

SPEECH

Looking Past the Downturn

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CHECK AGAINST DELIVERY

The Challenge of the Downturn

- Australia is entering its first downturn in 17 years.
- The sheer speed and severity of the downturn comes as a great shock – to business, to governments, and to the broader community.
- For Australians under 30 this is the first downturn they will have experienced in the whole of their working lives.
- Few of us saw it coming. The warning signs were there, but almost no-one predicted that a collapse of confidence in the sub-prime mortgage market would create such global damage.
- The seeds of this recession were fairly clearly sown on other shores, primarily in the United States, where loose monetary policy run over many years fuelled an unsustainable debt-funded boom.
- This recession is not primarily of our making, but that does not mean that we can avoid it. The global nature of today's world means that the contagion has spread far, wide and fast.
- For us, the collapse in commodity prices will be particularly challenging. When world coal and iron ore prices tumble, our national income inevitably shrinks.
- Cracks are also appearing in some vulnerable sectors of the Australian economy where boom times disguised their fragility. The downturn is demonstrating that their long-term prospects may be poor.
- For those of us old enough to remember earlier recessions, this downturn has many similarities. It also has some significant differences.

- Probably the most striking of these differences is the integrity, or lack of it, of the international banking system.
- This is a worry, as recessions triggered by financial crises tend to be deeper than 'normal' recessions.

Australia's Edge

- Nevertheless, Australia enters the current difficulties in better shape than many other nations.
- Anyone who has spent time in either the UK or the USA in recent months will attest that things are definitely worse there and better here.
- This is also the judgment of the Reserve Bank.
- In particular, other nations look like experiencing deep and long recessions in part because their financial markets have stopped functioning properly. Financial market players have lost money on tumbling housing markets. Overseas banks are in trouble, and distrusted. Credit is not flowing.
- By now I think it is possible to declare that Australia is not suffering a financial crisis. Our financial system has some problems, but compared to those overseas, they are minor.
- Both consumer and business confidence have also fallen here, but sentiment is nowhere near as depressed as it is in the major offshore economies.
- Household incomes are being supported by falls in mortgage rates and petrol prices, and by federal government stimulus payments.
- Retail sales have held up better than expected.
- The housing industry appears to have reached its lows and is beginning to recover.
- Even in commodities markets, where prices are falling, the drop in the value of the Australian dollar has given us some protection.
- The partial breaking of the drought is boosting national income too.
- Yes, unemployment is rising – and we should expect it to be the last indicator to turn around. But it is rising from a low base.
- There are good reasons to believe that this recession will be relatively less damaging to Australia than to many other economies.
- We have benefited from a commodity boom unparalleled since Japan industrialised after the Second World War.

- This has left us with low levels of government debt and therefore, more flexibility to address the immediate challenges than most other nations have at this time.
- Generally, business levels of debt are also lower. Although there are pockets of problems, largely in the areas of debt-funded infrastructure and property funds, the corporate sector is in pretty good shape.
- We have also reaped the benefits of 25 years of generally sound policymaking by governments of all political persuasions.
- Over the past quarter-century we embraced policies that opened up the economy, and gave business more flexibility.
- From the time of the Hawke Government on, Australians made their peace with the global economy.
- We embraced policies that ensured governments mostly directed their energies to where they would be most effective.
- We decided that governments could steer the boat instead of rowing it – that, for instance, they could regulate airlines and telecommunications and power companies without owning them.
- We embraced sensible regulation that helped keep our financial system free from the worst of the questionable transactions undertaken by overseas institutions.
- We did not fall into the trap of believing markets always get it right.
- It is frequently forgotten that in the mid-2000s the Reserve Bank was warning of the dangers of a housing bubble. Those concerns led it to keep domestic interest rates higher than those imposed by other central banks.
- This is not to deny that we have challenges. We do.
- Much of the national benefit of the resources boom was given back to voters in the form of tax cuts and ended up being consumed rather than invested in Australia's future.
- Private debt, particularly for households, is a worry. As in the USA, although to a significantly lesser extent, booming asset prices have fuelled debt-funded consumer consumption.
- We have underinvested in much of Australia's key infrastructure.
- In the early 1960s Australia spent 6 per cent of GDP on infrastructure. This fell in the subsequent 40 years to as low as 3 per cent of GDP at the start of this decade.
- On balance, however, we are well placed to meet the challenges that confront us.

- Our argument is that we need not – must not – lose sight of our longer- term goals for Australia. These reform goals are our best hope for strengthened long-term prosperity.
- This slowdown represents an opportunity for Australia to develop or strengthen its leadership in global economic and societal reform.

When Leadership Matters Most

- How do we best pursue these goals for a stronger Australia beyond the downturn?
- The recession seems all the worse because it is largely out of our hands.
- However, we are not powerless. We never are.
- Tough times are when leadership matters most – in government, in business, and in the broader community.
- There are actions that we must take that will better enable us to deal with our current predicament.

