



Speech

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We may never have had it so good, but we could be great: a plan to lock in Australia's prosperity

Introduction

Thank you Nikki

And thank you to the Australia–Israel Chamber of Commerce for inviting me to speak today.

I would also like to recognise the past President of the Business Council of Australia Graham Bradley and my colleagues from the council who are here today.

Your Chamber does a remarkable job in stimulating debate among business leaders on some of the most pressing issues facing this country.

So why did I choose to speak on the theme of making Australia great?

Well, last year the *Economist* magazine asked the question:

With two decades of unbroken growth behind it, record prices for its minerals and an insatiable market on its doorstep, Australia can afford to be carefree. Or can it?

While the international media is optimistic about our economy, Australians are not.

Some people have expressed frustration at Australians' negativity about the economy.

I have thought a lot about this and I reflected on the conversations I have with business people and people from all walks of life.

And I asked myself why they are feeling so uneasy.

What I want to talk about today is:

- Firstly, why I believe there is this sense of unease
- Secondly, the things that gave us confidence and prosperity in the past
- Thirdly, what are the challenges we face now and how we can deal with them.

A good starting point is tapping into the psyche of the Australian people.

They're smart and they usually get things right.

And there's no doubt that Australians are beginning to lack confidence in the future and in our economy.

They feel they have less and less money and they feel it's harder to get ahead.

People working in the resources sector may be an exception.

So if we've never had it so good as a country, why is it that people are feeling so nervous and confused?

The answer is not hard to pin down.

Every day people are told how well the Australian economy is doing, yet for many Australians the truth is they're doing it tough.

They see their electricity, gas, water, groceries, petrol all going up and their net worth going down with the sharemarket flat and the value of their homes dropping.

Yet they know there are places in Australia where an unskilled worker can make \$150,000 a year while they struggle on less than half that.

They hear stories of mining companies and some big-name business people making huge dollars, and they don't see the windfall trickling down to them.

The Australia of my childhood

I contrast this sense of unease in Australia today with the feeling of optimism and clarity that characterised Australia through my childhood and early adult life.

We were a young, confident and competitive nation.

Whether it was in sport, in business or in the arts, we reckoned we could take on the best in the world and beat them ... and we often did!

It was a time when Australians recognised there was a job to do and we went about it with a real unity of purpose. We wanted to grow.

The truth is we are still that Australia.

But Australians are waiting for the call, the vision for the future and the plan that's going to help us get there.

We are in an even better position today, than when I was a kid.

As political commentator George Megalogenis wrote recently:

“This is Australia’s moment. We, as Australians, are made for these times.”

We have an unprecedented opportunity to lock in prosperity and high living standards for future generations.

We are at one of the great tipping points of global history.

But we can’t see where we are heading.

Our leaders, federal and state, and from all sides of politics, don’t seem to have a vision for Australia.

And it’s showing on the score board.

When I was growing up we really did punch above our weight.

Australians won eight Nobel prizes.

Over 25 years we planned and built the Snowy Mountains scheme.

Over 16 years we planned and built the Sydney Opera House.

We floated the Australian dollar.

We introduced national superannuation.

We invested nearly 16 per cent of GDP in education.

We welcomed over 6 million immigrants to Australia.

Australians love to see how we do on the international league table.

So at the 1964 Olympics, Australia with a population of only 11 million placed eighth out of 94 countries in the medal count.

Eight years later we improved to sixth.

In 2004, with around 20 million people we improved again to fourth place behind the USA with a population of 290 million, China with a population of 1.3 billion and Russia with 150 million.

I wish I could say the good news continued in other fields.

Losing sight of the fundamentals

I look back on the fundamentals that supported those achievements.

First and foremost was an understanding that economic growth is vital and is the unifying force for the Australian people. All parties agreed on the building blocks of immigration, resource development, infrastructure, industrialisation, defence and education.

We progressively opened up our economy and developed a better understanding of our place in the world.

We had strong independent, integrity-based institutions in the public and private sectors with a respected and highly professional public service.

And we had a strong sense of the need to share wealth and tackle inequality and these two pursuits – growing wealth and sharing it – were not seen to be in conflict.

