2000.

Growth of 4 per cent can be achieved by maintaining population growth of around 1¼ per cent per annum and productivity growth of 2½ to 3 per cent.

- Labour productivity growth averaged around 3 per cent per annum over the period from 1995–99, but has slowed to around 1¾ per cent per annum since 2000.
- Population growth has remained relatively steady at around 1¼ per cent over the past decade.

Australia's working-age population has made a larger contribution to growth than its annual increase over the past decade because the share of people in employment has increased as a result of more seeking and gaining employment. In technical terms, the labour force participation rate has increased and the unemployment rate has decreased (see Exhibit 5).

EXHIBIT 5: Participation and unemployment trends



DEFINING THE REFORM STANDARDS

Productivity reform standards

In the near term Australia must seek to lift annual labour productivity growth to 2½ per cent or more.

Over the longer term, our aim should also be to narrow the gap in Australia's labour productivity relative to the most productive economies in the world. This is not an easy task, given that many of the most productive economies continue to sustain robust productivity growth.

As an example, if we maintain labour productivity growth of 2½ per cent per annum over the next decade, and the US maintains a productivity growth rate of 2¼ per cent (the average it has recorded over the past ten years), Australia's productivity performance will increase to just 85 per cent of that of the US compared with 83 at present. This demonstrates that catching up to the world's most productive economies must be pursued as a long-term goal.

Australia can lift its labour productivity performance by:

- increasing the amount of capital per worker through higher rates of business investment; and/or
- becoming more efficient in how we use our resources together (i.e. how we use our capital or investments and labour together to produce goods and services) including by increasing the skills and quality of our workforce.

In a policy sense these outcomes can be achieved by developing an economic environment that:

- ensures resources are directed to their best use and used as efficiently as possible;
- enables innovation;
- rewards entrepreneurship and measured risk taking; and
- supports business investment.

The BCA's reform standards flow from these outcomes and objectives.

The standards are underpinned by research assessing current policy frameworks in Australia. The adoption of the standards is a prerequisite to Australia achieving strong growth and establishing the foundations for passing on prosperity.

Infrastructure

Infrastructure quality and capacity plays an important role in determining the structure and strength of economic growth and activity.

Australia is at a crossroads in terms of its infrastructure development as a result of poor institutional arrangements – in terms of governance and planning – and policy choices. Reform is needed to alleviate the current constraints and to provide the capacity to sustain strong economic and population growth.

Against this background, the following priorities must feature in the infrastructure policies of political parties:

- the development of fully operational national markets for transport (freight and passenger), water, and electricity;
- the elimination of regulatory impediments to investment in and efficiency of provision of electricity, urban and freight transport including ports, and water;
- establishment of a cross-jurisdictional framework for appropriate, timely, and coordinated investment in infrastructure to meet future growth needs (this should include prioritised road and rail investment in line with freight and population growth projections);
- a focus on the development of a quality broadband system with comprehensive access for business and households;
- regular and transparent audits of the state of our current infrastructure and risks; and
- the development of a national approach to policies related to climate change (the specifics of which are dealt with in greater detail at pp. 16–17).

Flexibility in the workplace

In increasingly competitive and dynamic global markets and in the face of rapidly evolving consumer expectations and demands, it is less likely that uniform conditions will be able to address the requirements and circumstances of individual enterprises or their employees.

Companies increasingly rely on diverse skilled labour input and innovation as new sources of competitive advantage. Competitive companies must continually evolve and adapt methods, patterns and processes of production.

In this environment, productivity in the workplace depends on businesses having flexibility in terms of how they:

- employ their workforce;
- structure their operations; and
- are able to reward employees for contribution and effort.

This is an environment in which there can be no winding back of the core elements of workplace deregulation and enhanced flexibility that have been delivered by a succession of reforms to workplace relations regulation.

Political parties must therefore commit to supporting:

- enterprise-based agreement making as the core of the workplace relations system;
- the availability of a wide range of options for agreeing employment terms and conditions including statutory individual contracts;
- a national system of workplace relations regulations;
- the adoption of an appropriate safety net of minimum conditions and allowable matters; and
- a simplified and rationalised system of awards.

New federalism: clarifying roles and responsibilities

There is a lack of clarity and accountability in terms of state and federal roles as they relate to spending and service delivery, taxation, planning and regulation. This imposes unnecessary duplication and overlap and a greater than necessary tax burden on business and individuals. In particular, this tax burden distorts decision making and undermines efficient resource allocation and investment.

Action is needed to better clarify and align roles and accountabilities across jurisdictions.

