

## **SPEECH**

### **LOCKING IN OR LOSING PROSPERITY: AUSTRALIA'S CHOICE**

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Hobart

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- Good morning everyone.
  - I'm here today to share some of the challenges Australia faces and also, some of its opportunities
  - First of all let me explain why the companies that comprise the Business Council of Australia have such a vital interest in the prosperity of our country.

- Our Members are the chief executives of Australia's top 100 companies.
- The BCA was established in 1983 to provide a forum for Australian business leadership to contribute directly to public policy debates in order to build a better and more prosperous Australian society.
- Our Member companies are some of the country's household names such as Australia Post, the Commonwealth Bank, Holden, McDonald's, Qantas, Telstra and Woolworths, to name a few.
- Like you, they are at the heart of an economic system which has provided Australians and other citizens of Western democracies with unprecedented levels of prosperity.

- To give credit where it is due, this prosperity has only been possible because successive Governments introduced a range of reforms to make Australia the success it is today.
  - Their commitment to introducing a series of politically tough reforms has stood us all in excellent stead. I'll say more about this later.
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- Through tax payments, jobs, and the products and services they provide, Australian business makes a magnificent contribution to the welfare of Australians.
  - I am sure you would agree that the corporate structure is one of the best tools our society has to harness capital, manage risk, promote innovation and increase wealth and wellbeing.
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- Our Member Companies are the major wealth generators in our economy, accounting for \$340 billion dollars in revenues, a third of national exports and employment of one million Australians.
- They return (at conservative estimates) \$18 billion dollars a year in dividends to shareholders, superannuation funds and savings institutions.
- Our corporations provide a wide range of goods and services to consumers, suppliers, employers and shareholders.
- In a global economy, they are an important bridge to the rest of the world.
- Something that is, unfortunately, not well recognised is that taxes paid by business are fundamental to the wellbeing of every Australian.

- Corporate tax is the second biggest revenue stream to the Commonwealth, and the fastest growing.
  - That's not going to please many of us here!
  - Three years ago the corporate tax take amounted to \$27 billion dollars.
  - This year this figure is projected to be a massive \$48 billion dollars.
  - Seen another way, that 48 billion dollars was enough to fund most of the new tax cuts and social services announced by the Federal Treasurer over the past 12 months.
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- So as you would agree, business is deeply linked to the prosperity and wellbeing of Australian society.
  - The BCA, as the representative body of Australia's big business sector, has an obligation to push for policies that seek to lock in the conditions for continuing economic success.
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- Our Members have a strong interest and stake in Australia's future prosperity and we have a strong view of what is needed to make our economy work well.
  - Our research has confirmed that countries that support and encourage economic competitiveness are typically those that are the most successful.

- As the pace of globalisation increases, Governments compete more and more with each other.
  - We look to our Government to actively create the conditions for the economy so that we can effectively compete with the rest of the world.
  - Unfortunately, like many things, there is no 'silver bullet' to make our economy flourish and our communities prosper indefinitely.
  - Our Members have done some major work though in trying to determine the main tools we have at our disposal – which I will talk about now.
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- We consider that taxation, infrastructure, industrial relations and business regulation are fundamental to a competitive Australia in a global environment.

- These four areas are deeply interconnected.
- Reform in all of these areas will be key to securing Australia's economic health and broader wellbeing.
- Remember, while it is accepted that States are in competition with each other, it is also true that nations are in competition with each other
- Nations compete aggressively for investment markets and for skilled workers.
- As I said earlier, Australia has prospered as a country because successive Governments over the past 20 years have put in place policies that have allowed us to compete successfully in the global economy.

- These policies were designed around a key fact: that aggressive international competition amongst business and economies is a fact of modern life.
  - What's more, Australia not only has to keep up, but run harder than its competitors.
  - We lack the advantages of size and scale.
  - And despite improvements in communications and travel, Australia still has to grapple with the 'tyranny of distance'
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- Let me give you an example of what I mean.
  - If you draw a 10,000 kilometre circle around Sydney you will capture 28 per cent of the world's GDP.
  - Do the same for London and you have access to 94 per cent of global GDP.
  - That's the tyranny of distance for you in a business sense.
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- Despite this, Australia has recorded an average real growth rate of nearly four per cent a year since the mid-1990s, which has led to us being described as one of the world's miracle economies.
- Far-reaching reforms in areas such as the financial sector, labour market, taxation, competition policy and education helped us to achieve these high growth rates.
- That's brought remarkable benefits to the community which really deserve to be promoted.
- Since 1995, more than 1.8 million jobs have been created and the unemployment rate has fallen from over 8 per cent to 5 per cent.
- Over the same period, youth unemployment has fallen from nearly 20 per cent to below 15 per cent.