Encouraging a Global Response

- We need to encourage global solutions, including through the G-20 meeting tomorrow. We should encourage constructive engagement and cooperation between the world's major economies. We should fight to keep global institutions strong, to restrict protectionist impulses and beggar-thy-neighbour policies.
- The G-20's focus on further opening up international trade is very welcome. Open trade and investment are particularly in Australia's interests as a trading and capital-importing nation.
- In the post-September-2008 world, Australia needs to fight particularly hard for its share of global investment.

Domestic Action

- International action alone, however, will not be enough.
- Domestic actions are also required.
- I said earlier that one of the particular characteristics of this recession is the fragility of the banking sector.
- Not that Australia's banks are unsound. They are not. On the contrary, Australia's 'Big Four' banks now comprise four of 11 banks in the world with AA credit ratings. All four are in the global top 40 by market capitalisation.

- The government acted quickly to reinforce the strength of the Australian banking sector with the government guarantees.
- Monetary policy has been eased rapidly, with official rates cut by four per cent, and there is scope to ease rates further.
- Many countries, including the US, the UK and Japan, simply do not have that luxury – their official rates have effectively hit zero.
- Fiscal policy has also been eased rapidly.
- This has been in line with the recommendations of the IMF and other leading experts.
- Much of the fiscal easing has followed fiscal best practice: it has been timely, targeted and temporary.
- The BCA has been clear in its support for these policy measures. We remain in a strong fiscal position relative to most developed nations. And anecdotal evidence from our members is that the measures have helped support economic activity, such as retail sales.
- Our position is spelt out in our 2009–10 Budget Submission.

Coordinated National Actions

- However, as these policy measures are implemented, it is important that the various levels of government act in tandem.
- We need to promote effective national solutions through what might be called the 'A-9' – the six state governments, two territory administrations and the federal government.
- It is ridiculous for us to be promoting the idea of coordinated international action without coordinating activity within our nation.
- Federal stimulus efforts should be coordinated with state governments to ensure we build as much useful capacity as possible. We don't want states to pull back on useful spending.

The Budget beyond the Downturn

- Beyond the immediate downturn, Australia faces the challenge of returning the federal Budget to surplus as the economy recovers. We can take action today that will make this task easier, providing greater scope to spend on building capacity and normalising the Budget over the coming years.
- One important step is to lift the quality of spending in the Budget. There is some spending that is neither supporting growth nor providing substantial social or environmental benefits. We should be cutting back that spending right now, even as we spend on building long-term economic capacity.

- The BCA has argued for this spending discipline for a number of years, most recently in our 2009–2010 Budget Submission. It is always a priority. But never has it been more important than when we are returning the Budget to surplus after difficult economic times.
- Areas of the strongest recent spending growth should receive special examination. These areas include health, defence, and welfare payments that are not means-tested, including some family benefits.
- For instance, families who do not need the assistance of childcare benefits nevertheless receive them.
- We are heartened by recent signs that the government is considering cuts in such spending. This is the time to act.
- And we encourage the government to clearly show how deficits will fall as growth returns in the years beyond the current downturn.

Regulation beyond the Downturn

- There is much talk internationally about the failure of financial regulation, and much of that discussion is well founded.
- Australia's regulatory system has, however, not failed. On the contrary, Australia stands as a shining example of good, effective financial system regulation.
- As the world moves to address the deficiencies that produced the global financial crisis, it is important that we keep this in mind – and that we do not simply parrot offshore legislative initiatives which seek to deal with issues that have already been already effectively dealt with domestically.
- It is frequently said that we live in an era of deregulation. In fact, the opposite is true:
 - We live with a rising tide of regulation.
 - More troubling, we live with a flood of low-yield regulation – regulation that imposes substantial burdens in exchange for insubstantial benefits.
 - Around 200,000 pages of laws have been placed on the books in Australia, half of them in the past dozen years.
 - Let me give you an example that most people can relate to. We calculated in 2005 that a customer must receive a total of 227 pages of documentation just to open a simple cheque account with an overdraft limit and home loan – roughly five times the number of pages needed in 1985.
 - As more people come face to face with everyday examples such as that 227-page stack of documentation, more and more people are coming to understand that more regulation will not solve most of our problems.

- It is a cliché to say that we need smarter regulation, not more regulation. But it is true.
- We must also avoid 'responses' that impose high costs for years into the future in return for small or non-existent benefits.
- We can do smart regulation. In a number of places our smart and well-considered government regulation is a model for the world. One instance is our prudential supervision of financial institutions.

Long-Term Business Strengths

- It is said that every cloud has a silver lining. This can be true of the global financial crisis.
- We should take advantage of the comparative health of Australia's business sector.
- We should recognise that the global downturn creates opportunities for Australian companies vigorous enough to pursue them.
- We should recognise that Australia can become a more attractive immigration destination for the world's best and brightest.
- We should continue to grow our success stories – successes such as education services and engineering services, which cater to continuing Asian growth.
- Growth in the economies of southern and eastern Asia will continue to help us in the medium term. China may grow slowly this year and even next – indeed, it may stagnate – but its ten-year future remains bright.