Against this backdrop, political parties should commit to establishing a federal convention or similar forum in 2008 to:

- develop a broad consensus on the importance of improved clarity and accountability;
- establish a framework and the principles for reassessing the respective roles of different levels of government;
- address the arguments for and against the Commonwealth taking over management of national markets; and
- establish a proposed timeline for action to improve the clarity of roles.

Political parties should agree to the outcomes of this process being reported publicly and to the Council of Australian Governments (COAG), and to COAG having responsibility for determining priority areas of rationalisation of current activities and responsibilities.

New federalism: a competitive business tax system

In a federation like Australia, where taxes are imposed by several layers of government, the overall competitiveness of a business tax environment hinges on an effective interrelationship between the tax systems of different jurisdictions.

Business is concerned that the total tax burden faced by business, taking into account taxes paid to state and federal governments and collected on their behalf, is poorly understood and significantly greater than many realise.

An excessive tax burden in terms of the level, complexity or administrative costs, and a tax system that unnecessarily distorts decision making, will weigh on competitiveness and business investment in Australia.

Political parties should request the Productivity Commission to conduct a comprehensive review of the effectiveness of Australia's business tax system across state and federal levels. This review should:

- examine both state and federal taxes, with a particular focus on:
 - the effectiveness of current revenue streams and revenue-sharing arrangements; and
 - the sustainability of current arrangements, in light of the impact of population ageing on future spending and revenue trends relative to current revenue-sharing arrangements.

The results of this review should be released publicly, reported to COAG in early 2008 and fed into the federal convention process outlined above as part of deliberations on improving clarity in state and federal roles and responsibilities.

New federalism: strengthening COAG

Cooperation and collaboration in planning, service delivery and policy frameworks across jurisdictions is fundamental to the effective operation of any federal system of government.

COAG is the primary vehicle for cooperation and collaboration across state and federal governments. It has had tremendous successes, but also periods of lacklustre performance. The institutional arrangements supporting COAG need to be strengthened to enhance the reliability of its effectiveness over time. Political parties should commit to:

- improved processes for COAG meetings;
 - COAG should meet at least twice a year; meeting times should be extended to allow for comprehensive debate and discussion, and the location of meetings should alternate between Canberra and the states.
- the establishment of a small, independent secretariat to COAG funded by the state and federal governments and staffed by state and federal officials;
- strengthening the transparency and accountability associated with the work of ministerial councils, including requiring regular progress reports to COAG; and
- the establishment of a permanent, non-aligned, independent review and advisory body to identify and research emerging reform issues and possible policy responses.
 - The COAG Reform Council is a step in the right direction but it remains unclear whether it will have responsibilities that extend as broadly as those sought by the BCA.

New federalism: an Australian common market

Too many barriers to the interstate mobility of people, goods and services remain in Australia. In addition, businesses operating across jurisdictions face multiple and inconsistent regulatory regimes.

Australia is too small a market to afford these unnecessary costs and barriers, and business has waited too long for real progress to be made towards a common market.

There is a need for a clear commitment at the federal level to the establishment of a genuine common market in Australia. This commitment should include a detailed plan and timeline for implementation.

The establishment of a common market relies on constructive involvement and commitments from state and territory governments. Such cooperation may – or may not – be forthcoming.

Political parties should commit to using and supporting all of the options available to a federal government to achieve

harmonisation and uniformity including the appropriate use of payments and/or revenue-sharing arrangements to act as penalties and/or encouragement, depending on the circumstances.

In the absence of cooperation on the part of the states and territories, political parties should commit to adopting a unilateral solution at the federal level.

- Specifically, if significant progress is not made towards comprehensively addressing all of the 10 regulatory ‘hot spots’ identified by COAG in early 2006 by the end of 2007 (including occupational health and safety), political parties should commit to the establishment of National Business Schemes based on Commonwealth legislation to apply consistent regulation throughout Australia (see Exhibit 6).
- These schemes would allow businesses to ‘opt in’ to a national regime and exclude themselves from state-based legislation in the relevant areas.

Exhibit 6: COAG hot spots

COAG has identified ten priority cross-jurisdictional ‘hot spot’ areas where overlapping and inconsistent regulatory regimes are impeding economic activity:

- rail safety regulation;
- occupational health and safety;
- national trade measurement;
- chemicals and plastics;
- development assessment arrangements;
- building regulation;
- environmental assessment and approvals processes;
- business name, Australian Business Number and related business registration processes;
- personal property securities; and
- product safety.

Source: COAG Communiqué 10 February 2006; COAG Communiqué 14 July 2006.

