



**ANTICIPATING  
SUCCESS**

BCA SUBMISSION  
TO THE AUSTRALIA  
2020 SUMMIT

THE BUSINESS COUNCIL OF AUSTRALIA



**WHICH DIRECTION  
WILL DETERMINE  
AUSTRALIA'S  
SUCCESS IN 2020?**

## ABOUT THIS SUBMISSION



**THIS SUBMISSION PROPOSES AN  
ASPIRATIONAL AND ACHIEVABLE  
VISION FOR A PROSPEROUS  
AUSTRALIA IN THE YEAR 2020.**

It outlines the reforms and adjustments required to successfully negotiate the next 12 years and secure Australia's position within the top five countries in the world. The submission anticipates a number of future challenges and identifies solutions to those challenges. In a number of areas it projects some outcomes which we might aspire to achieve by 2020. These specific examples are intended to provoke consideration of where we are heading and what an alternative future could look like. The overriding intention is to help stimulate and guide the thinking of decision makers and participants involved in the Australia 2020 Summit in April 2008.

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# FROM CURRENT FOUNDATIONS WE CAN BUILD AUSTRALIA AS THE BEST PLACE IN THE WORLD IN WHICH TO LIVE, LEARN, WORK AND DO BUSINESS.

## 1. AUSTRALIA 2008: THE ONLY CERTAINTY IS CHANGE

As we approach the second decade of a new century, the one certainty Australia faces is continuing change.

The nation has faced major challenges and uncertainties in the past, and has prospered. Although the challenges Australia now faces are unique to the fast-paced, 21st-century globalised world, there are some important similarities with those encountered previously.

After a long period of prosperity in the 1960s and early 1970s, cracks in our economy and social fabric emerged. Rising inflation and unemployment, together with declining competitiveness in those industries we traditionally relied on for growth, began to intrude into the comfort zone Australia had inhabited for many years. Left largely unaddressed, these cracks developed into structural problems that began to erode our living standards, limiting individual opportunity and significantly curtailing Australia's prospects for future success.

Policymakers recognised the extent of the problem and resolved to make major changes to the way we lived, worked, learned and did business. Many of the changes, such as floating the Australian dollar, reducing tariffs and other barriers to the international economy, and freeing up our workplaces, seemed at the time too long a line of hurdles to negotiate. These were, after all, the foundations on which Australia's previous successes had been anchored.

But Australia rose to those challenges and put in place the major changes – supported by an emerging, proactive community mindset – that fundamentally changed our economy and society for the better. Those changes provided the foundation for 16 years of continuous economic growth and widespread individual prosperity, and enabled Australia to successfully negotiate significant shocks and challenges (see Exhibit 1).

## **EXHIBIT 1**

### **THE FUTURE IS NEVER AS WE EXPECT IT**

In 1996, who would have expected some of the events, challenges and changes that lay ahead:

- The oil price falling to below \$15 per barrel (with some predicting \$5 per barrel), only to see it rise to \$100 today
- The \$A heading below \$US0.50 only to approach \$US1.00
- The Asian financial crisis on our doorstep
- SARS
- A global credit crunch associated with the collapse of Long Term Capital Management
- September 11
- Wars in Afghanistan and Iraq

Our comfort zone is again under threat. The turbulence on global financial markets, rising interest rates, an ageing population, managing environmental risks, and major changes on our doorstep as emerging markets develop into major new sources of competition, collectively place Australia at a new crossroads (see Exhibit 2).

Australia again has a choice. We can let these new challenges and uncertainties accumulate, and in the process, do little to arrest emerging threats to our prosperity. Or we can rise to the challenge again and make the decisions and reforms that will set Australia on the path to a prosperous future.



## EXHIBIT 2 FUTURE TRENDS AND CHALLENGES

### A wealthier older population

This will present challenges in terms of future labour supply and potential growth, changing consumer demands and preferences, and increased demand for government services in important areas like health.

It is important to recognise that population ageing is a global phenomenon. The elderly are projected to be more than three times as many in number in 2050 as today, and to comprise nearly 17 per cent of the global population, compared with 7 per cent in 2002.<sup>a</sup>

### Geographic isolation and dispersed domestic markets

Australia will continue to be challenged by its distance from global markets and relatively small and dispersed domestic markets (i.e. lack of scale).

### Technology

Rapid technological advances highlight the importance of innovation and underpin strong demand for skills. Sources of comparative advantage will continue to change rapidly. While advances in information and communication technology (ICT) will help to offset geographic isolation, distance from global sources of innovation and technological advances will limit the potential 'spillover' benefits Australia may be able to capture.

'Technology is to a substantial degree local, not global, as benefits from spillovers are declining with distance. The distance from which the amount of spillovers is halved is about 1200 kilometres.'

Wolfgang Keller, *American Economic Review*, 2002.

### Global growth and competition

Advances in ICT and the scope for further policy liberalisation should continue to support the increased mobility of capital, goods, services and people/skills around the world. This brings new opportunities and markets, but also new sources of competition.

The growing influence of emerging markets in Asia, particularly China and India, looks set to continue. China and India are estimated to grow to populations of 1.4 and 1.3 billion respectively by 2020.<sup>b</sup>

China's economy is projected to be the second largest in the world by 2020, and India will have overtaken, or be in the process of overtaking, the major European economies. This is likely to sustain strong demand for energy and natural resources, and (at least in trend terms) raises the prospect of the terms of trade and \$A remaining higher on average in the next decade than in the past decade, which in turn presents new competitive challenges for Australian producers.

Other fast-growing major countries such as Brazil, Russia and Indonesia will assume a more prominent position in the global economy, alongside the traditional power centres of the United States, Europe and Japan.

