

BCA

Business Council of Australia

# Living on borrowed time

Australia's  
economic future:  
*Discussion paper*

30 June 2021

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# Discussion paper

This is a discussion paper to encourage all sections of the community to genuinely engage with us on Australia's future.

The country is doing okay but we could be doing better. We want people's views on the direction the country is taking and how we can move forward together to strengthen our prosperity.

We plan to consult communities across the country, business leaders and policy makers.

We want to invite everyone with a stake in the nation's future to have their say about the type of country they want Australia to be.

There's no doubt Australia's economy continues to grow.

But the fifth Intergenerational Report lays bare the extent of the challenges the nation faces if we keep putting off important decisions.

We now have a trillion-dollar debt.

Our growth prospects are weak unless we can substantially lift productivity growth from recent low rates. And the smaller population expected as a result of COVID and international border closures means a smaller economy to pay down the debt.

The numbers won't stack up unless we can change that equation.

And we have the means to do so. The nation can be in the fast lane of growth – we have all the natural ingredients but we're not doing enough to change lanes.

We're living off borrowed time. Major productivity enhancing reforms in the 1980s and 1990s set the country up for higher living standards and higher wages, but now we need a plan to create the next wave of growth.

We need to confront some simple realities.

A weak economy doesn't provide the conditions to lift people's wages. The implications for the long-term prosperity of Australians are real.

We need to start taking some important steps about the country's future and we want to engage with you on the way forward.

# Introduction

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As the nation emerges from the pandemic, we believe Australians should be thinking about the kind of society all of us want for ourselves, our children and grandchildren and how we transform the economy to achieve that vision.

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## A call to action

Our traditional industries such as agriculture and mining have been the backbone of the economy and they will continue to be sources of strength.

But on their own, they are not enough to deliver higher living standards and higher paying jobs into the future.

The world is changing around us. Australia finds itself in the crosshairs of several major shifts including the rise of Asia, technological and digital advances and the global adoption of green energy sources.

The nation has rebounded after the COVID-19 pandemic faster than others and our economy is growing, but unless we act, we will end up in the slow lane.

Other countries are poised to recover and overtake us. If we stand still, we'll miss out on the gains we've made and fall behind.

It's clear that it will take more than luck and business as usual to shift gears.

Nearly 20 years ago the first Intergenerational Report warned of the costs to our long-term futures if Australia just coasted along. The fifth IGR has now been released and it shows how our future incomes will suffer if we cannot lift our productivity performance.

Two decades on, our failure to tackle the obstacles holding us back has left the nation out of pocket from where it could have been.

That's the ultimate opportunity cost we all pay for inaction.

It's why people don't feel they are getting ahead – their wages growth has flatlined and it's harder for young people to buy their first home with average house prices now more than five times average incomes.

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A 1% per year increase in productivity growth, essentially producing goods and services more efficiently and smarter, would deliver an extra \$10,000 in average incomes for Australians over 10 years.

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We cannot continue ignoring the problem.

It's time to act and position ourselves to reap the benefits of new high-tech industries and new highly paid jobs while continuing to get the most out of our traditional economic strengths.

It's time to put Australia back in the fast lane.

The Business Council of Australia has prepared this discussion paper to hear directly from the community and decision-makers about the best ways to move the country forward so all Australians have a chance to succeed.

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## Who is business?

Business cares about the future of all Australians and the nation's direction.

- Business employs 11 million of the 13 million working Australians.
- Business pays more than \$90 billion a year in company tax.
- Business is made up of people who own and run small businesses, the people who work in the supermarkets, regional suppliers and rural producers.
- Business is also more than 6 million everyday Australians who own shares in Australian companies and the 16 million Australians who invest in shares through their superannuation funds.
- Businesses get ahead when their people get ahead.
- While the business community does not always get everything right, we consistently strive to do things better and meet community expectations.
- Business takes its responsibility to Australians seriously and we are invested in ensuring the nation's future is one where everyone can succeed.

The Business Council of Australia represents the nation's largest businesses and employers.

# Our vision

The Business Council strives for a stronger Australia. We work to ensure Australia is economically strong to support a fair free and inclusive society for all Australians.

**By a stronger Australia, we mean Australians and their families having:**

- meaningful and rewarding jobs
- higher wages and more take home pay
- the ability to advance and get ahead
- secure work
- the opportunity to develop skills throughout their lives
- access to affordable and essential services
- good health
- the ability to own their own homes, and
- the ability to ensure their children and grandchildren inherit higher living standards.

**It means communities sharing:**

- in prosperity across the nation, including the regions, and
- the objective that no parts of the community get left behind.

**A strong Australia is:**

- stable and secure
- modern and advanced
- outward looking
- prosperous and fair
- a country that is internationally respected and takes its place in the world, and
- a nation that looks after its environment.