Improving business regulation

The existing stock of regulation, and the compliance burden and other inefficiencies that flow from it, are of concern to business and need to be addressed. Achieving greater uniformity in the 'hot spots' identified above and the establishment of a genuine common market would be important steps. But more needs to be achieved.

Reducing business red tape

There is a need to reduce the current stock of excessive, inefficient and redundant regulation.

Political parties should commit to:

- timely implementation of the recommendations of the Taskforce on Reducing Regulatory Burdens on Business (the Banks Taskforce); and
- regular reviews of the existing stock of regulation as a means of determining what regulation can be eliminated.

Federal political parties should commit to leading the development of best practice regulatory processes and the reduction in the existing stock of regulation, and to supporting the wider adoption of such practices among the states and territories through implementation of the COAG National Reform Agenda.

Improving regulatory processes

A key priority must be strengthening regulatory processes to ensure that Australia does not find itself in a similar position in years to come. Ultimately, poor regulatory processes have created the recent red tape blow-out, despite numerous red tape reviews in the past.

There must be a high level of confidence among business and the wider community that there is a real need for new regulation, that what is being proposed will be effective, and that regulations will not impose costs that are out of line with their expected benefits.

Business must also have confidence that its views will be sought and considered in an effective and timely way when new legislation and regulation is developed that is relevant to it.

Political parties must articulate a clear commitment to improved regulatory processes to avoid the introduction of unnecessary regulation and to improve the quality, efficiency and effectiveness of regulation that is shown to be needed.

Specific commitments should include the following:

- the establishment of a clear and strong case for action and for regulation as the best response;
- all federal regulation and legislation to be subject to thorough and transparent cost-benefit analysis;
- all federal regulation and legislation to include a full regulatory impact statement;
- procedures to consult with business in a timely and transparent manner regarding the likely costs and benefits of proposed legislation and regulation;
- the provision of clear and public guidance to regulators and stakeholders regarding the intent of regulation; and
- regular review of new regulation to assess effectiveness and costs in practice.

Political parties should also commit to timely and transparent reviews of regulatory processes and how they are operating in practice and to maintain and adequately resource an independent Office of Best Practice Regulation.



Better support for innovation

Innovation is key to lifting productivity, competitiveness and living standards. Political parties must commit to:

- a broader definition of innovation being accepted and applied to policy development;
- implementation of a national innovation framework – i.e. improved national coordination of innovation policy through COAG; and
- the establishment of new central body, ‘Innovation Australia’.

More specific measures should also focus on:

- increased support for research and development that has a greater focus on its impact and develops the capabilities of the people undertaking research; and
- improved innovation capabilities, including through greater linkages and collaboration, for business and the university and research sectors.

Improving skills and innovative capabilities

A key priority for political parties must be the development of education and training systems that provide people with the capabilities to contribute to innovation success. This requires a focus on:

- developing improved innovation capabilities through a stronger focus on skills related to the management of knowledge and innovation, including skills related to communication, teamwork, problem solving and entrepreneurship;
- strengthening the acquisition of skills relevant to innovation capabilities, including by increasing:
 - the number of students doing maths and science in senior secondary school years; and
 - increasing the level of participation in post-Year 12 education and training and the attainment of higher-level skills;
- improving flexibility in the provision of post-Year 12 education and training, and enhanced recognition of skills.

Maintaining an open economy

Australia has benefited significantly from the opening up of its economy. While greater openness and competition creates challenges, these challenges drive innovation. The net benefits of openness are clear and Australia must continue to position itself to benefit from new opportunities in global markets through trade, investment and immigration. Political parties should commit to:

- no backing away from agreed tariff reductions;
- the pursuit of further trade and investment liberalisation leading to improved market access for Australian exporters of goods and services through multilateral and strategic comprehensive free trade; and
- increased attention to the importance of direct investment – inward and outward – as a means of enhancing growth and trade opportunities.

Workforce participation reform standards

In light of the adverse impacts of population ageing on labour supply, policy in Australia must do all that it can to lift labour supply through sustained immigration, increased participation and the maintenance of low unemployment.

Political parties must commit to:

- sustaining immigration at a level that continues to support population growth of around 1¼ per cent per annum; and
- lifting Australia’s participation rates to reach those achieved by the top performers in the OECD.²

Within this aggregate participation target, specific attention should be paid to lifting the participation rates of those with patterns of entrenched low or non-participation, for example Indigenous Australians, women with caring responsibilities, the mature-aged and those with disabilities.