Growth in developing countries will create new and more disparate sources of economic opportunity. The World Bank estimates that average incomes in developing countries will more than double in real terms from \$1,300 in 2001 to \$2,800 in 2020 (and to nearly \$4,000 by 2030).<sup>d</sup>

**POPULATION TRENDS: TOP 15 LARGEST COUNTRIES BY POPULATION**

2005		2050		
Country	millions	Country	millions	
1	China	1316	India	1593
2	India	1103	China	1392
3	United States of America	298	United States of America	395
4	Indonesia	223	Pakistan	305
5	Brazil	186	Indonesia	285
6	Pakistan	158	Nigeria	258
7	Russian Federation	143	Brazil	253
8	Bangladesh	142	Bangladesh	243
9	Nigeria	132	Democratic Republic of the Congo	177
10	Japan	128	Ethiopia	170
11	Mexico	107	Mexico	139
12	Viet Nam	84	Philippines	127
13	Philippines	83	Uganda	127
14	Germany	83	Egypt	126
15	Ethiopia	77	Viet Nam	117

Figures published by the United Nations.<sup>o</sup>

**Environmental sustainability**

Sustained economic and population growth will contribute to pressures on the environment unless properly planned for and managed. The need for frameworks and markets to reflect the value of environmental resources will become increasingly important.

**Climate change**

Managing the potential risks associated with climate change will be a long-term challenge for Australia and the world.

Engaging with developing countries will become increasingly important. It has been estimated that China has already passed the United States in terms of carbon emissions, and that China's consumption of coal could increase from 2 billion tons at present to 4 billion tons by 2016.<sup>e</sup>

**Security**

The threats stemming from terrorism and the instability associated with failed states and intra- and inter-state conflict are likely to remain part of the geopolitical landscape in the decade ahead.

Sources: (a) United States Census Bureau, *Global Population at a Glance: 2002 and Beyond*, 2004; (b) *Mapping the Global Future*, Report of the National Intelligence Council's 2020 Project, 2004; (c) United Nations Global Population Projections; (d) World Bank, *Global Economic Prospects 2008*, 2008; (e) United Nations Millennium Project, *State of the Future 2007*.

## 2. AIM OF THE SUBMISSION: ANTICIPATING AUSTRALIA'S SUCCESS

Drawing on a number of recent reports released under the BCA agenda, this submission proposes an aspirational and achievable vision for a prosperous Australia in 2020. It outlines the reforms and changes that will allow us to successfully negotiate the challenges Australia faces at the end of the first decade of the 21st century and, by the end of the second decade, attain the mantle of the best country in the world in which to live, learn, work and do business. In other words, the submission anticipates success – in terms of a comprehensive reform agenda, and therefore also in terms of achieving future growth and prosperity.

The purpose of the submission is to help guide the thinking of decision makers and participants involved in the Australia 2020 Summit about the detail of the challenges we face and the solutions needed to meet them.

Like in the 1980s, achieving sustained economic and social prosperity will require fundamental change. Like in the 1980s, many of these changes will seem too difficult, and to some, unthinkable. They include:

- New approaches, roles and systems of government, including more strategic and productive partnerships with business, which will make the public sector a facilitator of (and not a barrier to) continuing economic and social prosperity.
- Fundamental renewal of the basic building blocks of the economy, including transport, water and energy infrastructure, tax, business regulation and workforce participation.
- Major readjustments to the economy to better deal with climate change and other pressing environmental risks.

- Matching or exceeding the performance of global leaders in those areas of our economy and society, including education, innovation and services exports, that will be increasingly vital to a prosperous, 21st-century Australia.

The good news is that this time, we start from a much stronger position. Despite current challenges, our economy remains strong. We have the financial resources to invest in the adjustments and reforms needed to lay the foundations for a new era of long-term prosperity. Australians are now more willing and able than they were 25 years ago to recognise, and make the most of, the opportunities the globalised world offers. We have the benefit of having successfully risen to the challenge before, which involved rethinking existing ways of doing things and charting new pathways to prosperity.

If we are to embark on new pathways to prosperity, it is important that we share a collective vision for our future. A shared national vision can serve many useful purposes. It can excite and motivate our community. It can guide debate and policy evolution. It can highlight the costs of inaction. And it can provide an anchor in turbulent times. If the Australia 2020 Summit does nothing more than spark discussion about such a vision, then it will have been worthwhile.

Our vision starts from an aspirational picture of Australia in the year 2020. We have the benefit of having successfully risen to the challenge before, which involved rethinking existing ways of doing things and charting new pathways to prosperity.



### 3. LET'S IMAGINE ... A 2020 VISION

In 2020, Australia's performance in terms of rising economic growth and prosperity over the preceding two decades has been remarkable and the envy of most.

Australia is now a \$2.2 trillion economy, and is in its 29th consecutive year of economic growth, with a population approaching 25 million. Since March 1992, when Australia last recorded two consecutive quarters of negative economic activity, GDP growth has averaged between 3 and 4 per cent per annum. Productivity has grown on average by over 2 per cent a year since 2010 and the unemployment rate has fallen to 3 per cent. The share of the population in employment, despite a decline in the proportion of individuals in the population of 'traditional' working age, is at record highs.

To the surprise of many, Australia has well and truly broken out of the tradition of past cycles, which had seen prosperity rise, only to fall away again.

We are now ranked in the top five economies in the OECD (a greatly expanded club of nations since 2008) in terms of GDP per capita (see Exhibit 3). Against broader benchmarks relating to environmental and social prosperity, Australia's performance is also exceptional.

**TABLE 1**  
**AUSTRALIA: THEN AND NOW**

	2008	2020
GDP (nominal)	\$1 trillion	\$2.2 trillion
Population	21 million	24½ million
Unemployment rate	4 per cent	3 per cent
Employment-to-population rate	50 per cent	53 per cent
GDP per capita (nominal)	\$50,000	\$90,000
Population: traditional working age (15–64)	67 per cent	64 per cent

Note: The estimates provided for the year 2020 in this table (and in Exhibits 5 and 6) are notional only. They are not projections, but a set of potential, realistic indicators of Australia's economy in the year 2020. They have been drawn, where possible, from BCA research on the benefits of sustaining strong economic growth.