The best way Australians can realise the aspirations they have for themselves, their families, their community and the country is by realising their potential and making the most of their strengths.

To help them achieve this, Australia needs a society supported by a strong and growing economy that creates real and meaningful opportunities for people to get ahead, ensures people are rewarded for the effort they put in and gives them the freedom to make their own choices about how they live.

# Our performance against the vision

So how are we travelling? Australia remains one of the best countries in the world in which to live and work. So far we have managed the COVID pandemic better than most countries. The pandemic will have lasting effects on the world, accelerating many of the shifts already underway. It is timely to consider how we are tracking against the vision and where we want to be post-pandemic. Even before COVID we were falling short in many ways but there is opportunity to recapture that vision.

## For Australians and their families

### Living standards

Australians enjoy relatively high living standards, but wages growth has flatlined in recent years. Without the prospect of their wages increasing, it is now harder for people to feel they can get ahead.

Between the end of the mining investment boom and the COVID crisis, real wages in Australia barely lifted, growing only 3 per cent over seven years. So, for an average earner, it would take 7 years to add \$100 to their fortnightly pay. In the past, people could expect this size pay rise every year or two.

### **Wage growth is at near record lows**



With wages growing just enough to cover the rise in the cost of living, people feel every price rise and wonder if that will be the bill with which their income fails to keep pace.

In the 1990s average house prices were about 2½ times larger than average household income. Today average house prices are about five times average incomes. Younger Australians are struggling to realise the 'great Australian dream' of home ownership.

Analysis shows the relative wealth and wellbeing of those aged 25-34 compared with other age groups is lower than at any other time in the past two decades<sup>1</sup>.

## Meaningful work

As technology rapidly changes the way we work, many people also tell us they are worried about their jobs and whether they will have the skills and training to stay working.

The good news is that we know the bulk of changes driven by technology won't be the removal of jobs, but rather changes to the way we perform the tasks that make up our jobs. COVID has in many ways accelerated our adoption of technology in the workplace and is changing the way we do business, shop, learn and work; and this makes people nervous the training to do these new tasks will not be available to them.

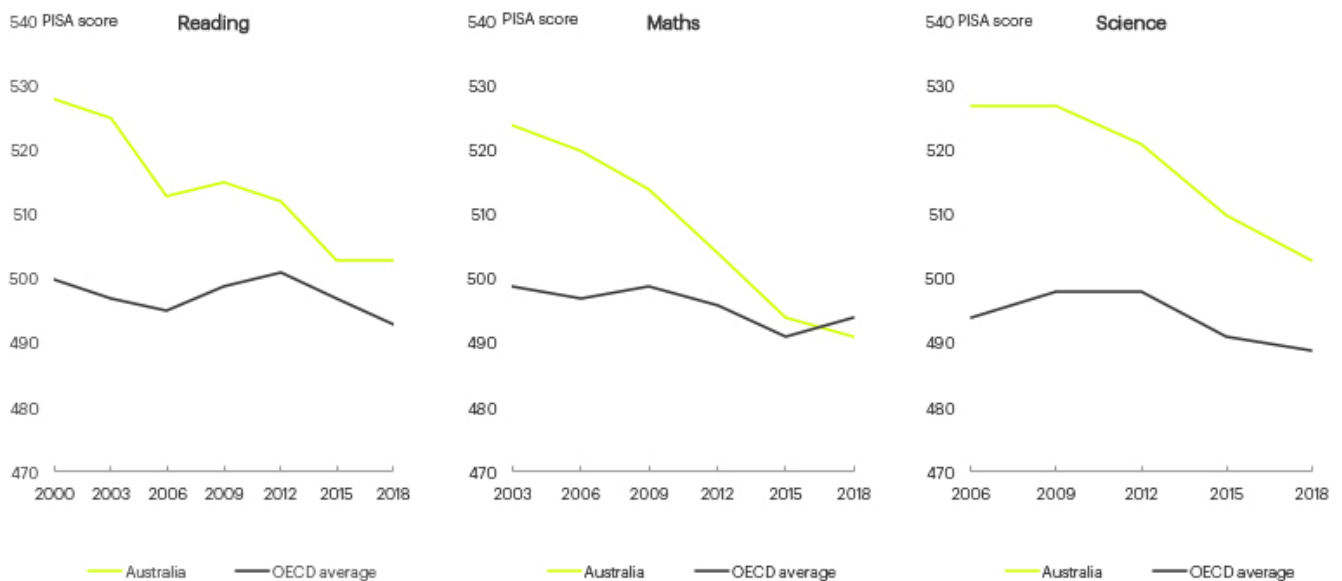
It is now more important than ever that Australians have access to relevant skills and training throughout their lives to keep pace with change and that we ensure our education system is preparing future generations for the opportunities of the future.