Through our nation's history, some of the periods of great national development were driven by crisis.

All of them, all of them were driven by strong leadership with a strong clarity of purpose.

Current scorecard

But on the league tables that tell us where we are now and what our future is going to look like, some important things are looking pretty crook.

On the World Economic Forum's scale of global competitiveness, Australia has dropped four spots to number 20, as other countries have passed us by.

On key ingredients of competitiveness, we are a long way from the gold, silver or even bronze medals.

When it comes to the quality of overall infrastructure we come in at number 37, behind such economic powerhouses as Croatia and Namibia.

Just ahead of Puerto Rico and Lithuania ...

Despite having one of the largest coal exporting ports in the world, we don't do all that well on port infrastructure.

In fact we hold 40th spot, behind Honduras and Cyprus, and just ahead of Uruguay and the Ivory Coast.

No-one who drove into town today will be surprised to learn that on the quality of roads, we come in at number 34, behind Lithuania and just ahead of Thailand.

On the section of road between Sydney and Brisbane, Australia is in the middle of an 80-year program to build ONE highway.

It sure puts a new spin on steady as she goes.

As any of you have driven that road will know, there are STILL sections of single carriageway despite promises of over \$7 billion in funding by the state and federal governments in the last seven years alone.

It remains one of the most dangerous and deadliest roads in Australia.

So it feels like after decades of investing in infrastructure, investing in education, investing in immigration, we are taking a VERY long post-season hiatus.

We are sitting around talking about what we might do next season while the biggest game in our history is already into the second quarter.

China and India now account for around 20 per cent of global GDP and within five years their share will grow to 25 per cent.

The countries of the developing world are already responsible for more than half of the global consumption of most commodities. According to the *Economist* magazine, they also account for 52 per cent of all motor vehicle purchases and 82 per cent of global mobile phone subscriptions.

In the 1970s, the average American was 15 times richer than the average Chinese.

Today the average American is about six times richer and sometime by the early to middle of the next decade they will find themselves only two and a half times richer.

The OECD Program for International Student Assessment measures how well school kids do at mathematics, science and reading.

Better national educational outcomes are a strong predictor for future economic growth.

The top five countries in the most recent study from 2009 are Asian.

The USA ranked 30.

Australia comes in at 15 but most worrying we are lagging in mathematics and science.

A changing world

All this goes to show how much is changing, around the world and for Australia.

Nearly 70 per cent of our goods and services are exported to Asia. Only 15 per cent go to what we still think of as our traditional markets of the UK, Europe and the USA.

Despite what we think of as our traditional exports – agriculture and manufactured goods – our second biggest export is services.

In fact, we export more than double the amount of services than we do rurally produced goods.

Australia is taking a long time to realise that in the 21st century, we are living in a post-industrial age in which innovation and creativity are, as Steve Jobs showed, the value creators.

And while the Australian Government invests \$9 billion annually in research, development and invention, only \$200m of that is used to convert discoveries and inventions into actual product and services. Into jobs and economic growth.

In terms of innovation itself, we have no quality measurement, no workforce planning and no national capability, collaboration or funding plan.

All the while, the competition is getting more global and more fierce.

Just ask any Australian retailer or music company.

In the United States today, jobs in manufacturing are at the same level they were in 1958 yet output is up 370 per cent.

In Australia, over the last five years, multi-factor productivity has declined.

In my view, the continuing strong growth of our resources sector has made many of our leaders complacent.

Sure, Australia's terms of trade are now 75 per cent higher than the average of the last 50 years.

But it's the years of work done confronting hard issues in the past that set Australia up for the quality of life most of us enjoy today.

If we don't confront the hard issues again now, Australia's moment will become a lost opportunity.

The belief that resources by themselves will carry us through is a convenient fairy tale most Australians don't even believe.

As the author of the OECD student study said recently:

"If you really want to know how a country is going to do in the 21st century, don't look at its oil reserves or gold mines.

"Count its highly effective teachers, involved parents and committed students."

I would add one more thing to that forecasting formula:

"Measure the country's commitment to improving productivity".

