

SPEECH

CHECK AGAINST DELIVERY

Policy in the Crisis

Address to AWU National Conference
3 February 2009
Broadbeach, Queensland
1.45 pm local Queensland time

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The year 2009, and possibly 2010, will be difficult years:

- global trade has stalled;
- the US, UK and Japan are all in recession;
- growth in China has fallen sharply; and
- commodity prices have fallen dramatically.

What started in the financial sector is now flowing into the real economy. Australia is undoubtedly better placed than many other nations – due in no small measure to many years of reform which began under the Hawke/Keating Governments. But let's not kid ourselves: the months ahead will still be difficult.

In 2009, most Australian businesses are going to confront:

- falling demand for the products they sell;
- falling valuations for the assets they own; and
- tighter credit availability.

Managing these challenges will not be easy. It will be made particularly difficult by not knowing how long or how deep this downturn will be. The course of this downturn is even less predictable than most.

Decreased demand is almost certainly going to translate into decreased production. Decreased production will reduce the need for labour. Even though many businesses will seek to cushion this impact by looking for creative ways to share the pain, unemployment looks set to rise.

Rising unemployment is very bad for those who become unemployed. It is also very bad for the economy as a whole. Rising unemployment risks a vicious cycle which feeds on itself, depressing demand further and leading to more job shedding.

Government action to counter declining demand and economic activity and address other short-term challenges is both needed and desirable:

The Australian Government has already taken initial steps in this regard.

The BCA welcomed the government's timely and appropriate October 2008 stimulus package.

However, more is needed and looks to be delivered soon.

We cannot spend our way out of a recession, but we can minimise the impact of the downturn on our economy and our jobs market. Stimulatory measures must not, however, become embedded. To be effective they must be timely, targeted and, most of all, temporary.

Australia cannot afford to run deficits indefinitely. The government must provide a clear roadmap for returning the Budget to surplus. It needs to explain how it will get back to the point where it brings in as much as it spends, or more.

The BCA advocates measures which are clearly directed towards consumption. Other than tax offsets for low-income earners, we do not favour further tax cuts. Desirable as these may be, we are concerned that the tax cuts would be saved, rather than spent.

We must also not lose sight of our longer-term nation building aspirations. We need to continue to lay the foundation for a successful future for this great nation of ours.

Long term and short term can merge if expenditures designed to stimulate the economy are also directed towards nation building.

The sun will once again rise. The downturn will end. Prosperity will return. When it does, we need to make sure that Australia is well positioned to take advantage of the growth opportunities that will exist domestically and overseas.

The BCA has been advocating a package of reforms that it believes will go a long way to ensuring Australia's future. These reforms are pro-growth, and so they complement the short-term stimulus now being applied.

Many of these reforms have been embraced by the current government. We see no reason why any of them should go on the backburner despite our current difficult circumstances. On the contrary, we see the current downturn as simply reinforcing the need for change.

For this reason, the BCA will continue to push for the following issues to be addressed in 2009.

Reform of Federal–State Relations

The Rudd Government has done a great job in breathing new life into the Council of Australian Governments (or as it is more commonly known, COAG) in 2008. Federal and state governments have shown that they can work together cooperatively and productively. They have agreed a significant national reform agenda backed by new financial arrangements that give them greater flexibility to achieve agreed outcomes, rather than focusing on inputs. The BCA called for these steps, and we strongly endorse them.

But to deliver growth, these reforms must be implemented with the same energy we have seen in negotiations over the past year.

Genuine cooperation and coordination across the two top tiers of government is also important if the government's stimulatory measures are to have maximum effect.

In simple terms, it makes no sense for one level of government to seek to stimulate the economy while other governments seek to avoid substantial deficits by winding back spending and raising taxes.

Assuming that money is to be directed towards infrastructure and education, many of the projects concerned will be under state government control.

State and federal governments must work together closely if this money is to be spent wisely. For this reason, the BCA has recently called on governments to spend time at the next COAG meeting working together to address the downturn.

Investment in infrastructure

The BCA fully supports further investment in Australia's key infrastructure, much of which has suffered from underinvestment in recent years. However, the issues in infrastructure are not just about more money. They are also about market reform.

One reason for underinvestment has been the disincentives created by inappropriate and poor regulatory and pricing structures.

If we are to get better long-term infrastructure outcomes, we need not just more money, but also:

- better coordination and planning;
- genuine national markets;
- effective competition; and
- market-based pricing.