## Getting a good education

Notwithstanding the billions spent on education each year, Australian primary and secondary students are falling behind overseas students.

In global tests, Australian 15-year-old students have dropped from fourth to 16th in reading, eighth to 17th in science and 11th to 29th in maths. We trail nations such as Poland, Estonia and New Zealand. A 15-year-old today is a full year of learning behind where the average 15-year-old was in 2000.

### ***The performance of Australian students on core skills is slipping compared to other countries***



But in brighter news, more Australians are going on to higher levels of education. Around two-thirds of working age Australians have a degree, diploma, or certificate but about one in three young university graduates fail to find work in their chosen field.

<sup>1</sup> Australian Institute of Actuaries



## For our community

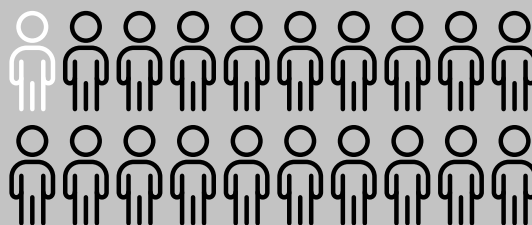
The concept of a fair go is a central part of Australia's character, yet many in the community are being left behind. We continue to see inequality of opportunity based on gender, race, geography and social background. The belief that all Australians are equal and deserve a fair go is looking shaky. Too many people feel left behind, and this is holding all of us back.

Many regional areas which have borne the brunt of past structural changes are held back by the lack of a plan to build their local economies. As a result, many regional communities have fallen further behind people in the major cities.

On average, Australians living in rural and remote areas have shorter lives, higher levels of disease and injury and poorer access to and use of health services, compared with people living in metropolitan areas.

Almost 40 per cent of people living in a major city have a bachelor degree or higher but in regional areas this halves. Life expectancy in the capital cities is also higher than for the regions. Someone born in Sydney or Melbourne is expected to live almost three years longer than someone born in the rest of the state.

**Around one in twenty children**  
born between 2000 and 2010  
spent more than five of their  
first 10 years of life in poverty.



Youth unemployment remains stubbornly higher than for the rest of the population at over 10 per cent, and in parts of the country exceeds 20 per cent.

If we truly are going to be a fairer country, we need to address serious inequality in our society including around gender, deep and entrenched poverty and the lack of opportunities in regional Australia.

It's also critical that Indigenous Australians share in the same opportunities and choices as everyone else. As a nation, we must work together to create new and greater ways for Indigenous Australians to get ahead through education, health, employment, housing, community safety and running their own businesses.

One step we can take is improving the ability and opportunity for Indigenous Australians to take part in the economy to develop wealth for themselves, their families and communities. An Indigenous Voice to parliament will be an important step forward in providing an avenue for our First Nations peoples to have a greater say about their future.

We are falling behind on ensuring Indigenous Australians are getting ahead. Indigenous Australians are around 3 per cent of the population but around 30 per cent of the prison population. Indigenous children are twice as likely to die than non-Indigenous children, and around 66 per cent of Indigenous students complete year 12 compared to 90 per cent of non-Indigenous Australians.

## For the country

Australia has an abundance of natural resources including minerals, fossil fuels, rich agricultural land, forests and numerous sources of renewable energy. We have strong democratic institutions and a skilled workforce. Our economy has benefited from openness to trade, capital and migration. Our population growth rate has been high for an advanced economy, and we have a high degree of social cohesion.

Many of these strengths have been put to the test through the COVID period. And while we didn't get every decision right, our institutions and our willingness to work together have proven stronger than in many other countries. It is with good reason that we come out of COVID with less debt and greater prospects than many other nations, and we perhaps do ourselves a disservice when we refer to our nation as the 'lucky country'.

Despite these advantages we have seen our economic growth slow, along with growth in our living standards. And we face significant forces of change which impact on our global standing, our environment, our government finances and ultimately our prosperity. We can overcome these challenges if we understand their causes and the forces of change ahead of us.



### **Question for discussion:**

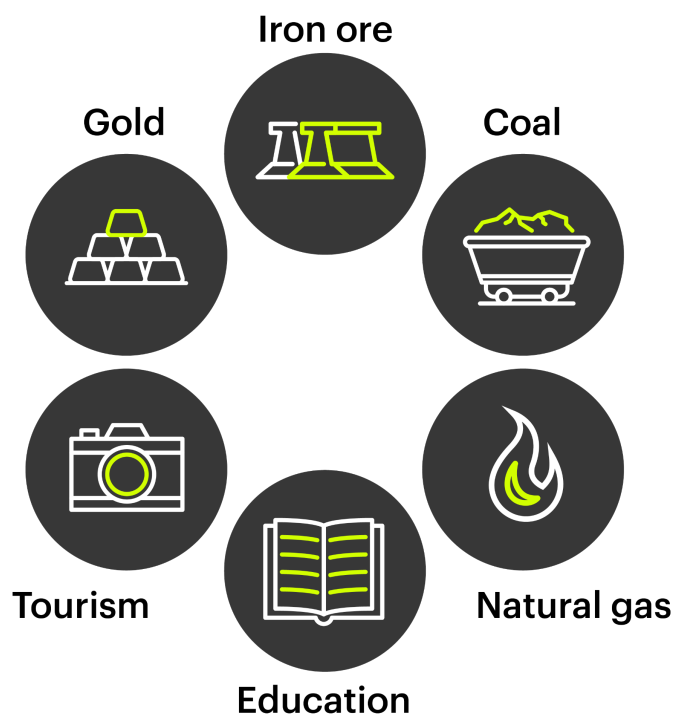
How do you think Australia is performing? How could we do better?