### EXHIBIT 3 LIVING STANDARDS: AUSTRALIA IN THE TOP FIVE IN THE OECD

In its submission to the 2007–08 federal Budget, the BCA set a goal for Australia to lift its living standards into the top-five band of the world's developed economies by 2012 and in the process, provide additional opportunities and the means to pass on prosperity to future generations.

By embracing a new national reform agenda, Australia was able to reach this goal in 2012 and maintain it throughout the following decade, which in turn provided the foundations for broader success and prosperity.

#### GDP PER CAPITA RANKINGS

Australia's rank in OECD  
(of 30)



Source: Business Council of Australia, *Locking in or Losing Prosperity: Australia's Choice*, August 2005.

In the year 2020, according to a comprehensive range of measures analysed by the BCA, taking into account issues such as health and wellbeing, the quality of the natural and built environment, business competitiveness, education outcomes, and the performance of government, Australia can justifiably claim to be the best place in the world in which to live, work, learn and do business.

Australia's performance is all the more remarkable because it was achieved against the backdrop of significant structural change and external shocks, some of which we knew to expect and could plan for – such as population ageing and the risks related to climate change – but others that we could never have predicted.

## 4. LOOKING BACK ON SUCCESS FROM THE YEAR 2020

How did Australia arrive at this point?

Perhaps ironically, at a time when the economy was facing significant capacity constraints and rising concerns about the relationship between economic activity, the environment and the risks associated with climate change, the newly elected federal government adopted an ambitious, multi-year, 'growing the future' strategy.

The strategy committed the government to aim and plan for average annual economic growth of between 3 and 4 per cent through to the year 2020.

This ambitious goal acted as a catalyst for the development and implementation of a broader reform agenda – similar in scale to that embarked on in the mid-1980s – to lay the foundations for strong growth, achieved in a way that carried ongoing electoral support.

The 'growing the future' agenda comprised four broad elements:

- Identifying the contribution that each of the key drivers of economic growth would need to make to sustaining growth at 3 to 4 per cent per annum.
- Long-term planning and policies to ensure that growth is sustainable from an environmental perspective and also built on, and capable of generating, broader improvements in social prosperity.

- Confirmation of Australia's policy of openness to global markets and deeper global engagement.
- Refocusing the contribution of government in achieving sustainable growth.

These elements are discussed in greater detail below (including Exhibit 4).

**'The most successful societies are notable for their unity, for the cooperative quality of all their relationships ...'**

Paul Keating, 'Ministerial Statement: One Nation', February 1992.

The success of the 'growing the future' strategy was also predicated on the responsiveness of the business sector and wider community to changing incentives, institutions and opportunities. Business responded positively to the changes implemented by governments to the year 2020 (see Section 10).

## EXHIBIT 4

### POLICY INVESTMENTS TO GROW THE FUTURE

#### 2007

- Segmented infrastructure markets
- Regulated prices for infrastructure use
- Segmented infrastructure investment
  
- Poor federal–state collaboration
- Duplication and overlap in service delivery across federal, state and territory governments
- No carbon pricing or emissions trading scheme
- Inconsistent business regulation across jurisdictions
- Environmental management is fragmented and rules-based
- Annual migration targets
- Education policy focused on inputs
- Expensive, fragmented and reactive health policy and health system

#### 2020s

- National infrastructure markets
- Market-based prices for infrastructure use
- Nationally coordinated and planned infrastructure investment
  
- Institutionalised federal–state cooperation
- Streamlined service delivery and accountability
- National emissions trading scheme
- Nationally consistent business regulation
- Environmental management based on national markets
- Long-term population strategy
- Education policy focused on quality outcomes
- Transparent, integrated, efficient, prevention-based health policy and health system

#### Permanent Policies

- Macroeconomic stability, anchored by credible policies and targets
- Open markets and low barriers to the movement of people, capital, goods and services
- Strong competition policy
- Floating exchange rate
- Decentralised labour market

## 5. BUILDING A PLATFORM FOR STRONG GROWTH

In order to ensure its growth target was credible, the federal government built its reform agenda around the drivers of economic growth, the so-called 3Ps: population, productivity, and participation.

### **A national population policy**

Against the backdrop of the outlook for slower population growth and for population ageing, the federal government established a long-term national population policy aimed at sustaining population growth at between 1 and 1½ per cent per annum. This policy comprised three elements: permanent migration, temporary migration and natural increase.

### **Permanent migration**

The government committed to a strong permanent migration intake to offset slower domestic population growth and the emigration of Australians. The program was targeted towards skilled migrants to maximise the contribution to economic growth.

### **Temporary migration**

A strong temporary migration program to support the skills needs of business was retained. In addition to enabling businesses to quickly and efficiently access world-class skills, the program proved to be an effective source of candidates for permanent migration.

### **Natural increase**

Migration policies were complemented by policies to support individual fertility aspirations, with a strong focus on supporting the availability of, and access to, high-quality, flexible child care and the implementation of a government-funded, national paid maternity leave policy that worked in conjunction with paid maternity leave schemes provided by business.

## A long-term productivity agenda

Sustaining economic growth at rates of more than 3 per cent required a commitment to achieving 2 to 2½ per cent productivity increases per annum as well as consistent population growth.

The second pillar of the government's growth platform therefore was the implementation of a comprehensive reform agenda aimed at enabling improved productivity in both the business and government sectors.

The federal government recognised that sustained strong productivity growth would not happen without a competitive and dynamic business sector, well-placed and equipped to respond effectively to challenges and opportunities. This meant developing an economic and business environment that:

- ensured resources were directed to their best use and used as efficiently as possible;
- enabled innovation and technology diffusion;
- rewarded entrepreneurship and measured risk taking; and
- supported business investment.