- Real wages have risen by 20 per cent.
  - Added together that's a decent dividend to our community. The question is, how many people know about it and understand how it came about?
  - Over the last year the BCA has been occupied with just that question.
  - Last month we released a study which calculated the economic 'dividend' of the last 20 years of prosperity during which we enjoyed those strong, 4 per-cent growth rates.
  - The study showed the average Australian is \$83,000 better off in terms of real wealth as a direct result of the economic reforms of the last 20 years.
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- Income growth has given individuals the means to accumulate more wealth – via home ownership, shares, superannuation contributions and other general savings.
  - Over time, the value of those assets increases more in a strongly performing economy.
  - The research also found that economic reform between 1983 and 2004 put an extra 315,000 people into jobs through a lowering of the unemployment rate.
  - During that period Australia shot up the OECD league table of relative prosperity from 18<sup>th</sup> to 8<sup>th</sup> position, and many in the community reaped the benefits.
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- Yet, maybe because of Australia's golden years of growth, as a community we don't know – or appreciate – the strong links between reform, competitiveness and prosperity.
- Past policies that have helped Australia achieve unprecedented levels of growth and prosperity are not exactly the sort of conversation starters you'll be looking for at your next cocktail party.
- Worse, we have begun to suffer reform fatigue and become complacent that our current solid performance has enough momentum to continue of its own accord.
- As I am sure you know, competitiveness is the key ingredient to ongoing business health and in turn, our continuing prosperity.

- And like business, the reality is no economy can ever achieve a state where ongoing competitiveness can be taken for granted.
- This is what the Prime Minister is fond of calling the 'ever-receding finishing line.'
- The ever-receding finishing line means we have to sprint in order to just stand still.
- Whether we succeed or whether we fail will depend on how hard we work to remove hurdles to economic growth and competitiveness.
- Yet, when the community feels that things are going well, the question inevitably follows – why push for more when the economy is performing so well?

- After all, the economy has been 'going gangbusters.' Interest rates are low, the share market is hitting new highs, business profits are up, and we can't find the people we need to fill our job vacancies.
  - This makes it difficult to convince people that further reform is needed.
  - However, the BCA has been warning for a while now that below the surface of this prosperity, a number of weaknesses and constraints are emerging.
  - Unless they are tackled, they could become major roadblocks to Australia's future prosperity and growth.
  - There is mounting evidence that Australia's excellent economic performance and overall competitiveness is showing signs of pressure.
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- The latest World Competitiveness Yearbook is used by Governments around the world to promote their economies as the best places to invest. This Yearbook showed that despite being the most resilient economy in the world, Australia slipped from a ranking of 4<sup>th</sup> position in 2004 to 9<sup>th</sup> this year.
- That's five rungs down on the ladder of economic excellence.
- Similarly the 2004 Global Competitiveness Report of the World Economic Forum tells the same tale. Australia dropped from a ranking of 10<sup>th</sup> position in 2003 to 14<sup>th</sup> in 2004.
- These are the reports that the international investment community reads. They are external reports that put us on notice that action is needed.

- The view from business is also a worry - a survey last year by IBM revealed that only 5% of Australian and New Zealand CEOs believe their organisations were 'very capable' of responding to changing business conditions.<sup>1</sup>
  - Change is the only constant and if our enterprises and our economy is not agile enough to deal with it, we will falter.
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- Unfortunately, calls to action are often greeted with indifference.
  - This complacency is totally out of balance with the challenge we face.

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<sup>1</sup> Quoted by Phil Bullock in speech to IBM Innovation Roadshow 2004 – based IBM global CEO study involving one-to-one interviews with 456 CEOs globally and 59 locally.