# What are the causes of us falling short of this vision?

## Australian economy needs to be more diverse

Australia excels in areas such as mining and agriculture and these are important parts of our industrial base. While natural resources will remain an important part of our economy, we are heavily reliant on a few key commodities like iron ore. Only 6 goods and services account for more than half our exports, most of them commodities. As a nation it feels like we are putting a lot of our eggs in one basket.





















### **More than half our exports are comprised of 6 products**



We have prospered from this approach, but it also means we haven't adapted our industrial base as rapidly as other countries. Our largest companies 35 years ago were miners and banks and that remains the case today. In fact many of our biggest companies have been around since Federation.

In the United States, the biggest companies are big tech companies like Apple and Microsoft. These companies have displaced the big oil companies like Exxon and Mobil and the manufacturers such as General Motors and Ford that used to be among America's biggest companies 35 years ago. This is an indicator of the higher level of dynamism in the US economy compared to ours.

## Top 5 Companies

Australia		United States	
35 years ago	Today	35 years ago	Today
 Westpac	 Westpac	 IBM	 Apple
 CBA	 CBA	 Mobil	 Microsoft
 NAB	 NAB	 Exxon	 Amazon
 ANZ	 CSL	 Ford	 Alphabet
 BHP	 BHP	 General Motors	 Facebook

### Low investment means low productivity and wages

The implication of this is that there have been fewer new opportunities for investment in the Australian economy outside of mining. With less investment, we have seen our productivity performance slow down. This means that less money is being put into new or existing businesses to add value to those businesses.

If businesses do not continue to build value in their businesses, there is no capacity to pay higher wages. We have seen this translate into the weak wages growth of recent times, which, not coincidentally, has aligned with a period of weak investment. This is often referred to as the 'productivity problem'. The value of what can be produced by an individual worker is not growing as fast as previously, meaning there is less capacity for wages to grow.

### Business investment is at 1990s recession lows

20 Per cent of GDP



Because we have not invested in new industries, we are not competitive with the rest of the world in modern industries like advanced manufacturing and digital. The rest of the world has moved more quickly. As a result, Australia tends to be a buyer of these services from the rest of the world rather than a producer.

## We need to lift our competitiveness

Business has been able to find opportunities in new markets but in many respects, we look increasingly uncompetitive with our regional neighbours.

According to IMD World Competitive Index,  
**Australia ranks 22<sup>nd</sup> in the world,  
behind many of our regional neighbours.**



## There is scope to build capability

We have also under-invested in many of the skills needed to be a competitive nation. Parts of our education system are world class, but the system is not delivering the new skills and capabilities needed to succeed in the global economy of the 21<sup>st</sup> century. We have also seen basic skills like literacy and numeracy in decline. Higher end skills in areas like digital and engineering often need to be imported from overseas. Australia has the capacity to build these skills domestically, but we need an education and training system that is more responsive to changing demands.

If we don't adapt our business models, there is a danger that the things we produce – like raw materials – become less valued commodities. And with the high carbon content of many of our exports, in both mining and agriculture, the world may turn away from the things we produce faster than expected. We don't want to be left specialising in producing the goods the world no longer wants and find we haven't developed the capabilities needed to compete in markets that are growing.

This day has not yet come and there is still time to change the way we do things to secure prosperity in the future.

## We need to bring everyone along

We also need to ensure that prosperity is shared. When parts of society fall behind it fragments the nation and weakens trust that governments are there to deliver for everyone.

The implication for Australia is that we are 'doing OK' but there is an opportunity to do better. We can modernise our economy and invest in new industries. We can move out of the slow lane of low investment, low growth and low wages. And we can do it in a way that brings all parts of our society along for the ride.



### **Question for discussion:**

What are the things that are holding Australia back? How do we raise productivity and create a more modern and dynamic economy?

# Forces of change

In responding to these challenges, we need to understand the big changes that will be coming at home and around the world. These present opportunities to change our economic fortunes.