Likewise, strong aggregate productivity growth could not be achieved if governments at all levels did not tightly focus their activities and policies so as to avoid misallocation of resources and distorting business decision making and competitiveness.

The reform agenda was designed around a number of key elements to support productivity:

- Infrastructure
- Regulation
- Business tax reform
- Flexibility in the workplace
- Better support for innovation
- Education

### Infrastructure

In 2008, Australia was at a crossroads in terms of addressing its existing infrastructure needs and developing sufficient infrastructure capacity to meet future growth. The problems that existed in 2008 stemmed from poor governance, a failure to plan for the future, poor policy choices, complex and inconsistent planning regimes and inadequate financing options.

The federal government embarked on a reform agenda to alleviate constraints and to meet the needs of a growing economy and population. This agenda sought to embed an effective, transparent and cooperative approach to determine national infrastructure priorities. It also sought to introduce efficient and nationally consistent planning and approval systems, which were important in underpinning confidence in public and private infrastructure investment processes and their capacity to anticipate the needs of a growing economy and population.

The federal government prioritised the following reform agenda, which together with state and territory governments (through COAG, the Council of Australian Governments), was implemented by 2010.

- The establishment of effective national (not state-based) infrastructure markets, involving national regulation.

- The adoption of market-based prices for infrastructure use that appropriately reflect externalities, and send accurate signals to influence demand and supply (such as covering long-run marginal costs and reflecting time of use).
- The introduction of effective competition in all contestable (non-network) market segments.
- The use of private ownership of infrastructure in all contestable market segments.
- Ensuring that regulation of infrastructure did not discourage investment seeking to meet expected demand.
- Ensuring public and private financing options were considered transparently on their merits.
- The preparation and publication of regular and transparent audits addressing the state of existing infrastructure and risks.

The federal government also moved quickly to establish Infrastructure Australia in 2008. Infrastructure Australia became the organisation through which transparent assessment of nationally prioritised infrastructure investment was achieved in line with projected economic and population growth and the potential risks associated with climate change.

A coordinated and consistent approach to infrastructure planning between governments was at the core of this achievement, and supported the broader development of better collaboration between private and public infrastructure interests, including appropriate arrangements to share risk and rewards. Effective, nationally consistent regulatory frameworks reduced the costs associated with major infrastructure projects.

Finally, the federal government prioritised the development of a quality broadband network with effective third-party access to facilitate competition and stimulate roll-out to achieve a comprehensive rate of take-up across business and households by 2010.

## Regulation

Deeper integration of world markets provides a wider range of opportunities for business expansion, but also presents competitive challenges and makes it easier for businesses and individuals to seek out jurisdictions more favourable to capacity building and innovation.

Australia's distance from global markets, and its dispersed domestic markets, makes it difficult to match the productivity performance of the most competitive economies in the world. Additional domestic barriers to the interstate mobility of people, goods and services serve only to exacerbate these existing structural challenges.

Against this background, a regulatory system that strengthened our competitive position, rather than undermining it, was critical to sustained success.

As a key feature of its productivity agenda, the federal government with the states (again through COAG), established a 'seamless' economy for business regulation. In general terms, this has allowed business to operate within a single set of rules anywhere in Australia.

The first important step towards a seamless economy involved the harmonisation of priority areas of regulation highlighted by business, the so-called 'hotspots', by 2009.

After accelerating progress on the 'hotspots', governments implemented the remaining recommendations of the 2006 Banks Review, establishing a seamless economy for business regulation by 2010.

While greater consistency and harmonisation of domestic regulatory arrangements was a key priority, where practicable, the federal government also sought to minimise unnecessary or unduly costly discrepancies between domestic regulations and legislation and that applying in key markets overseas.



In addition to creating a seamless economy for business regulation, the federal government adhered to policies that strengthened regulatory and legislative processes including:

- Requiring a clear and strong case for action and for regulation as the best response to be developed prior to any legislation being introduced.
- Subjecting all federal regulation and legislation to thorough and transparent cost–benefit analysis.
- The incorporation of a full regulatory impact statement in all federal regulation and legislation.
- Procedures to ensure timely and transparent consultation with business 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.
- Regular review of new regulation to assess effectiveness and costs in practice.

Between 2008 and 2020 the federal government undertook three reviews of the existing stock of regulation as a means of driving the elimination of redundant and ineffective regulation. These reviews focused not only on new developments in Australia, but also incorporated evidence emerging from international experience and best practice.

### **Business tax reform**

Following a request from the new federal government, the Productivity Commission completed a review of the cost and effectiveness of the business tax regime across state and federal levels in 2009.

Based on this review, the federal government initiated a longer-term business

tax reform agenda aimed at reducing the total tax burden on business, enhancing the effectiveness of the system, and securing a stable, long-term revenue stream.

This reform agenda involved the abolition of a significant number of state taxes that were found to cost as much to administer as they raised in revenue, and the consolidation of a series of state taxes levied on broader, more effective tax bases.

This overall reduction in the number of state taxes was supported by the federal government taking over a number of spending responsibilities. All together, this enabled the number of state taxes to be almost halved, with little impact on the effective financial positions of states, resulting in a significant reduction in the unnecessary burden associated with business taxation in Australia.

Surveys conducted in 2020 found that business tax compliance costs had effectively halved during the preceding 10-year period. Government costs incurred in revenue collection and administration were also shown to have been reduced significantly during that time.

The federal government also established a tax advisory council comprising representatives from businesses with significant overseas operations. The 'Tax Competitiveness Council' was created to advise government on the implications of greater capital mobility for the structure of business tax in Australia and movements in effective corporate tax rates in Australia relative to key competitors.

### **Flexibility in the Workplace**

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.

Importantly, while undertaking significant reforms to workplace relations, the federal government maintained:

- Enterprise-based agreement making as the core of the workplace relations system.
- A wide range of options for agreeing employment terms and conditions.
- A national system of workplace relations regulation.