I raise these issues not to be a scaremonger but to highlight that if we lose our competitive advantage, there are enormous consequences and they will affect people's jobs and lives.

We are not staring down the barrel of a European-style crisis.

But we do need to reflect on our competitiveness and what it means to miss the moment and lose opportunities ...

– the jobs we could have created

- the investment that could have come
- the wage increases people could have had
- the lifestyle we could have enjoyed.

Our endowments should be the springboard to incredible prosperity. I say, they shouldn't be the banana lounge for us to put our feet up.

Contrast our situation with Israel.

Andreas Schiecher said ... "Moses arduously led the Jews to the only country in the Middle East that has no oil and today Israel is one of the world's most innovative economies with its population enjoying a living standard most of the oil rich countries in the region are not able to offer."

The massive investments by our resource companies, including in infrastructure, the massive risks they have taken combined with very strong management, have created a world-class industry producing world-class results for both the companies involved and for all Australians.

Now we have a pipeline of \$400 billion in resources projects.

This is something like 50 Snowy Mountains Schemes.

But the impact of high commodity prices on our terms of trade has papered over a continuing drop in productivity.

Over the past 40 years, per capita incomes in Australia have grown by just over 2 per cent per year.

Ongoing improvements in labour productivity drove around three quarters of this increase.

Since 2000 per capita incomes have grown at a faster rate.

But this time the rise in incomes has been driven by the terms of trade and not by labour productivity.

Over the past three years labour productivity growth has averaged barely 1 per cent per annum and multi-factor productivity, as I said a moment ago, has been flat or negative since 2004–05.

My vision for Australia has us as a high wage, high productivity country.

We have to recognise that a dynamic, vibrant and resilient economy needs to be underpinned by competition and competitive markets.

More productive companies and industries will succeed where some of the less productive ones may not.

But we should never lose sight of the fact that the spirit of progress is the desire to do better.

So I'd like to see the federal government do more than restate its aspiration of meeting a two per cent per annum growth in labour productivity.

I'd like to see them draw up and follow a realistic plan to achieve it.

If we were putting together a plan to ensure Australia doesn't miss the moment, it would include:

Removing unnecessary barriers to competition, and encouraging and rewarding investment and growth:

- lower marginal personal income tax
- lower corporate tax rates
- shifting the tax mix from direct taxes to an increased reliance on indirect taxes like the GST

We should be realistic that reconfiguring our tax system in this way can be done in a way that raises enough revenue, promotes growth and provides a fair go for people who are less well off.

Any changes in the GST should of course be accompanied by a suitable compensation package for people on lower incomes. We've done this in the past and we should be able to do it in the future.

- Reducing the regulatory burden on business, which stifles innovation, delays investment, adds to costs and serves no community purpose.
- An industrial relations system that provides companies with the ability and flexibility to adapt to very significant structural changes taking place in the world.
- Not to forget the need to lift productivity in the public sector, which accounts for about a quarter of GDP.
- Our plan would also look at how we can leverage the 1.2 trillion dollars Australians have in superannuation to better invest in developing this great country and particularly in infrastructure.
- We would have an education and training system which produces the skills we need now and for the future. Business would play its part in this too.

Infrastructure

One of the best lenses to use in thinking about a plan for Australia is infrastructure. It won't surprise anyone in the room to hear this coming from me.

But did you know that China is in the middle of a \$200 billion expansion of its railways, freight handling and airports? That's 200 BILLION.

In Sydney, talk of a second airport has gone on just about as long as the Pacific Highway upgrade.

While there are critics who say Australia can't afford to invest in infrastructure during a recession, the City of London is investing over \$20 billion in its Cross Rail project.

It is the biggest engineering project in Europe. It will create 14,000 jobs during construction and generate 62 billion dollars in benefits. It's part of a vision for London.

In Australia, we have been discussing the M4 East for 20 years. That's 14 years more than it took to build the Eurostar rail service between London and Paris that involved digging the second longest undersea tunnel in the world.

Sydney's largest freeway still ends in a T intersection with the city's largest arterial road.