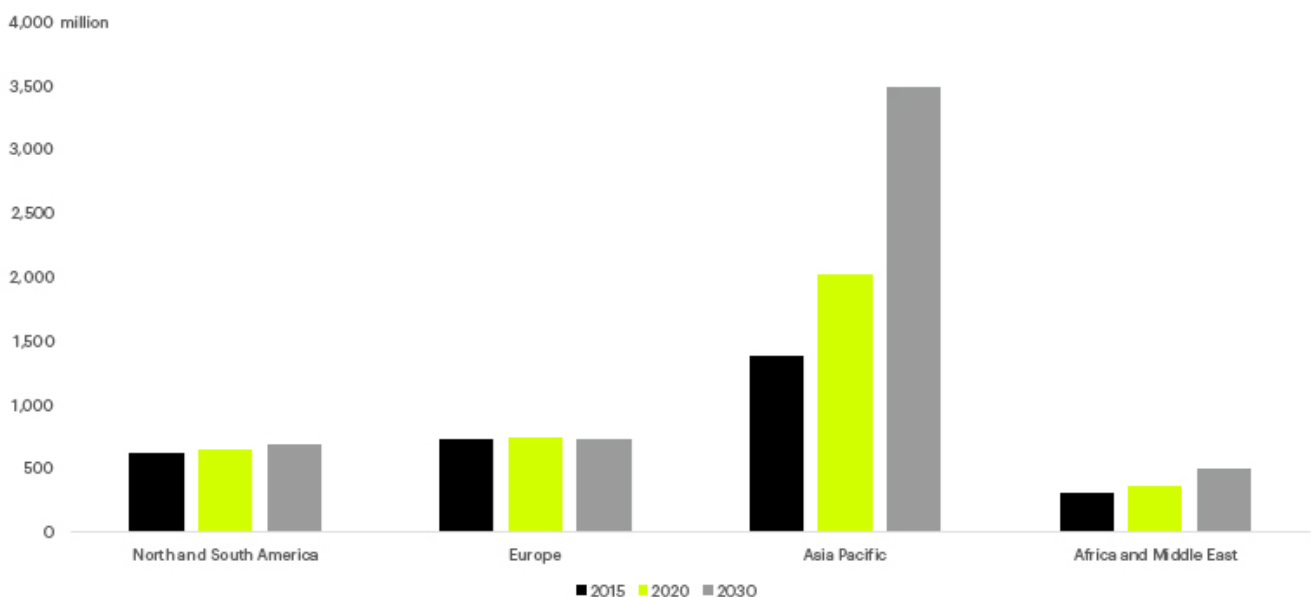
As a country, we need to be able to respond and find opportunity or fall behind. We have the advantage of being located in the fastest growing region in the world. There is opportunity to make the most of our natural resources and the quality of our people to get behind these shifts, by being prepared to change how we think about our work and our businesses.

There's no reason why we cannot succeed over the coming decades if we recognise the big shifts ahead of us and do the hard work to make the most of them.

## The rise of Asia

Asia is increasing its importance in the world economy, and this is both an opportunity and a threat. The boost to Australia's mining sector from Asian demand for our commodities has provided an income boost for the whole country. Looking ahead, with Asia's middle class expected to reach 3.5 billion people in nine years, we have an opportunity to sell to new and growing markets on our doorstep.

### **Asia's middle class is expected to reach 3.5 billion people in 2030**



Asia is rapidly developing new industries and products. If we step up, we can be the sort of dynamic nation that capitalises on the new business opportunities that this growth creates. We can turn around our investment performance. If we stand still, growing Asian economies will continue to attract new industries and look elsewhere to trade – and the higher paying jobs that go with this growth will slip through our fingers. Our opportunity could pass, and Australians will be left with a second-rate economy with lower paying jobs.

Building these opportunities in Asian markets involves improving the way in which we manage relationships with emerging powers with different cultures and different systems of government in our region.

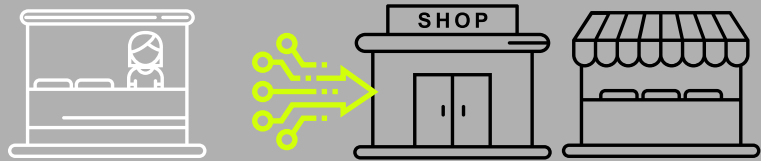
## Digital and technology

Advances in technology provide significant opportunities for new investment and higher productivity. Our ability to take the opportunities from advances in digital and other technologies has a big impact on our economic performance and competitiveness. For many years technology has been changing every aspect of our lives. From banking and shopping online to replacing dangerous jobs in the mines with driverless freight trains and finding better ways of diagnosing illness.

These forces are speeding up, especially in the wake of COVID. We'll need to continue to develop the skills to cope with change and adapt.

