



Speech

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Growth to What End? Changing the Australian Mindset

Introduction

Thank you Kate, and thanks to the Cranlana Programme for inviting me to give the final talk in this year's alumni series on the good society.

Several of my staff have had the privilege of doing the programme and they come back to the Business Council with such enthusiasm, new ways of looking at things, and new ways of talking about things.

The programme facilitates that mindset change and the central theme of what makes a good society is one of the most important conversations to have, even in a society as good as ours.

So tonight I'm going to take up Cranlana's invitation by canvassing four broad areas:

First, to paint a picture of what I think a good society looks like.

Second, to make the case that prosperity is an essential element of a good society and that economic growth is essential to achieving enduring prosperity.

Third, I'm going to outline an approach for achieving well-managed growth that delivers on the good society vision.

And finally, I want to set up three ethical anchor points for the thesis that growth is vital to a good society: equality of opportunity; freedom of choice; and fairness.

I believe these must be part of an ongoing discussion to ensure that we all get the dividends of growth.

A good society

So let's start with a picture of the good society.

When I think of a good society two images come to my mind.

The first is a wonderful fresco by Lorenzetti in the town hall in Siena called 'Good and Bad Government'. The fresco presents a complex and compelling view of good and bad government and, in doing so, good and bad society.

Good government presents as wisdom, justice, harmony and unity. Complemented by six perspectives of virtue, and the theological values of charity, hope and faith.

The good city is depicted as well-kept, active in commerce, with different traders going about their work, buildings, scaffolding to indicate prosperity, obvious leisure time, and a focus on farming in a prosperous green countryside.

The bad government and city are depicted as a personification of tyranny, broken justice, conflict, deserted villages, barren landscape and dilapidated townships.

The only person working is the blacksmith making arms.

The simple wisdom of the fresco made such an impression on me when I saw it that I bought a series of prints which hang on the wall of my office to remind myself of what is important in how we think about government and society.

The second image that comes to mind is from an Aboriginal man called Ian Trust who runs a community development organisation in the East Kimberley.

When Ian talked to some of our members a couple of weeks ago about what his community is looking for, the way he described it really stimulated my thinking on this speech and the elements of a good society.

The way Ian puts it, his people are wanting four things: good health; good jobs; a good house to live in; and reward for effort.

Reflecting on Ian's descriptions, on the Lorenzetti fresco and on the Cranlana readings, you can pull out some common features of a good society: rule of law, freedom, mobility of capital and labour, cultural enrichment, and so on.

But they also point very clearly, I believe, to another essential ingredient of a good society.

Prosperity and the things it brings like community cohesion, good health, social mobility and choices.

And that's the central theme I want to pick up on tonight – the importance of prosperity, and the role of well-managed growth in delivering the prosperous life so beautifully and simply described by Ian Trust.

I raise this theme recognising that the global financial crisis has generated legitimate questions about the pursuit of growth and who benefits from it at what cost.

What I want to do tonight is re-state the case for growth, not to be pursued for its own sake but for the creation of enduring community prosperity and shared value.

I want to start by reflecting on what growth has delivered in terms of better living standards – and I'm talking in the Australian context here.

Because when people talk about 21 years of uninterrupted growth it's important not to think about it as one of Alan Kohler's charts (as wonderful as they are), but to think about what it means for people, for our environment, our freedom and our choices.

Over the past 21 years, the amount of economic activity in Australia has doubled and the amount of wealth created – on a per capita basis – has increased by almost 50 per cent.

On international league tables our GDP per capita ranks 4th in the world compared with 14th in 1990.

Before the introduction of award superannuation in 1986, it is estimated that fewer than half of all individual workers were paid superannuation.

Today nine out of ten employees have super contributions paid into their super accounts.

In 2011, the average superannuation retirement payments were estimated to have reached \$250,000 for men and \$145,000 for women.

If we look to the future and think about where continued growth might take us, we can aspire to double our per capita wealth in real terms over the next 42 years from \$60,000 to \$120,000.

But if we think about the consequences of slowing economic growth, we have to imagine a world where incomes will not grow as fast and where there will be less revenue for governments. That risk to revenue would come at a time when the cost of an aging population is starting to rise.