- Let's face it – there is huge public interest in our sporting performance like last week's Ashes test (being from England originally I have to be careful what I say here!)
  - We all stayed up all night to watch Australia's fortunes. The media covered the fall from grace in great detail for days.
  - But we care barely muster any public interest, debate or attention to our international economic performance
  - When the performance of our economy slips – the very platform which provides us with our wealth, opportunities, hopes and prospects – the silence is usually deafening.
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- There's something wrong with this scenario and whether you see all this as a threat, or an opportunity, we as business leaders have a responsibility to act.
  - Australia's prosperity levels will affect every business – whether small, medium or large.
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- It's my job – and the job of the BCA – to work with Governments to develop Australia's 'business plan.'
  - Using our collective voice and energies, we have a responsibility to make sure Australia is heading in the right direction.
  - The BCA has been doing just this, and I'll explain how.
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- Since last October the BCA has been working feverishly on a reform plan for Australia.
  - As I said before, the plan takes in four key areas - they are taxation, infrastructure, workplace relations and business regulation.
  - Supporting these four areas are an additional two important policy areas which we are working hard at as part of our mission.
  - Excellence in our education and training system is one.
  - And international trade has been another pillar of our work at the BCA.
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- But let me now turn to the four policy areas the BCA is now most heavily focused on.
  - As I said they represent an integrated package that needs to be implemented in full, not swooped on and 'cherry picked' by vote-hungry politicians.
  - Each policy has been thoroughly researched and backed by an independent assessment.
  - Each policy contains comparisons of how Australia is currently performing against its main competitors.
  - The results were quite eye-opening.
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- Starting with workplace relations, always an issue of controversy.  
From 1990 to 2003 labour productivity in Australia grew by an average annual rate of 2.3 per cent.
- This was a reasonable outcome by world standards.
- But despite these increases, our productivity levels are lower than a number of our economic peers including Canada, Ireland and the United States.
- In fact the latest data shows that our productivity is going backwards.

- This is significant because our productivity compared to other countries ultimately determines our competitiveness and relative standard of living.
  - The gap between Australia and its peers highlights that we have to do better.
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- The Government's planned changes to workplace relations will go a long way to making sure the productivity gap between Australia and its competitors is narrowed.
  - As such, the Government deserves the applause of business and the support of the community.

- The reforms continue the process of deregulation and simplification of agreement-making between employers and employees which started 20 years ago
- Whenever major change or reform is proposed it will inevitably be met with uncertainty and resistance.
- With every stage of reform to Australia's workplace over the past two decades, the same concerns have been raised that change will lead to a 'race to the bottom' in terms of wages and living standards.
- The opposite has consistently been the case; as I said earlier reforms to workplace relations over the past 20 years have been directly linked to rising living standards and increased opportunity.

- Along with higher levels of productivity, the upcoming IR changes will mean fewer barriers for employers and managers to create new jobs.
  - More flexibility will lead to higher work participation of various sections of our community, particularly among those groups in the workforce that business will depend on to offset chronic skills shortages and the impacts of an ageing population.
  - However changes to workplace relations are only one part of the reform equation.
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- Our work this year has revealed that we are competing poorly in three other areas.
  - After an era of extensive deregulation – one of the things that has helped make Australia as competitive as it is today – there is now a marked reversal towards re-regulation.

- We've coined a phrase for it – 'regulation obesity'.
- This is suffocating the productive resources and creative energies of our larger corporations and our SMEs.
- But then again you probably already know that!
- Even so, allow me to share some figures which will really have you shaking your heads.
- Regulation is **the** growth industry.
- The number of new laws and regulations is now increasing at 10 per cent a year – that's three times faster than Australia's average rate of economic growth.

- If any of you have children uncertain of which career path to take – suggest they become a business regulator – they'll have a job for life!
- The Commonwealth and State Parliaments added 33,000 pages of new laws, rules and regulations in 2003 alone.
- Half of the legislation passed by the Commonwealth Parliament since Federation has occurred in just the last 14 years.
- Tasmania's doing its share as well.
- In the 1980s the Tasmanian Parliament produced some 19,000 pages of laws and regulations. That figure grew to over 29,000 in the 1990s and judging by historical growth trends will come out at nearly 35,000 pages for this decade! <sup>2</sup>

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<sup>2</sup> Please note: Figures for the current decade are extrapolated from the actual amount of legislation passed in 2000-2003

- Our regulation 'obesity' not only diverts resources from the private sector, it also soaks up massive amounts of taxpayers' money on administration, compliance and policing. Some put this figure at 5 billion dollars a year.
  - And 'regulatory obesity' is not just an Australian problem – it is a Western disease.
  - When PricewaterhouseCoopers conducted a global survey of CEOs last year, over-regulation was singled out as the biggest threat to business growth prospects.
  - Many countries such as the UK and Netherlands are already addressing this issue. By confronting the problem, these countries will gain a significant competitive advantage over us.
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- That's why it's essential that Australian Governments at all levels address the problem now.
  - As I said, the volume of regulation is extraordinary and its sheer quantity overwhelms our basic control and accountability mechanisms.
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- Turning to Australia's tax system, business acknowledges the significant work on tax reform the Government has already undertaken.
  - The GST and the reform of numerous business taxes have significantly improved our competitive position.
  - Measures announced in this year's Budget, particularly moves to reduce the tax burden on skilled workers, were also welcome.

As I said earlier, the modern-day reality is that Governments, like business, have to compete for labour, capital and markets.