Technology is increasingly changing the way we do business; the way profits are made, and the way people work. Many of the largest and most profitable companies in the world are now tech companies, but Australia's share of this market is small. One third of our small and medium sized businesses do not yet have a digital platform. We have a way to go.

One third of our small and medium sized businesses **do not yet have a digital platform.**



We saw Australian businesses innovate through the COVID crisis to adopt digital platforms to keep their businesses going through lockdown periods. We have shown we can do it. The challenge now is to build on that momentum and look for more opportunities to improve the way we work and do business through digital means.

## Business models are changing

How we produce and sell things is changing. Very few goods are produced entirely in one country. The iPhone is made from a supply chain that includes more than 40 countries. This creates opportunities to specialise into high value parts of global supply chains. This is where every country wants to be. Providing the raw materials for an iPhone adds a tiny share to the value, basic manufacturing adds less than \$20 but designing the technology adds a large part of the value to an \$850 phone.

This demonstrates that the business model has changed in many markets. In sectors like mining and agriculture a simple model is often followed where a good is produced entirely in one country and transported to another market. With global supply chains, value is added across various markets. And much of that value is generated through high end services like research and development. This requires different business skills from producing and selling a primary product. Australia has some success stories in this regard but still relies heavily on old business models and primary industries.

But there are success stories. When Australia's car industry ultimately fell behind the global competition, Australian Performance Vehicles reinvented itself to become the world's leading exporter of seatbelts for military vehicles – filling an important niche in a global supply chain. Similarly, Carbon Revolution is leading the world in lightweight, high performance carbon fibre wheels.

## The nature of work is changing

As technology and business models are changing so is the nature of work. This has always been the case. Most of the world's population once worked in agriculture before manufacturing became a more important driver of modern economies. Increasingly services are the major source of employment in today's advanced economies. The nature of the work we do must adapt to changes in technology and the way businesses operate.

Traditional manufacturing jobs (factory workers) are becoming a smaller share of workplaces across the world and are increasingly concentrated in low wage countries. These jobs contribute a small share of the value chain.

Australia can target jobs that serve the most profitable parts of the value chain which have the potential to pay the higher wages. This means higher end goods but also higher end services. We need to keep pace with changes to the nature of work and make sure Australians have the skills needed to thrive in the jobs of the future.

## Climate

Climate change is having an enormous impact on our country. Australia will be highly exposed to the climate risks of a warming world. If we do nothing, we risk further damaging our natural environment, including hotter days, more frequent and severe floods, droughts and bushfires.

As a country, we need to do our part in the global efforts to address climate change by adopting a national net zero target of emissions by 2050. Most of our top trading partners have signed up to this goal. Domestically, it means that by 2050 while Australia will likely have some sectors still producing carbon emissions (because there is no alternative), these will be offset by other measures which remove carbon from the atmosphere.

Climate change will have a profound impact on our economy and the make-up of our industries. As the world acts to reduce emissions and moves away from traditional fossil fuels, the carbon content of what Australia produces, particularly our exports, will need to change. The European Union's proposed Carbon Equalisation System would seek to impose additional costs on countries like Australia that don't apply emission reduction strategies at the same speed.

Put simply, if we don't reduce the carbon footprint of our goods and services – both those that we consume at home and those we export overseas, the rest of the world will not want to buy from us.

At the same time, nearly one in four Australian jobs are in emissions intensive sectors that will be directly exposed to this disruption – with regional Australia particularly exposed.

**Nearly one in four Australian jobs**  
are in emissions intensive sectors



But by planning now, laying out a roadmap to reduce our emissions and acting early, we can create new jobs and new, innovative export industries. We can remain internationally competitive and accelerate the rate of growth in our economy.



Climate change can be an enormous opportunity for Australia, allowing us to reposition ourselves as a world leading superpower in clean energy exports such as hydrogen. Furthermore, we can once again have the cheapest energy in the world, making Australia an attractive place to base energy intensive industries. To do this, we must make the investments now that will both leverage existing technologies to rapidly decarbonise, and lead to new technological breakthroughs so we can lead the world in producing low and zero carbon technologies.

The choice is stark:

- Over the next 50 years unchecked climate change will shrink Australia's economy by 6 per cent - a \$3.4 trillion loss and over 880,000 jobs lost.
- Over the next 50 years action on climate change and choosing a net-zero economy will grow Australia's economy by 2.6 per cent - a \$680 billion increase and over 250,000 jobs created.

And finally, the pattern of more extreme weather events means we need to find new ways to protect vulnerable communities and ensure our infrastructure can withstand the onslaught of bushfires, floods and drought. Building a more resilient economy must happen alongside a lower emissions economy.

## The world is more volatile

Tensions between countries are on the rise. The impact of COVID will have lasting impacts that will add to instability in many countries. We need to build strong relationships with both old friends and emerging powers. And we need to support a set of international rules of the game which promote an open and stable world economy.