This will present a vastly more difficult set of choices for future governments and future generations of Australians.

There are people who would say it would be better to maintain the status quo than to keep growing, given how good most of us have it right now. And that's a legitimate perspective for people to raise.

But the reality is in a capitalist, globally connected world, you can't stand still and think you can preserve what you've got. Continued well-managed growth will, in my view, be fundamental to continued prosperity.

It's growth that gives us rising wages, growth that gives us choices, growth that gives us the vital social safety net.

And growth and prosperity that contributes to social cohesion.

The story from Europe is not just a story about the lack of fiscal discipline – it's a story of declining growth.

I also want to put it to you that well-managed growth and prosperity are vitally dependent on strong businesses, large and small.

In the financial year just finished, Australian businesses employed more than 9 million Australians and paid out some \$600 billion in wages, salaries and other employment benefits.

Harvard economist Michael Porter told the World Business Forum last week in New York that "there's no such thing as a good society without business" because "only business can create prosperity".

We take this responsibility very seriously at the Business Council.

If we accept Michael Porter's thesis that business, as part of a society, creates the wealth that can make our society a good one, we are obliged to do all we can to deliver on that.

This is why the Business Council, as part of our 30th anniversary next year, is going to have a go at developing a long-term economic vision for Australia that describes what ethically-driven, well-managed growth might look like.

We understand that people will question our authority to take on something like this.

We are not a substitute for government and we can't tell governments or political parties what to do.

But we do have an enormous stake in the nation's well being, enormous skin in the game. Not just because of our shareholders and our employees, but in support of enduring national prosperity.

In putting the case for growth, we know there are some fundamental questions to be asked and answered about what growth looks like in the context of a good society.

We must be talking about well-managed growth. That is, growth that is managed in a way that delivers shared value. The only kind of growth that is sustainable and enduring.

I walk home most evenings past City Square and the Occupy Melbourne movement. I don't always agree with where those people are coming from and I don't agree with their solution to the ethical dilemmas of growth.

But I understand their sense that there's always a risk of growth being pursued for its own sake.

These people feel a deep sense of unfairness, not just unfairness for themselves but an idealism that sees the system as rigged for the benefit of some, while others continue to miss out.

What I'm saying tonight is that while anti-growth proponents are right to raise issues of fairness and equity, they're wrong about the solution.

To me, the most immoral thing we can do, is to condemn people to poverty, long-term unemployment and an end to intergenerational social and economic mobility.

A free market system doesn't have its own morality. It's just a system. But we have the choice and the responsibility to make it work in a way that gives effect to how we see the world – how we see the good society.

And that's exactly what the Business Council is trying to tease out in our long-term economic vision for Australia.

An economic vision for Australia

Tonight I'm looking forward to sharing our early thinking on the development of this vision, rather than offering you detailed content.

It's too early for that. In fact, one of the most important features of this vision will be our engagement with a very broad cross section of the community.

This can't be a conversation between elites.

Our first challenge has been to come up with an overarching goal because all the other elements of this vision are going to need to measure up against that goal – in a practical sense and in an ethical sense.

And the goal we are proposing is this: enduring prosperity for all Australians, driven by Australian exceptionalism.

Why have we come up with this goal? Because it's visionary and because it's positive.

It confronts complacency and replaces fear.

Our highly experienced, globally connected CEOs believe that Australia is well placed to become the most exceptional country on earth.

And more than at any other time in our history, our endowment of our natural resources, our human capital, our adjacency to Asia, and our capacity to adapt and innovate, have given us the chance to do this on our own terms.

But it won't happen on autopilot.

Goals and aspirations, and how to measure them

The integrity of this vision will come from the specific goals we choose, and then the measures we suggest for keeping track of progress.

When we first canvassed these with our members, we made the mistake of automatically turning to the standard economic goals like GDP per capita. But it didn't fully capture what our CEOs were looking for.

They told me they wanted goals and measures that actually spoke to Australians and inspired them.