#### **Better support for innovation**

Innovation is key to lifting productivity, competitiveness and living standards. Recognising this, the federal government implemented a national innovation framework and established a new central body, the 'Australian Innovation Council', by 2010. Within this context, support for public and business research and development focused on improving innovation capabilities (including through greater linkages and collaboration for the business, university and research sectors) was significantly increased.

A strategy to turn Australia into a world leader in both collaboration and knowledge diffusion was implemented. It focused on building international linkages and developing collaboration as a discipline in Australia through a new centre for collaboration research and teaching. Under the strategy, updated best practice in knowledge diffusion is made available through information technology and networks such as Enterprise Connect.

The federal government also invested in the development of education and training systems providing people with the capabilities to contribute to innovation success. This involved a greater focus on:

- Skills related to the management of knowledge and innovation, including communication, teamwork, problem solving and entrepreneurship.
- Strengthening the acquisition of underlying 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.

#### **Education**

Improving the outcomes from the school education system was a key priority for the new federal government in 2008. In addition to ensuring access to the best available technology to assist learning for all students, the federal government identified a series of reforms, to be undertaken through COAG, targeted at improving the quality and consistency of educational outcomes.

The key priority was improving the quality of teaching through recruitment of the right people, keeping the best teachers in the classroom, and supporting teachers to continually improve their teaching skills. Greater flexibility in remuneration structures allowed the best teachers to be rewarded for excellence. New governance and leadership frameworks were introduced that provided principals with greater autonomy to select teaching personnel.

State and federal governments agreed to a nationally consistent, engaging and flexible curriculum that was able to be customised to the individual learning requirements of students.

Each of these steps was underpinned by greater investment in education and training.

Similar measures were introduced to generate improved performance in vocational education and training, including in regard to recruitment of the best available staff. An additional priority was achieving greater flexibility in the delivery of training. Improved workplace delivery, using the best available information and communications technology and enabling better recognition of the components of qualifications in their own right, were important developments in this regard. More effective engagement with employers enhanced the content of training programs, and reduced regulatory requirements for training organisations also played a part. Finally, significant attention was paid to improving linkages and recognition of qualifications between vocational education and training and universities.

In terms of higher education, as a result of reforms adopted by the federal government aimed at improving outcomes in education and research, in 2020 three of Australia's universities are ranked among the best in the world. The key reforms implemented included the following.

- University academics were better supported to continue to improve their teaching skills, including through better recognition and reward for quality teaching.
- Greater diversity was encouraged, with each university allowed to specialise and develop world-class capabilities in specific areas of teaching or research.
- Regulatory and governance requirements were reformed to provide universities with greater flexibility and freedom to make decisions consistent with their individual missions.
- Universities were supported in their efforts to increase revenue from private sources.

- The federal government increased its investment in the higher education system in return for reforms that strengthened the quality of teaching and the quality and practical uses of research undertaken.
- Working with the higher education sector, the federal government developed policies to better support and invest in Australia's participation in international education.

### **Workforce Participation**

In addition to securing labour supply through increased migration, the federal government set a goal of lifting workforce participation rates to levels achieved by the top performers in the OECD. As a result, aggregate participation rates in 2020 stand at 67 per cent, rather than around 59 per cent, which is where they would have been without this policy intervention.<sup>1</sup>

This result was achieved through a combination of personal income tax reform to reduce barriers to participation for those earning lower incomes, and education and training (including programs undertaken in collaboration with business) to better support the development of genuine employability skills.

Businesses also demonstrated far greater innovation in job design, including through the proactive use of ICT to better support participation. This was accompanied by the development of workplace policies and strategies enabling employees and employers to effectively accommodate more individualised solutions.

The federal government invested in more flexible, quality childcare facilities and introduced a means-tested payment to cover costs associated with caring for the elderly or disabled. This was in response to the increasing challenges for many individuals juggling employment while also looking after aged or disabled family members.

## 6. EMBRACING GLOBALISATION

Despite the clear benefits that globalisation had historically delivered to Australia, enthusiasm for further liberalisation appeared to be waning in 2008. In large part this reflected the impact of a sustained stronger Australian currency (on the back of then booming commodity prices) and associated concerns about Australia's ability to compete in such an environment (highlighted by a record current account deficit).

The decision by car manufacturer Mitsubishi to close its Australian operations, little progress in multilateral trade negotiations, the rise of sovereign wealth funds and the adverse impact of the global credit crunch flowing from the US sub-prime mortgage market all added fuel to protectionist sentiment.

To its credit, the federal government took stock of those developments, but also looked beyond them, taking into account that:

- The likelihood that strong growth in India and China in particular would underpin demand for Australia's resources.
- Globalisation is a two-way street; Australia could not seek to continue to benefit from a 'long boom' in commodities and simultaneously deny other exporters the opportunity to sell their goods into the Australian market.
- Australia would be unlikely to sustain strong economic growth domestically if it closed itself (even at the margins) to the benefits of global markets for exports and competitive imports.
- Technological advances were likely to make it increasingly difficult to prevent the freer movement of goods, services, ideas and skills.
- Open and flexible markets proved successful in overcoming earlier economic challenges (for example, the Asian financial crisis of 1997 and the 'tech wreck' of 2001).

The government realised that agreed tariff reductions and the pursuit of further trade and investment liberalisation through multilateral and strategic comprehensive free trade agreements were in Australia's best interests.

Rather than trying to lift external barriers, the federal government directed its efforts to highlighting the benefits of its broader reform agenda to export competitiveness and initiated a comprehensive review of trade policies and programs. Among other things, the review prompted a radical repositioning of trade policy and support programs. In particular, the government redirected resources to remove barriers and build capabilities in the export of services, and used the review as a platform to drive a broader, cross-portfolio reform agenda targeting:

- improved productivity and innovation in services industries;
- the development of a better understanding of the role of inward and outward investment to growing services trade opportunities; and
- improved access to global services markets.