Following the Second World War, Australia played a constructive role in building the international institutions like the United Nations and the World Bank that have supported stability in the world since that time. As we come out of the COVID crisis – the biggest crisis the world has seen since that time – Australia should look to play a similar role. Our own security and prosperity depends on a stable world.

## Debt and deficits

Our relative success in fighting COVID has left us with a **trillion dollar mortgage on the Australian economy.**



The interest bill on this debt is around \$20 billion every year, more than the cost to the Federal Government of the National Disability Insurance Scheme.

Australia is also facing the global trend of an ageing population. This puts pressure on governments to fund services for a growing proportion of older Australians and decisions must be made about how to fund services from a relatively smaller pool of working Australians. People are living longer, and they are rightly demanding higher quality services and a more dignified and secure retirement.

Forty years ago, there were 6.6 working-age people for each person over 65. Today that ratio is 4, and forty years from now it will be 2.7. And the government's principal strategy for paying down the debt and funding services into the future appears dependent on increasingly high taxes on the relatively smaller pool of Australian workers.

## Tax system will be under pressure

Our tax system relies heavily on the top income earners and a few key industries like mining and banking to generate the revenues needed to fund government services. The top three per cent of taxpayers pay over 30 per cent of all personal tax and the top 10 companies pay a quarter of all company tax. The tax system depends heavily on taxing people more heavily as inflation pushes people into higher tax brackets (known as bracket creep) – taking a higher percentage of money out of people’s pockets when they already face big affordability challenges.

The top three per cent of taxpayers pay over 30 per cent of all personal tax and the **top 10 companies pay a quarter of all company tax.**



We have seen the best and worst of our Federation in recent times. During the height of the pandemic, federal, state and territory leaders came together with unprecedented cooperation through National Cabinet to keep people safe and the economy running. But then we saw states splinter to take unilateral decisions to close their state borders. In addition, Australia still works like a patchwork of states with too much overlap and duplication between different levels of government that adds costs and delays to decision-making.

These forces of change will change the way we need to think about our economy and our society. If handled well, they represent significant opportunity. If we don’t adapt, we risk being left behind. We have important choices to make.



### **Question for discussion:**

Do you agree these are the most important forces of change?  
Are there other major forces we should consider?

# What are the big shifts that are needed?

## Life in the middle lane isn't good enough

For 20 years, intergenerational reports issued by successive governments have framed the growth challenge around the '3 Ps' of productivity, participation and population.

The 3P's framework tells us that growth can be driven by:

- Lifting our rate of population growth and slowing the ageing of the population through a continued commitment to skilled migration.
- Raising participation by removing the barriers that prevent women from re-entering the workforce or taking on more hours and those that hold older people back from retaining a connection to the workforce. This involves putting in place the right incentives and a commitment to lifelong learning.
- Raising productivity growth, which means producing goods and services more efficiently, will be achieved through finding new investment opportunities, being open to the best the world has to offer and ensuring our regulatory systems support innovation.

We are currently facing an equation that doesn't stack up. With the prospect of a slower growing economy, record public debt and a tax system that will struggle to fund future spending demands, something needs to give.

It is possible for us to shift to a path of higher growth and higher wages. We can get in front of the forces of change and be a more modern economy that can compete with the best in the world and generate the higher paying jobs and the revenues needed to fund government services. And we can do this in a way that doesn't leave people behind.

We can be in the driver's seat. With the right decisions, we can overcome the big challenges we face and put in place the foundations to transform our economy into a more advanced and modern one. There are six key steps to take.

## What do we do?

### We diversify

This means we stop putting all our eggs in one basket, but it doesn't mean stopping doing the things we currently do well.

The first wave of Asia's growth has been driven by mass urbanisation, an enormous rollout of infrastructure, manufacturing and industry which has increased demand for our commodities such as iron ore. This has played to Australia's natural strengths and has boosted our national income.

We will continue to benefit from our strong natural resources, but also need to expand our capabilities. Our future will depend on our ability to continue to make the most of our advantages in mining and agriculture and building upon them.

The next wave of Asia's growth will be about meeting the needs of a rising middle class by selling the high-end goods and services they want. Businesses will need to develop new strategies to succeed in these markets and meet changing demand.

In addition, the mining sector will need to respond to the move to less-carbon intensive products, which may include a pivot to goods such as lithium and rare earths. In agriculture, we need to continue to export our raw produce but increasingly move up the value chain of food production.

At the same time, we should aim to succeed in emerging industries like clean energy, advanced medical technology, artificial intelligence, defence, and aerospace where Australia is developing skills and capabilities. Businesses around the world are pursuing these opportunities. We need to make sure Australian businesses are competitive in this race.