Productivity beyond the Downturn

- As might be expected, the short-term agenda has occupied centre stage over the last few months.
- Most people are naturally focusing on the very short term as they manage through what are unquestionably tough times.
- As a society, we have turned our eyes downward, our attention inward.
- However, we must not let these short-term necessities deflect us from our longer-term aspirations.
- True leaders are able to deal with multiple goals. They can help us look to the horizon, to the future beyond this downturn, to the opportunities that we can grasp.
- What must be done in the short term is very different from what is needed to position Australia for medium- and long-term prosperity.

- The Business Council of Australia has a very clear aspiration. We want Australia to be the best country in the world in which to live, learn, work and do business.
- We have no interest in putting that aspiration on hold for a couple of years.
- On the contrary, this is a time of opportunity, a time to concentrate on outperforming the rest of the world.
- The Rudd Government came to office with an ambitious reform agenda. Most of this agenda was enthusiastically supported by the BCA, especially regarding:
 - the major review of our overly complex and inefficient tax system
 - the education revolution
 - the seamless economy
 - the climate change challenge
 - the plight of Indigenous Australians
 - Australia's infrastructure deficit
 - better federal–state relations
 - support for innovation
 - pursuing multilateral trade agreements
 - more bang for the health buck, and
 - getting more Australians into the workforce.
- These issues remain even more important today than they were before the GFC.
- While rightly focusing on the short-term challenges, the BCA implores the Rudd Government to continue to pursue these reforms with vigour.
- Over the last decade Australia's productivity performance has declined.
- Annual labour productivity growth has fallen from 4 per cent in the late 1990s to an average of less than 2 per cent over the past five years.
- This decline is in no one's interest.
- We see the above reforms as critical to securing future productivity gains.
- We are determined to ensure the Australian policy discussion keeps sight of these long-term goals even as it deals with short-term challenges. We must focus on reforms that will create a prosperous Australia over the next decade or more.

- Before I conclude, let me make some brief comments about two of these reforms:
 - reform of federal–state relations; and
 - Australia’s intention to address global climate change – one of the biggest structural changes the economy faces in the decade ahead.

Federal–State Relations

- All of the items on the Rudd reform agenda involve areas of state government responsibility.
- Without better cooperation between state and federal governments than Australia has traditionally enjoyed, the needed reforms cannot and will not be delivered.
- Over the last 18 months COAG has been reinvigorated. For this I congratulate the Rudd Government. Federal and state governments have shown that they can indeed work together for the common good.
- However, progress is slower than we would ideally like to see, and delivery of the ambitious agenda has slipped.
- The ‘not invented here’ syndrome seems to be alive and well among the states.
- Australia neither needs nor can afford to have inconsistencies between states on such disparate issues as education curriculums and business regulation.
- The BCA implores both levels of government to continue to work together cooperatively and to progress the agreed agenda with utmost haste.

A Climate Response for beyond the Downturn

- If federal–state relations look difficult, climate change is even more so.
- Climate change is an incredibly complex issue. Unfortunately, the policy responses are also incredibly complex – so informed rational public debate is hard to achieve.
- It is also a debate in which, generally speaking, business gets a bad rap.
- Let me say here and now, categorically, that the BCA supports Australia’s intention to address this global challenge.
- What we *do* say is that:
 - Climate change is a global problem and will only be solved by global action.
 - Australia’s emissions trading scheme needs to be carefully designed, particularly as we are moving ahead of our global competitors.

- The costs of the scheme must be borne by the broad Australian community.
- Australian businesses who compete internationally, and which with a level global playing field would otherwise be viable, must not be rendered less competitive by Australia's decision to be an early mover.
- Business wants and needs well-designed policies in response to climate change, policies that will hold up over many years. We are working with the government to get the design details right on the planned legislation.
- I would also say that it is disappointing that the major parties have not found a way to come together on this issue in a bipartisan manner.
- A bipartisan approach is a big ask, but it has happened before and it is needed here. Climate change is a multi-decade investment challenge. Uncertainty is the great enemy of investment. Unless the major parties can agree an approach, legislation will not deliver certainty, and the investments needed to respond to climate change will likely not be made.

Conclusion

- Clearly there is no shortage of challenges confronting us.
- But Australia is blessed in that it is well placed to rise to the challenge.
- The fact that we are blessed is no accident.
- On the contrary, it is the product of decades of reform.
- But we cannot rest on our laurels.
- Even as we address the short term necessities of the GFC we must also continue on the longer journey.
- A journey which will ensure a vibrant and prosperous 21st-century Australia.
- An Australia which embodies the BCA's aspiration of being the best country in the world in which to live, learn, work and do business.
- Thank you

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