So the specific goals we're looking at are these:

A society where all citizens can go to school, to university, to TAFE; be literate and be given the skills and opportunities throughout their lives so they can choose the kind of career and life they want

- a society that can afford a quality universal health system and quality care for people as they get older
- a society where people's incomes rise in line with rising productivity and national wealth
- a society that can invest in research, new technologies and productivity-enhancing innovation that creates new, high-quality and rewarding jobs and new forms of wealth creation
- a society that can plan, prioritise and pay for the infrastructure to make cities, regions and towns even better places to live

- a society that invests in its arts, its culture, its sport and its social fabric
- a country that is competitive in a globally connected world
- a society that provides an adequate safety net that allows people in need to live with dignity and optimism
- a society where generations of citizens, racial groups, suburbs and communities are not left behind
- a society where our efficient and innovative use of natural resources contributes to our national wealth and intergenerational wellbeing
- a society people can benefit from, and which they can contribute to, irrespective of their age, their disability, their gender or their race.

It concerns me a little that aspirations like these can come across as easy to say – almost ‘motherhood’ in nature – but are very difficult to achieve in practice. And they are, not least because they always involve trade-offs.

That’s where our choice of measures becomes so important.

We’re thinking about three categories of measurement, covering: economic activity; how we measure social progress; and how we measure environmental sustainability.

Starting with economic activity: Australia has been well served by headline economic indicators that give us a sense of our capacity to achieve many other goals and aspirations.

And our plan will use indicators like GDP growth, GDP per capita and income per capita.

But, importantly, we will seek to explain to the community their significance in measuring wealth as it relates to both the nation and individual Australians.

They are indicators that serve many masters.

Other core measures, such as labour and multi factor productivity performance, provide early warnings on the integrity of our growth and the extent to which it will deliver rising wages and rising living standards.

There are many other economic indicators we can and will use but we want to focus on the ones that are the key drivers of enduring prosperity.

So let me go to the second set of indicators – those relating to social progress which should fall out of well-managed economic growth.

Three measures stand out for their importance: measures of educational attainment; life expectancy and health status; and the distribution of income.

One of the challenges of measuring social progress is that we do so well in Australia on so many of them.

But what does a country like ours measure once it’s achieved targets like a 90 per cent Year 12 and equivalent completion rates. How do you move from great to exceptional?

Turning finally to how we might measure sustainability in its broadest context, and environmental sustainability in particular.

It’s essential for us to reframe environmental sustainability outside the extreme green movement. It needs to be seen as a complement to growth and enduring prosperity, not in competition or in conflict with it.

I have long been an advocate of giving economic value to environmental assets – putting our stock and flow of natural assets, and their utilisation, on the balance sheet.

But we mustn’t trap ourselves into a simplistic concept of some type of permanent reserve we can never fall below. That puts us at risk of watching new technologies leapfrog current commodities while important opportunities are missed.

These three sets of measures must be seen and explained as fundamentally interconnected in our pursuit of enduring prosperity, and our vision will seek to draw those connections out.

Context

However we decide to measure the goals in our economic vision, our approach and how we describe it to people must take account of the big contextual game-changers that are so important to our growth trajectory in the coming years.

All future planning has to take account of risks and opportunities, and the reality of what's going on around you. But it's very challenging to present context in a meaningful way.

It can so easily come across as a mind-numbingly repetitive list of abstract ideas.

The task is to be mindful of the things we know about and have to plan for but to really come to terms with the big shifts that have the potential to transform our opportunities.

For example, population ageing is a phenomenon of our society and many other western societies.

It will present us with fiscal challenges and we have to carefully plan for it. But we've known about it for a long time and the question is "is it a game-changer or just something we have to get on and manage?"

We've known about our productivity problems for a long time. And there isn't a company I'm talking to that isn't working hard to try to address it.

But in the context of our vision, it's the absolute contextual game-changers we're going to highlight. Shifts that dictate the things we have to get right now.

Things that could be the catalyst to us becoming an exceptional country, not just a great one.

Let me put three of these to you – two present opportunities and one presents a risk.

The first huge and unfolding opportunity comes from technology and the digital economy.

For me and for our members who are touched by these things early and intensely, the digital economy and the opportunities that will flow from it are profound.

And what seems different about it to me, is that it is less about institutions and structures, and more about individuals, information, networks and choices.