- Tax is the one area which our Government can proactively structure to increase our competitiveness.
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- Put simply, our tax system is central to the way we work and live – which is why we must be smart about how it is structured.
- Treasurer Costello says that tax is an area where everyone seems to have an opinion and given the complexity of the issues, debate is a good thing and we **support the** fact that tax is back on the public agenda.

- Tax, with its tinderbox mix of politics, revenue and hip-pocket sensitivity is one of the more controversial and divisive issues we face.
- But whilst we're navel gazing, other Governments around the world are working hard to build far more competitive tax policies than ours.
- That includes countries we regularly trade with, our neighbours in the Asia Pacific but also the emerging economies of the former Eastern bloc. Let me give you a few examples – some of which will make you green with envy!
- Remember, our corporate tax rate is 30 per cent.
- Hong Kong has a corporate tax rate of 17.5 per cent.
- Singapore is 20 per cent and Taiwan is 25 per cent.

- Ireland has a 12.5 per cent company tax rate.
  - Poland has just announced that it will introduce a flat tax system of 18 per cent on all personal income and corporate profits.
  - Romania's new Government has implemented a 16 per cent flat tax.
  - Even Russia now has a corporate and small business tax rate of 24 per cent and a flat 13 per cent on personal income tax.
  - The Netherlands is planning to lower its corporate tax rate to 27 per cent in 2007.
  - The US Government has removed Federal tax on all dividends.
  - And these are just some of the recent moves in the global market.
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- I began this speech by outlining the increasing importance of Australia's corporate tax to Government, and therefore to the wider community.
  - Australia's overall corporate tax burden is way above that of our peers.
  - Australia's corporate tax burden represents more than five per cent of Gross Domestic Product.
  - In the case of most of our OECD competitors, this figure is 2 or 3 per cent.
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- And as our business tax burden is harming our competitiveness, this will eventually lead to smaller tax returns to Government.

- The burden is further compounded by the complexity of the system.
- In ten years Federal tax legislation has ballooned in size from 3,000 pages to 10,000 pages – you couldn't jump over it.
- The only people who can understand it are the experts, and even they are struggling, so what chance does the average person have?
- But the problem isn't just company tax. Our personal tax system is also highly uncompetitive.
- With skills shortages in so many sectors already biting and forcing companies to delay projects and investments, high personal tax rates act as powerful disincentives.

- On the lower end of the income scale, the intersection of tax and welfare hurts people trying to join or re-enter the workforce.
  - These are only some of the issues in the tax debate and time obviously does not permit me to expand further.
  - Suffice to say Australia needs to move beyond the piecemeal changes and the periodic catch-ups that characterise the current tax debate
  - We need to review the system lock, stock and barrel.
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- The final area on the BCA's 'policy hit list' is infrastructure.

- Infrastructure represents the basic building blocks of the economy, our economic 'arteries.' It is the economy's supply chain.
- I am sure as residents of the 'Island State' this will be no news to you.
- The state of our energy, water, transport and urban infrastructure systems is directly related to our capacity to support high levels of economic growth
- From a business perspective, they represent the time it takes to make a delivery that represents an important sale, or to get a container to the wharf.
- They are the difference between full production and having to shut down a plant when there are spikes in power prices, or having to turn your home air-conditioner off on a hot summer's night.

- From a community perspective, the health of our infrastructure is equally vital.
- Road congestion, water shortages and electricity black-outs – these all affect our quality of life and living standards.
- The BCA's overriding contention is that infrastructure has to be considered strategically and managed effectively if it is to serve the country well.
- Unlike other policy areas where problems and shortfalls can be addressed relatively quickly, infrastructure requires long-term planning.
- Given the long lead times in undertaking major improvements in infrastructure, by the time deficiencies are apparent, it is already too late.

- We need to anticipate these needs and not wait for them to manifest into full-blown problems.
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- The BCA's *Infrastructure Action Plan* found that by 2025, without major reform all of our capital cities will be demanding more water than is currently available and the story is the same for energy.
  - By 2020, the gap between energy supply and consumer demand is estimated to be about 50 per cent.
  - The amount of new investment required in developing additional energy supplies totals somewhere between \$30 and \$35 billion.

- Australia's road and freight transport systems are straining. By 2020, road freight movements will grow by 65 per cent.
  - That means 900,000 more truck trips over the next 15 years in and around our major cities.
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- And the cost to the economy of traffic congestion will increase to an estimated \$30 billion a year by 2015.
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- Overall, Australia's economy has an infrastructure asset base worth an estimated \$300 billion.
  - Yet many will be alarmed to know that there is no coordinated plan or policy to make sure the country's infrastructure keeps pace with the economy.