The government also used its economic credentials and track record to aggressively promote the benefits of domestic economic reforms throughout the Asia-Pacific Economic Cooperation (APEC) group. This laid the groundwork for a greater preparedness among developing countries in the region to genuinely open their domestic markets to competition, including from overseas service providers.


By 2020, Australia's services export performance had been transformed. Based on growth over the period from 2015 to 2020, Australia ranked among the top-three countries in the world in terms of relative growth in services exports, surpassing the performance of China, India and Ireland, who were among the leading performers in the early 2000s.

## 7. INVESTMENTS IN SOCIAL PROSPERITY

By 2008, Australia was already enjoying its 16th consecutive year of economic growth. But significant groups continued to be marginalised, such as Indigenous Australians, some migrant groups, and children in jobless or single parent households.

This served as an important reminder that a strong, competitive and globally engaged economy can deliver higher living standards for many, but not everyone benefits directly. Some are challenged by rapid changes in competitive advantages and employment opportunities, and others simply fail to engage at all.

Against this background, the new government correctly determined that a further round of bold economic reforms would only attract support from the wider community if it was accompanied by a clear investment in improved social prosperity. Once again, a multifaceted approach was adopted.



**‘An additional year of education may raise the level of productivity by between 3 and 6 per cent for a country with Australia’s current average education level.’**

OECD, 2003

### **Education: early intervention**

The greatest emphasis was placed on strengthening education and training opportunities and outcomes to provide as many people as possible with the capabilities to benefit from the opportunities created by growth and technological advancements. Particular attention was given to the following.

Early intervention programs sought to identify potential learning problems before they became entrenched and more difficult to address. Particular attention was paid to early childhood development and the establishment of a coordinated, national, whole-of-government approach to early childhood education and care. Routine assessments to identify and address learning difficulties in early childhood helped to minimise the number of children slipping through cracks in the system.

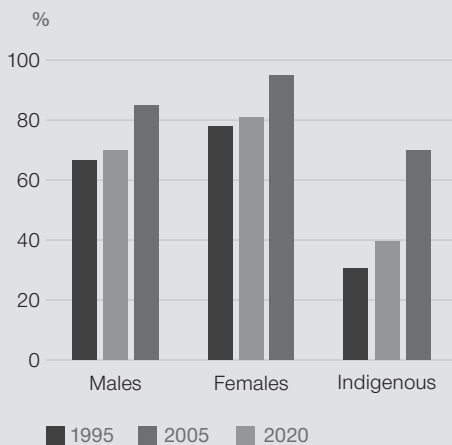
The number of young people achieving only minimal standards of schooling (and dropping out before Year 12 or its vocational equivalent) was substantially reduced (see Exhibit 5). This was supported by the provision of a broader range of pathways for students (including vocational education and training pathways in secondary school years). Business has proactively contributed to the improvement and development of graduates’ skill formation, including in terms of employability skills.

## EXHIBIT 5

### ASPIRING TO BETTER SCHOOL OUTCOMES

Early intervention programs and a focus on improved school outcomes saw the number of young people achieving 12 years of education (or equivalent training) steadily rise. Targeted intervention also delivered significant benefits in terms of outcomes for Indigenous young people.

#### YEAR 12 RETENTION RATES



Source: Business Council of Australia.

Note: Includes Year 12 and its vocational education equivalents.

‘Women who complete Year 12 are 14 per cent more likely to be employed, other things being equal, than those who do not, and to earn, on average, 8 per cent more.’

Breusch and Gray, 2004

#### Welfare and social support

The government reviewed the effectiveness of its social support and welfare programs, taking into account the fact that, for many, the need for assistance is likely to be ‘transitory’, while for a smaller group, disadvantage remains deeply entrenched and often intergenerational.

This review led to:

- A restructuring of tax and benefits policies to minimise the impact of high effective marginal tax rates on very low-income earners, including improved tapering of some benefits (such as access to health care cards).
- The introduction of intensive assistance programs, developed and delivered locally, to high-risk individuals and their families, with business and community engagement from the outset.
- The streamlining of compliance and administrative requirements for those delivering assistance programs, particularly in smaller communities.
- Regular and transparent reviews of the effectiveness of these programs.

Additional measures designed to deepen social inclusion included improvements in migrant settlement programs and other community-building initiatives.

**Health**

The federal government recognised that a key determinant of individual wellbeing and broader social prosperity would be the capacity of the health system to deliver high-quality services in support of improved health outcomes over time.

In collaboration with the states, the federal government undertook wholesale reform of the health sector. These reforms first and foremost focused on increased transparency and accountability. This was achieved by more clearly defining responsibility for outcomes and spending across state and federal jurisdictions, by better benchmarking those outcomes, and by better highlighting the role and contribution of private sector providers. Secondly, a greater share of spending was targeted towards preventative measures. And finally, improved incentives were incorporated to encourage individuals to become more responsible for their own health outcomes (see Exhibit 6).

The development of best practice in service delivery had the added benefit of underpinning the strong growth in health services exports. A key enabling factor was the use of e-health technologies to offer real-time services in the Asia-Pacific region.

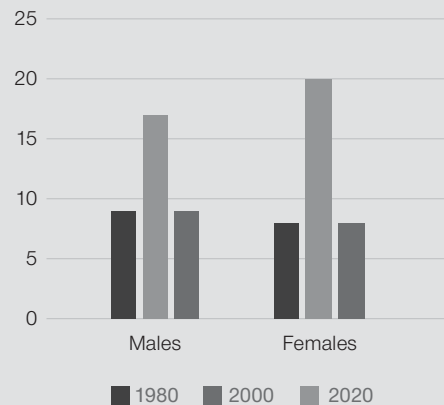
Despite these improvements, health care spending as a share of total government spending and GDP continued to rise. Further advances in medical technology, coupled with rising expectations, meant the pressure on spending remained significant, resulting in difficult decisions in terms of prioritisation and access to resources and treatments.