It's confronting our organisational principles. To my knowledge, the Occupy Movement and the Arab Spring have no leader.

The digital economy is removing barriers to entry. I can run a business from my mobile phone.

More and more, the consumer, not institutions will drive the way commerce is done.

The second big shift – also a wonderful opportunity for underpinning an exceptional Australia – is the rise of Asia and emerging economies.

By 2050, the Asian Development Bank estimates that the countries of China, India, Indonesia, Japan, South Korea, Malaysia and Thailand will together account for 45 per cent of global GDP.

Much has been said about this and I'm not going to go over old ground. But this shift does require a mindset change and the most important early challenge is to rethink our competitive landscape.

We also need to create excitement about the Asian opportunity.

We need to remove the threat and the fear that somehow it involves an assimilation that will compromise things that are important to us.

Our vision is going to chart a pathway for realising this opportunity on our own terms.

The third potential game-changer – and it is one that isn't widely talked about yet – is the depth of capital markets.

Put simply, if you talk to any Australian banker, they'll tell you that what they're losing sleep over is whether Australia will have the depth of available credit to pay for the investment we need to secure a prosperous future.

There isn't time in this speech to dive into this issue but our plan will spend some time on it because it's very important for Australians and Australian political leaders to understand.

So summing all that up, we're going to be grappling with how Australia might prepare for change that's real, that's significant and that we need to get a handle on with some sense of urgency.

What's important is that while no-one can predict what kind of lives their grandchildren will live and we can't write a 30-year economic manifesto, what we can and must do is to:

- think about what we aspire to
- consider what we're up against
- and decide what can be done now to ensure our grandchildren's lives are even better than ours.

Because the reality is that there are a whole lot of factors we can't control and can't know.

The challenge is:

- not to make too many wrong choices
- not to imagine we can go backwards
- not to get stuck in doing nothing
- and to work out what role each sector should play in managing change.

This plan is not about trying to micromanage the future but to have the institutions, the policy settings, the systems, the skills, the capital, the resources and the relationships to adapt and respond to get the most out of change.

The things we have to get right

Which brings me to the point in the vision where we are going to get very specific in identifying the top priorities for Australia over the next five years which will help us to become a truly exceptional country.

This will include reinforcing the pillars of growth that have always been, and always will be, fundamental.

I'm not going to talk about these tonight but they're the obvious things like open markets and the promotion of competition.

What I want to cover here are seven specific areas that could position us to get ahead of the game-changers.

The way we want to do this is to describe the policy direction but also the short term decisions that would give Australia momentum on these critical issues – recognising that the community is always going to be more comfortable with incremental change.

We have the opportunity for incremental change, whereas many other countries do not.

We have been influenced by more recent thinking on the drivers of growth – which has evolved from a focus on physical capital to recognise the role of ideas and innovation, institutions, people and population and of human capital as the key drivers of well-managed growth.

Let's take the seven areas we're looking at in turn:

The first is unleashing innovation to create new forms of wealth. The challenge in the short term is twofold: how do we talk about innovation without slipping into a tired old discussion about R&D, invention and subsidies.

Real innovation, the kind we're talking about in our vision, happens through collaboration, the right incentives, the flow of ideas and a readiness to make the most out of serendipity.

Mostly, it involves stimulating and tapping into the innovation of the Australian people.

We need to talk about the environment that allows innovation to flourish – things like our regulation, our skills and capabilities, our broad fiscal and tax settings, and the obvious value of competitive pressure to do better.

This is the challenge and the opportunity of innovation, and it will be a centrepiece of the Business Council's long-term vision.

The second thing we need to get right concerns realising the potential of people and labour markets.

It involves the quality and availability of education and training that equips people to fully participate, and to achieve their aspirations.

Australian governments have taken a lot of action in this area, particularly on the skills front.

We will focus on the kind of workplaces we need for the future that will position Australia for the game-changers, and that will provide social and economic advancement, and a sense of identity and belonging.

You can't capture the benefits of innovation and technology if you can't capture them at the workplace level.

In the short term, three specific areas need addressing: Asian literacy; maths and science; and soft skills like problem solving that allow people, businesses and the nation to adapt well to change.

It's also time to change the conversation about workplace relations so we can have a positive and constructive dialogue about the workplaces of the future.