Creation of a 'Seamless Economy'

Australia cannot afford to have eight different regulatory regimes. Our distance from global markets and dispersed domestic markets make it difficult to match the productivity performance of the most competitive economies as it is. Additional domestic barriers and costs make this even harder.

Yet this is exactly what Australia has with six state, one national and two territory governments all having different regulatory regimes. Duplicate regulation is a significant and unnecessary cost burden on the many companies that do business nationally – costs which are ultimately borne by consumers. We need to create a single, truly seamless – and efficient – national economy.

More broadly, we must continue to focus on better regulation, not more regulation.

Improving education

There is virtually universal agreement on the importance of skills and education in underpinning future growth and individual opportunity and prosperity. This is true in good times and bad.

We must achieve better education outcomes for all Australian children, especially those in the most disadvantaged schools and circumstances. And those outcomes need to translate into the skills needed to achieve and sustain employment.

There must be greater accountability for what happens in the classroom. If this means paying teachers more, this is what we must do. We cannot continue failing thousands of young Australians who don't complete Year 12. To do so is to consign them to the fringes of our economy and society.

The plight of Indigenous Australians

I have spoken of the plight of Indigenous Australians as Australia's greatest shame. Many BCA member companies are big employers of Indigenous Australians, particularly resource companies who operate in remote areas.

The BCA is working with member companies to ensure that best practices on Indigenous employment are identified and spread across our membership. We are establishing a network among BCA members to share best practice and experience, and to make it easier for businesses to take action to deliver better opportunities and outcomes for Indigenous Australians.

The BCA is also working with Andrew Forrest's Australian Employment Covenant to create 50,000 additional jobs for Indigenous Australians.

Addressing climate change

We should also not underestimate the significance of the profound economic changes that will occur as we transition to a low-carbon economy.

Climate change is a global problem. It requires a global solution. The key to success in this initial period is for us to play a meaningful role in developing a global solution – while protecting our industries and jobs until we create a level global playing field.

The BCA supports addressing the challenge. The BCA supports an emissions trading scheme as the best way to do this.

The government's Carbon Pollution Reduction Scheme has been revised to provide significant improvements in the treatment of emissions-intensive, trade-exposed (EITE) industries. However, the fine detail of the scheme will make a significant difference to the outcome. The CPRS will require careful and thoughtful implementation.

Implementing tax reform

The Henry tax review is the first large-scale review of Australia's tax regime in more than a decade. Its aim is to drive long-term structural tax reform – something we strongly support.

The BCA is focused on reforms that support productivity and competitiveness, and which will deliver a simpler system with

lower compliance costs. A key priority remains the elimination of many inefficient taxes, particularly at a state level, which hinder economic activity.

Health

Health is a new area of work for the BCA and it may surprise some to see it as a priority on our agenda. But health helps determine how many Australians can participate in work, and how productively they do it. And health spending shapes governments' budgets. The BCA is looking at how to contain health costs, and at how to provide the best, most efficient and highest-quality service.

Continuing to evolve workplace relations

The relationship between employer and employee is one of the critical determinants of productivity.

With 'Fair Work Australia' we are about to enter a new chapter in the legislative framework surrounding these relationships. There is considerable uncertainty as to how 'Fair Work Australia' will play out in practice.

Much of the resolution of that uncertainty lies with business and unions.

'Fair Work Australia' can either be implemented in ways which can enhance productivity – and produce more wealth for all – or impair productivity.

The BCA believes that all of the preceding issues must be addressed. It will not be easy. But we must do so. Addressing them will make us a more productive nation. And Australia is going to need all of the productivity gains it can muster.

Even without considering the particular current economic circumstances, in the longer term Australia faces some very major challenges:

- a shrinking workforce as the population ages;
- the move to a low-carbon economy;
- a global power shift from West to East as China asserts a new-found economic power.

Short term and long term, there is no shortage of challenges confronting us. These challenges say that there can only be one answer. We must continue to move forward. Greater productivity must be the goal.

Productivity is the key – the more productive we are as a nation, the more that there is to be shared among all of us – business, unions, consumers.

We cannot avoid the downturn Australia is currently entering.

We cannot avoid the major future challenges we confront.

However, we can more successfully address both the short and long-term challenges by pulling together – government/business/unions – than pulling apart.

Thank you.