The conventional wisdom in Australia is that infrastructure is too risky an investment for super funds. Yet as Garry Weaven, the chair of Industry Funds Management, points out:

Over 16 years, investment in infrastructure has yielded over 12 per cent per annum in returns and that's AFTER fees and taxes.

We have to revisit the PPP model and be innovative.

We need to make it easier for super funds to invest in infrastructure. This would have an enormous impact on our economy ... in both the short term and the long term.

The simple fact is that Australian superannuation money is going overseas because of the lack of opportunities in Australia.

Population and immigration

Let me use another, more controversial lens to highlight the need for a plan.

Population and immigration policy.

We have been told we need to face up to an ageing population. (Of course no one in this room meets that description, except perhaps for me).

But the data shows the choices we need to make.

In 1970, just over 8 per cent of the population was 65 and over.

In 2011, it was estimated that 14 per cent of the population was 65 and over.

By 2050, this number will reach almost 23 per cent of the population.

Of course, all of this means that the proportion of working age people is falling and will continue to fall.

In 1970, there were 7.5 working age people to support each Australian aged over 65 years.

Today, this figure is less than 5 and by 2050, it will be just 2.7.

We have to plan for the reality that Australia's demographics are changing.

And the world is brimming with people who would make huge sacrifices to live here.

Your Chamber has many members who overcame enormous challenges to come to Australia and their contribution has rewarded this country many times over.

Our challenge as a nation is to determine how to manage immigration in a way that preserves our 'Australian soul' while making sure Australian

companies have access to the skilled workforce they need to compete on the global stage.

The 'Australian way of life' is important. We need to focus that argument on the 'Australian soul' rather than looking backwards.

We need to embrace new ways of thinking.

Our most successful sports teams don't lie down and complain when the rules change.

They don't coast along because adapting to change is too hard.

They embrace change, train hard, and keep winning. That's what we are doing in Western Sydney with the Giants.

That's the Australian way.

Asia

Let me return to the wider world and our local neighbourhood. The reality is that our Asian neighbours will not only grow in capability, but also have the strategic incentive to project power globally to protect their lines of supply.

Part of our plan to lock in Australia's prosperity should be to position our nation as a friend of Asia, to take advantage of markets and minimise potential tensions.

But to do this we must be a strong and competitive country.

One example of where we could do better: this year 2012, there are now more students studying Latin than Chinese – figure that out.

Asking the right questions

But we can't work up the plan if we don't start by asking ourselves the right questions.

Australians are nervous because they know the public policy questions we're debating are not the right ones to set us up for the future.

Is it the current state of politics which keeps us from asking the tough questions or is it the focus group/media cycle driven policy formation.

I suspect it's probably a combination of both.

– Instead of asking technical questions about the Fair Work Act, we should be asking what kind of industrial relations system Australia needs for a changing world and a changing economy.

– We should be asking why our considerable investment in education and skills is failing us in terms of the quality and skills of the workforce we are producing not just to meet our current needs but also the needs of the future?

– We should be asking if the carbon and mining taxes encourage new investment in industry and infrastructure or whether they handicap us against the competition.

– We should be asking do we wish to maintain an industrial base and will we be making steel, aluminium and refined oil products in 10 to 20 years?

– We should be asking how we can build a sustainable agriculture base to become the food bowl of Asia.

– If we truly believe we are part of the Asian Century, we should be asking a whole lot of questions about what economic integration really looks like.

Australians are world beaters, and we're in a better position geographically, economically and in terms of the makeup of our nation than ever before to build ourselves a great nation in this new century.

Conclusion

Ladies and gentlemen, Australia is a great country.

But we are now playing in a much more competitive game.

To paraphrase Paul Keating ...

Incrementalism is the house of indifferent outcomes.

In a constantly changing world, the premium has to be on quantum changes, quantum leaps, and leaders are the instruments by which such changes occur.

Elements of leadership are latent in us all. But more often than not, those elements come by way of inspiration.

By a vision, that lifts us up and inspires us to do great things.

It is my strong sense that Australians, young and old, are hungry for such vision and leadership, with the promise of a bright future for current and future generations.

Thank you.

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Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.