- The Federal Government has done some preliminary work on the export infrastructure side and more recently the Council of Australian Governments (COAG) set up a working group to look further into the matter.
  - In the business world we work to plans for the next 30, 60 and 90 days, as well as one, two, three and five-year plans.
  - We know all too well the market's response if we fail to deliver to their expectations.
  - Alas Government does not operate like this.
  - And given what's at stake, we don't think this is good enough.
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- The BCA has thrown down the gauntlet to COAG to introduce an audited and transparent report on the health of Australia's existing infrastructure assets on a regular, two-yearly basis.
  - This type of audit will give everyone a clear understanding of Australia's infrastructure capacity at any point of time.
  - It is designed to be a light on red tape – by utilising information the entities would reasonably be expected to be collecting.
  - We are waiting for a detailed response from Government on this proposal – but we are not holding our breath.
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- Only when there is publicly available, up-to-date information can we hold Governments accountable for their infrastructure policies and decisions.
  - This becomes particularly important given our electoral cycles, where the pressure for votes and quick-fix answers is all too evident.
  - It also becomes important given our dysfunctional Federal-State relations, which is complicating almost every aspect of policy making through a duplication of funding, compliance and service provision.
  - The Federal system inhibits transparency, increases costs and reduces accountability and effective decision making.
  - In 2005 we have to do better than this.
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- As I said, it is encouraging that the latest signs from COAG are that it accepts the need for improvement.
- Even so, consider this: that last meeting in July was hailed as a major step forward. Yet, what other forum would be considered a major success simply because no-one walked out and the proponents spent fewer than two hours discussing key issues for our nation?
- The BCA's strong view is that COAG remains the best vehicle to achieve reform.
- Business will help where it can – it has the investment resources to play a much bigger role in the funding of new infrastructure.

- But ultimately, only Government can resolve the strategic and policy issues – especially in our fragmented Federalist systems where game-playing and buck passing are uncomfortably common.
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- So to summarise.
- I came here today to talk about Australia and the choice we face between locking in or losing our current prosperity.
- I've told you why business believes there is reason for concern.
- But we are optimists believe it or not, and we believe change is possible.
- We have worked hard to identify what form that change must take.

- In our view, tax, workplace relations, regulation and infrastructure are the key ingredients to our community's ongoing prosperity.
- As our recent studies show, if we continue on the reform path, we will all reap the dividends.
- Through reform of the kind I've described this morning, by 2025 our economy would be 40 per cent bigger.
- The average Australian could be \$74,000 dollars better off in real wealth terms.
- The Federal Government would have more than \$80 billion dollars in extra revenue to return to the community.

- If you tallied up the money Canberra will spend this year on the environment, the unemployed and sick, on PBS, Medicare, defence, education, pensions and aged care then that would total something similar to this \$80 billion dollar 'reform dividend'.
- All of this could be paid for by the reform dividend. Alternatively the Government could afford to cut all our taxes by 30 per cent.
- And if we continue on the path of reform, in 20 years Australia could be the 3rd most prosperous in the developed world.

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- Surely that's worth striving for.

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- Along with the key areas I've mentioned, we need more accountability, more transparency and more effectiveness in political decision-making

- Most of all, we really need far greater urgency in the quest for outcomes.
  - Businesspeople have a role to play in this debate. We'll be charged with implementing the changes being proposed.
  - As chiefs of your own enterprises you all have a stake in this and a very creative role to play.
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- As business leaders we can – and we will – influence the future shape of Australia and its fortunes
  - Today I've singled out a lot of weaknesses in our public policies.

- But rest assured the BCA has also been careful to give the Government credit where credit is due.
  - The Government has shown real leadership on the trade negotiations front (forging agreements with the US and potentially, China) and we all stand to benefit from better access to key trading markets.
  - The reforms to higher education are also important. We're seeing a renewed focus on skills and we are encouraged with the Government's IR agenda.
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- But we do need to act urgently on the reform agenda. To further illustrate my point and given enough time, I could give you a number of examples of economies which failed to sustain prosperity because they chose not to address the issues that would take them to their next level of growth. (Japan, France and Germany).
- We need not only to protect Australia against future risk, but to make it more aggressively competitive, innovative and growth-oriented.
- This will require decisive leadership from all sectors of our community.
- Business will keep bringing this message home to Government and the community.

- Some will argue about the detail – but at least let's agree that we need to lock in prosperity for the long term.
- The BCA believes an integrated agenda of economic reform of the scope I have outlined today is the way forward.
- We face a choice: whether to lock in the prosperity we currently enjoy – or lose it!
- For all our sakes, we must choose wisely.
- Thank you.