EXHIBIT 7: Participation performance: areas for improvement

A 2006 Productivity Commission Staff Working Paper noted that:

‘Large international participation gaps continue to exist for several segments of Australia’s labour market. The most notable being:

- prime aged males (25 to 54 years); while Australia’s ranking for this segment improved slightly – from 6th lowest to 8th lowest – Australia remained behind New Zealand and Canada;
- for child-bearing aged females (25 to 44 years), Australia ranked 11th lowest, with participation rates higher in Canada, the US and the UK; and
- for people nearing retirement, Australia ranked 13th for men and women aged 55 to 64 years, behind New Zealand, the US, the UK and Canada.

Taken together, these segments represented almost 70 per cent of Australia’s labour market in 2005.’

Source: J. Abhayaratna & R. Lattimore, *Workforce Participation Rates – How Does Australia Compare?* Productivity Commission Staff Working Paper, Canberra, 2006.

In order to lift participation rates we must ensure that individuals have the capabilities and opportunity to participate, and are rewarded for doing so.

Enhancing individual capabilities: education, skills and training

Having the right skills is fundamental to employment opportunities, particularly in light of the growing demand for and importance of skills.

Political parties should commit to:

- reducing the number of young people achieving only minimal standards of schooling and dropping out before Year 12 or the vocational equivalent;
 - Indigenous school retention rates remain very low. While Year 12 retention rates increased from 31 per cent to 40 per cent for Indigenous Australians between 1995 and 2005, the rate for non-Indigenous Australians is close to 80 per cent.³
- raising the quality of teaching and learning with a focus on teacher development and support, as well as the content, quality and consistency of curricula;
- strengthening the focus on relevant skill formation including employability skills;
- providing a choice of pathways for students that includes a vocational education and training pathway in senior secondary school years;
- addressing duplication and unnecessary differences in education across Australia;
- improving literacy, numeracy and science testing and standards for school students;
- ensuring the longer-term financial sustainability of higher education institutions; and
- supporting increased diversity within the higher education sector.

Opportunities to participate

Business needs to have the capacity to adapt job design to better suit both its needs and the needs of employees (current or prospective) therefore enabling high levels of participation. Likewise, regulation should not discourage or impede job creation.

In addition to the policies outlined earlier in respect of workplace flexibility, political parties should commit to:

- reducing barriers to job creation;
- the maintenance of an appropriate minimum wage structure, including through ongoing support for the Australian Fair Pay Commission; and
- addressing high effective marginal tax rates where they act as a disincentive to participation.

Climate change

There is now a broad consensus on the need to reduce greenhouse gas emissions in response to the potential risks presented by climate change.

Current assessments based on 'business-as-usual' growth projections highlight the need for a significant reduction in emissions. In simple terms, this could be achieved by:

- maintaining the 'business-as-usual' emissions intensity of economic activity and reducing the rate of activity; or
- significantly reducing the emissions intensity of economic activity – in other words, finding new ways to produce and consume which require less energy and/or produce less greenhouse gas emissions.

Some may be sceptical about the ability to achieve and sustain the latter, but it is worth noting that improvements in areas such as air quality have been achieved at the same time as sustained robust population and economic growth (see Exhibit 8 overleaf). This is not to suggest that more does not need to be done, particularly in areas related to water and salinity, but rather that we need to recognise that having more resources available to combat issues is likely to lead to better long-term outcomes.

The BCA considers that an effective sustainable response to climate change is ultimately about moving from our current high-emission global economy, of which Australia is a part, to a low-emission global economy, of which Australia must also be a part.

'Well-trained economists would recognise that there is a real flaw in the argument that says development can only come at the costs of destruction of what we presently have. If we are not clever enough as policy makers to find ways of securing economic development without trashing what we have already got, then we really should be questioned.'

Secretary to the Treasury Ken Henry quoted in article titled 'Saving Grace of Treasury Boss' by Steve Lewis, *The Australian*, 26 January 2007, p. 1.



EXHIBIT 8: Growth and environmental improvements can be achieved

The ABS, in its 2006 *Measures of Australia's Progress* report, noted that: 'Overall, air quality in Australia is relatively good and has generally improved during the 1990s.'

The report stated that:

'Cleaner fuel for cleaner engines is expected to help cut pollutants associated with respiratory and cardiovascular diseases by up to 76 per cent in metropolitan areas by 2015.

Technology and strategies designed to control air pollution appear to have countered the rises which could have been expected given the increases in pollution sources. Despite industrial activity and the numbers of cars growing during the 1990s, measured air quality has not deteriorated significantly. So far the improvement in air quality is mainly due to the phasing in of cleaner motor vehicles, controls on industrial emissions and the increasing adoption of cleaner processes and technology by industry, and the banning of backyard incineration in many regions. Projections prepared for the National Road Transport Commission suggest that by 2015, despite significant growth in numbers of diesel vehicles (light commercial vehicles in particular), fine particle emissions from all diesel vehicles will fall in the major cities to about 70 per cent or less of their 1996 levels. The main reason for the predicted fall is that older vehicles will be replaced by newer, less polluting vehicles.'