**EXHIBIT 6  
ASPIRING TO BETTER HEALTH  
OUTCOMES**

Incentives supporting greater personal accountability for health outcomes delivered significant results. For example, by 2020 the incidence of obesity returned to levels recorded in the early 1980s.

**GREATER PERSONAL RESPONSIBILITY  
DELIVERS RESULTS**

Incidence of obesity  
% of population



Source: Business Council of Australia.

## 8. BETTER VALUING THE ENVIRONMENT

Environmental management and economic growth are fundamentally linked, but the relationship is not the straightforward negative one that many assume, in which stronger growth necessarily equates to poor environmental management.

On the contrary, a strong economy and sound institutional and policy frameworks provide the basis for ensuring effective long-term management of natural resources, including the adoption of new technologies that facilitate more efficient resource use over time. A strong economy also underpins ongoing community support for the prioritisation of sound environmental management.

Likewise, the standard of living of present and future generations is dependent on meeting the needs of (and not destroying) the environment, which sustains growth over the longer term.

In order to secure ongoing community support for sustained strong economic and population growth, governments around Australia recognised the need to manage well Australia's environmental capital, but in a way that did not undermine growth and investment in the future.

In 2008, the approach to managing the environment generally involved separating environmental matters from the market and broader tools of economic management. This approach neither recognised nor rewarded reduced environmental degradation or improved environmental practices. In addition, regulatory approaches normally require specific outcomes to be achieved irrespective of cost, which often creates few incentives to innovate, resulting in an economically inefficient outcome.<sup>2</sup>

The challenge centred upon the development of better signals to guide both consumption and investment in a manner consistent with sustainable growth. In other words, the challenge lay in ensuring that the prices of goods and services reflected the environmental impacts associated with their production and consumption.

Ensuring the market provides the signals to reinforce sustainable growth was acknowledged as an increasingly important objective, both in a domestic and international context. As a result, governments prioritised the development of systems and strategies to better value and monitor Australia's environmental capital.





‘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.’

Ken Henry quoted in article titled ‘Saving Grace of Treasury Boss’, *The Australian*, 26 January 2007.

This agenda ran parallel to the federal government’s broader infrastructure agenda and focused on creating national markets, the use of market-based prices to guide consumption and investment, regulation that did not act as a barrier to investments to meet future demand, and the provision of more (and better) information to guide consumers.

#### **Water: not a problem of scarcity**

Water was an example of a ‘touchstone’ concern for the community in 2008. By 2020 this concern had effectively been ameliorated through better management and planning.

In the case of urban water, water utilities were disaggregated into their monopoly (pipes) and competitive (supply and retail) components in the major cities and in major regional centres. By 2020, appropriate third-party access to water pipes and other relevant monopoly infrastructure, and water quality, is governed by national regulation.

Planning for future urban and rural water needs, recognising the required health of Australia’s river and groundwater systems, and taking into consideration population growth and industry location, is ongoing – and transparent – with all options for supply considered on their economic and environmental merits.

The Productivity Commission completed a review of water pricing policies and recommended a national approach that addressed the cost of additional supplies and provided consumers with the discretion to purchase water as they required.

Competition was introduced into water supply to facilitate cost-effective provision of additional supplies of water, and regulatory inhibitors to recycling and other sources of water were reviewed and removed.

A market for water trading, including between urban and rural water, was made fully operational and where necessary structural assistance enabled the most effective utilisation of water resources.

In the year 2020, water restrictions are more or less considered as a thing of the past.

## Climate change

The government introduced major reforms aimed at ‘internalising’ environmental costs and risks, most notably in regard to greenhouse gas emissions and the risks associated with climate change.

An internationally linkable, national emissions trading scheme was established in 2010 to facilitate the achievement of least-cost emissions reduction. This scheme was underpinned by institutional and governance arrangements ensuring a transparent and informed market and a minimisation of government intervention.

The trading scheme covers most industry sectors, and where a sector has not been included it faces policies with equivalent impacts. As there is still no global price on emissions, the government implemented the scheme in a manner to address both competitiveness risks and carbon leakage in the interim period prior to a global price. Appropriate transitional arrangements ensured that Australia has not lost businesses to other markets that will remain competitive once a fully global carbon market and price is in place. The scheme recognised the disproportionate loss on industries through a one-off adjustment.

The substantial revenues that resulted from the introduction of the scheme have been used strategically to:

- Support investment in ‘first of a kind’ low-emissions research and development and technology.
- Deliver tax reform that addressed the needs of businesses and low-income households related to the introduction of emissions trading.

Federal and state governments rationalised and ended a range of regulations, programs and policies that had the potential to adversely impact on the emissions trading scheme and lead to higher-than-required energy prices.

As part of the longer-term risk management strategies of the government, extensive work is underway on adaptation policies including future land use.

Energy efficiency remains a key priority, and federal and state governments worked cooperatively to identify a national approach to building standards, fuel standards and other mechanisms to support emissions reduction.

As part of the national focus on infrastructure prioritisation and development there is a renewed commitment to public transport development and better urban planning and design.

## 9. REDEFINING THE ROLE AND CONTRIBUTION OF GOVERNMENT

The role of government was fundamentally reshaped by reforms in the 12 years between 2008 and 2020.

This did not reflect the outcome of an overtly philosophical debate or policy shift, but rather the ongoing evolution of the contribution of government consistent with changing circumstances and expectations. Examples of some of the key sources of this trend follow.

First, the extent of capacity constraints apparent in 2008 focused the federal government's attention on the need to ensure that its activities did not 'crowd out' or distort private decisions and investments. Likewise, the costs imposed on the economy as a result of a rising tax take, a substantial amount of which was being 'churned' back to the taxpayers from whom it came, had also become increasingly apparent.