The third area is preserving and strengthening our governance and institutions. The starting point here is that Australia is a model of good practice.

But we need to be mindful that these precious aspects of a good society must never be taken for granted:

One standout area that needs attention is the functioning of our federation.

If we are to cope with rising health costs, infrastructure costs associated with population and economic growth, and improving our educational performance, we have to sort out the fiscal imbalance between the Commonwealth and states.

One short-term action is to sort out the distribution of the GST.

The fourth area is embracing foreign investment and international engagement, particularly in new and emerging markets.

Australia's economic success has been dependent and will continue to be dependent on foreign investment. It has delivered huge economic and cultural enrichment that is not fully appreciated.

For this to continue, we are going to have to reposition ourselves to take advantage of the emerging economies, the engines of growth that will provide both the destination for many of our exports and the sources of new capital investment.

The Australian community has understandable sensitivities about this.

But it is important to be honest with people that we may be staring down the barrel of a decade-long stagnation in Europe and America, and we have to work out how to tap into new markets.

The Asian Century white paper will no doubt deal with this issue and a critical turning point decision for the country will be how we respond to that paper, and the extent to which we can achieve bipartisan support for the path ahead.

The white paper must look out and it must look in.

That is, if we are to be successful in Asia we must improve our own competitiveness, we must reduce our costs, increase our productivity. We must do that without diminishing our social safety net, wages and conditions.

Australia is not alone in pursuing these opportunities and our competitiveness is becoming more and more of a problem.

The fifth area is planning for population, urbanisation and infrastructure.

Cities are hotbeds of innovation and ideas but only if they operate efficiently and are well planned.

We are starting to see this kind of planning approach in New South Wales. If we do this on a national scale, it will generate community confidence and trust in population and economic growth.

We need:

- a prioritised, long-term infrastructure plan, integrated with land use
- the planning, financing and approval systems to support it and to provide a magnet for private investment.

The sixth area we must get right is putting tax and fiscal policy on a sustainable footing.

Starting with fiscal policy, one of the features of a good society is the role of governments in collecting and using some of the proceeds of wealth to provide the services and safety net that offer citizens quality of life.

And, to invest in the things that support wealth creation such as infrastructure.

This can be a virtuous cycle where business and government work together to create and distribute the proceeds of wealth. But we have to maintain the right balance, and that's not easy.

We can't allow ourselves to misuse prosperity to create an entitlement culture we can't sustain, or spend money we don't have.

This is why our plan will spell out the terms of reference for an audit of the scope and size of government. This will allow us to update our fiscal rules and put our federation's finances on a stronger footing.

A central part of this will be a high-performing tax system.

The final thing we are looking at to deliver enduring prosperity goes to shoring up the depth of Australia's capital markets.

I talked earlier about the adequacy of capital and the fact is we can't take it for granted that the capital will be there – for the innovation, the infrastructure, and the investment in the capabilities of all Australians.

We need to take action now to shore up our capacity to fund the investment of the future.

The Business Council will do a lot more work on this but in the short term what we'll be saying, is that if Australia is going to have an inquiry into the banking system, this is the issue to focus on.

All of these seven things matter a great deal. We do all of them well in Australia but the issue is can we do better? Can we elevate high performance to excellence?

Conclusion

But if we do those seven things, will we have necessarily created a good society?

Maybe, maybe not. And this is why I think there are three principles or values that we need to cross check against every element of this vision.

And your readings have really grappled with these.

They are:

- freedom and freedom of choice
- equality of opportunity to ensure people are not excluded from prosperity
- and the pursuit of fairness which Australians understand better than most people on earth.

In closing, when I was at university I had the great honour of being supervised by Donald Horne, the author of *The Lucky Country*. He and I spoke often about his book and his ideas, and it's intrigued me to see how they have been interpreted through the decades.

I think in essence what he was saying was that much of our success was based on our natural endowments and our place in history, rather than on any purposeful planning or good management of our own.

I think what he aspired to, what our members aspire to, and what Australians deserve is that we should use our good fortune to be the best we can be – a prosperous, innovative, exceptional country that is able to build a fundamentally good society.

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The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

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