Source: ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, section titled 'The Air and Atmosphere', pp. 130–132. Excerpt 1 is from page 130, while excerpt 2 is from page 132.

The BCA considers the following features are essential to the development of climate change policies by Australia's political parties:

- linking to a global response;
- a national policy framework to reduce greenhouse gas emissions which includes a review and rationalisation of current federal and state programs;
- a market-based approach (cap-and-trade) to ensure lowest-cost abatement choices can be made;
- a domestic emissions trading scheme, able to be linked globally;
- mechanisms to ensure Australia's trade-exposed industries are not adversely affected when their competitors do not face a carbon price signal; and
- complement emissions trading with incentives for R&D, improved energy efficiency and moves to assist adaptation.

It is important to acknowledge that it is the strength of the Australian economy – not its diminution – that will ensure Australia is able to address as effectively as possible the potential risks associated with climate change.

A strong, innovative and dynamic economy is the key to funding the low-emission technologies necessary to support what will continue to be an energy-intensive world, while at the same time reducing the greenhouse gas emissions relative to economic activity.

A BROAD CONSENSUS FOR GROWTH

The BCA recognises that a sustained commitment to the policy reforms necessary to support ongoing growth depends on a broad public consensus that a vibrant business sector and economy deliver the outcomes desired by the community.

From the BCA's perspective, the broadest possible consensus for growth, therefore, is likely to be met if:

- there is a commitment to ensuring that as many people as possible benefit from growth;
- there is a sound social safety net for those that cannot; and
- today's prosperity is not achieved at the expense of future prosperity.

If the overriding reason for sustaining strong growth is to lift and pass on prosperity, then each of the above must be a feature of policy intent, design and development.

CONCLUSION

The BCA recognises that the reform standards outlined above represent a comprehensive reform agenda.

Committing to and implementing such an agenda is a challenge, and the temptation will be for political parties to 'cherry pick' aspects of the agenda. Unfortunately, anything less than a comprehensive reform agenda will mean that the full benefits of these reforms will not be felt and Australia's capacity to sustain strong growth and to pass on prosperity will be diminished.

The benefits of past reforms are fading, and Australia faces greater challenges to sustaining prosperity in the future. At the same time, the benefits enjoyed by most in the community on the back of sustained strong growth and prosperity have also

contributed to heightened expectations and aspirations about future opportunities. Together, these factors underscore the importance of a comprehensive and ambitious reform agenda to support strong growth.

The BCA will be using these reform standards to assess, from the perspective of business, the policy commitments and intentions outlined by various political parties in the context of the 2007 federal election.

The reform standards articulate the benchmarks against which the BCA and its membership will determine the extent to which policy commitments will deliver the economic foundations for Australia's future prosperity.

NOTES

- 1 The BCA is not suggesting that these attributes are predominant in the minds of all Australians at all times. Our focus group work also highlighted concerns and fears that reflect continuing uncertainties about the world, particularly in an age of resource depletion and global terrorism. Likewise, for many disadvantaged Australians, an aspirational view of the world is not a current reality. But the BCA considers it would be a mistake to not acknowledge a significant shift in attitudes that has the capacity to support a more ambitious agenda for future growth and prosperity, including for those not currently enjoying the benefits of a robust economy.
- 2 Both the federal Treasury and Access Economics have modelled the benefits of increasing participation rates to the 80th percentile of the OECD countries; see D. Gruen & M. Garbutt, *The Fiscal Implications of Raising Labour Force Participation or Productivity Growth*, Treasury Working Paper 2004—01, and *Locking in or Losing Prosperity: Australia's Choice*, Business Council of Australia, 2005. The Productivity Commission has recently undertaken an analysis of Australia's participation rates compared with the OECD. This work showed that participation is better than suggested by OECD data, but nonetheless we can do better and there are significant benefits in doing so. See Exhibit 7 of this report and J. Abhayaratna & R. Lattimore, *Workforce Participation Rates – How Does Australia Compare?* Productivity Commission Staff Working Paper, Canberra, 2006.
- 3 ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, section titled 'Education and Training', p. 43.

BUSINESS COUNCIL OF AUSTRALIA 42/120 COLLINS STREET MELBOURNE 3000 T 03 8664 2664 F 03 8664 2666
www.bca.com.au

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