Second, population ageing contributed to rising expectations from an older, wealthier population, precisely as an increasing share of the population moved from being income earners/taxpayers to 'dependants', at least in terms of the government purse. This, in turn, required better prioritisation of spending consistent with ongoing fiscal responsibility – a key plank in maintaining macroeconomic stability and resilience.

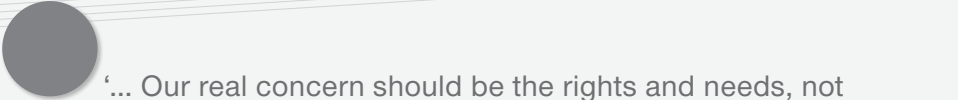
Third, it had become increasingly apparent that significant amounts of social security and welfare were not producing substantially improved outcomes, at least in terms of the most disadvantaged in the community. This prompted reform of the structure of assistance and its delivery.

Fourth, the costs of duplication and overlap across state and federal jurisdictions, and the lack of an effective means of collaboration across governments, were weighing heavily on economic performance.

The federal government addressed these issues in three ways.

It substantially reformed its own budget, and the processes underpinning it, to better align fiscal policy with the determinants of future prosperity.

All budget programs were reviewed in terms of their need and effectiveness. This underpinned a significant and sustained refocussing and reduction in spending. A 'Charter of Budget Quality' was adopted to ensure that all spending measures passed a rigorous cost-benefit test before being implemented, and the government instituted full-scale audits of the budget every five years.



‘... Our real concern should be the rights and needs, not as, say, Queenslanders or Tasmanians, but as Australians ... How sensible is it to shrink what is already a relatively small Australian market into separate state markets?’

Bob Hawke, ‘Towards a Closer Partnership’, speech to the National Press Club, 1990.

One of the most challenging but productive reforms was in federal–state relations. Federal and state governments signalled their intent to reform Australia’s century-old system of government by signing a ‘Charter for New Federalism’, which strengthened and embedded COAG as the means to deliver national reform. This commitment has since underpinned an impressive list of achievements in national collaboration, many of which have already been summarised above.

Reaching new standards in accountability, the Prime Minister established the practice of delivering, at the end of each year, an annual report to the nation on the federal government’s achievements over the preceding 12 months and priorities for the year ahead. The report includes the Prime Minister’s assessment of how COAG performed in delivering its commitments for the year.

Perhaps most surprisingly, federal, state and local governments made bold progress in rationalising service delivery across jurisdictions. For all intents and purposes, one layer of government is now largely accountable for most of the key areas of service delivery. In large part the driving principle underpinning this rationalisation has been that the level of government ‘closest’ to the issue has taken responsibility, the exception being where national interests override local needs and/or where significant economies of scale have existed. In the latter circumstances, accountability has been centralised to the federal government.

The end result has been significant one-off savings flowing from the abolition of unnecessary duplication, and ongoing savings due to greater efficiency and innovation associated with clear ownership of outcomes.

More broadly, government engagement has shifted from a model based on how to manage or regulate issues, to how its actions can better enable positive outcomes over the long term.

## 10. THE ROLE AND CONTRIBUTION OF BUSINESS

The role of business continues to evolve to meet the changing expectations of the community. In response to growing expectations from investors and the community that business growth must be environmentally and socially sustainable, assessment of business 'success' continues to develop beyond singular definitions of commercial profit. Business balance sheets and reporting standards increasingly reflect the trend to multidimensional reporting as companies seek to develop competitive advantage among customers and consumers through continual development of best practice corporate social and environmental responsibility practices.

As the economy continues to expand and internationalise, prosperity and opportunity for individual Australians becomes increasingly intertwined with that of the business sector. The relationship between business and government has also become more interactive, with both sectors drawing on each other's experience and expertise to create more collaborative and supportive models of service delivery and infrastructure provision. Where government wound back its activities in response to fiscal and electorate pressures to focus on genuine benefits and 'returns' to investment, the government and community increasingly looked to business to make sure funds were spent effectively and within a strategic framework enabling all parties to invest in future growth.

Business, in particular, has become increasingly enmeshed in education, contributing to a better understanding among education providers and curriculum developers of emerging and evolving employability skills, and in facilitating ongoing training that keeps Australia at the forefront of education and skills development. The barriers that previously inhibited active linkages in innovation between business, government and higher education providers have been significantly dismantled, and collaboration between business and innovators now represents world's best practice.

In response to the ageing of the population and structural labour shortages, business also works proactively with government to contribute to effective solutions for the long-term disadvantaged, including through the enabling of training and employment opportunities. Business also invested heavily in improving job design to increase flexibility and diversity in the workplace and hence higher rates of staff retention and participation.

Finally, in return for government heeding business calls for less heavy-handed regulation, business raised the standard of its own transparency and reporting, particularly around the management of risks – financial and non-financial – and executive salaries and performance.



## 11. CONCLUSION

Australia's performance in terms of rising economic growth and prosperity over the two decades to 2008 has been the envy of many. This provides the foundation from which we can now, as a nation, set our sights higher in order to capture and create new and better opportunities for Australians now and into the future.

The BCA's vision is that from current foundations we can build Australia as the best place in the world in which to live, learn, work and do business.

This submission promotes something of a 'perfect wave' scenario. There is no doubt that in reality Australia will confront more 'swings and roundabouts' than this scenario suggests. But that reality does not undermine the central message, which is that an intentional and comprehensively scoped reform agenda is needed to pave the way for future success and prosperity.

The simple fact is that what we collectively achieve over the next 3 to 5 years will determine what our nation becomes by 2020.

## NOTES

- 1 Source: Access Economics, 'The Speed Limit: 2005–2025', paper prepared for the Business Council of Australia and incorporated as part of the BCA publication, *Locking in or Losing Prosperity: Australia's Choice*, August 2005.
- 2 Commonwealth of Australia, *Intergenerational Report 2007*, p. 71.



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