The process of end-to-end production - making the whole car or whole plane in one factory in one country - is happening less and less. For many businesses across Australia, their future lies in being a quality and specialist supplier in a global supply chain. They will be able to focus on high-end premium export products.

**Case study:** Ferra Engineering in Brisbane is providing intricate components for Boeing's Loyal Wingman program in Australia. It is Boeing's largest investment in new unmanned aircraft outside the US.

Profiting from global supply chains doesn't have to mean designing the next iPhone. It can build off existing industries.

**Case study:** Manbulloo Mangoes in Australia's north supplies to Coles and thanks to a free trade deal can now export its mangoes into South Korea where they sell for up to \$22 each. Manbulloo is using technology to track a mango from the tree to the table to guarantee it has come from Australia.

We also don't need to come up with all the new ideas in Australia. We should keep our doors open to the best of global talent and ensure we are attractive to global investment and the ideas and know how it brings with it. It is through developing these opportunities we will lift productivity and find new sources of income growth. This will provide the basis of higher wages growth.

The challenge is one of adaptation to a changing environment and producing to scale to be globally competitive. It is not about picking winners or protecting uncompetitive industries, it's about creating the conditions for industry to adapt and for good ideas to be commercialised and scaled up through collaborative research and development.

## **We actively build a low carbon economy.**

We must get our act together on climate change.

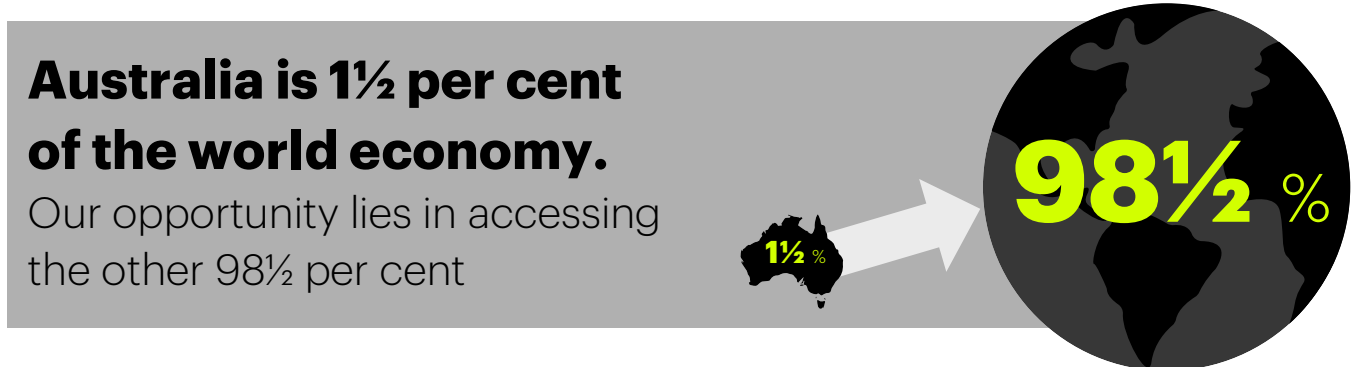
The world is moving forward with its climate change response. This will have major implications for the structure of our economy, where one in four jobs is in a carbon intensive industry. We need to manage the transition to a lower emissions economy which means helping existing industries like mining change their business models and supporting the new industries that will create the jobs and the export opportunities in a clean energy world. We need to be leaders not followers in the process. Business is already acting, but national leadership on the direction and goal is critical to our success.

Australia should put itself at the forefront of developing low carbon technology and energy sources. The adjustment process will not be easy but will only be harder if we let adjustment be imposed upon us and miss the opportunities that new technologies present.

## How we do it?

We make sure we remain open to the world and raise our competitiveness.

We are a small part of the world. Australia is 1½ per cent of the world economy. Our opportunity lies in accessing the other 98½ per cent. We are small but we have proven we can be world beaters.



The world is recovering from COVID and competition for people and investment dollars will only intensify. Success won't fall into our laps.

Business must be outward looking and find new markets. It must take risks and embrace new technologies and the opportunities they bring.

To support business, government needs to support an open economy through its relations with the rest of the world. It needs to ensure regulation is fit for purpose and not a drag on growth, including regulation around workplace relations. The government also needs to ensure we have a tax system that is not a barrier to our businesses competing with the rest of the world.

Government needs to provide a supportive environment for business and invest in the capabilities needed to compete and adapt to changing conditions.

### We lift the skills of our workforce.

Key to developing new capabilities is supporting Australian workers in gaining the skills they need to succeed in emerging industries. This will make Australia more competitive. Businesses must invest in their people and governments need to support this through building an education and training system fit for purpose for the modern world. This involves:

- Taking a lifelong learning approach to skills. People will need to adapt their skills over time as the nature of work changes, especially older groups trying to maintain their connection to the workforce. Its important people are able to gain new skills rapidly without leaving their jobs to keep pace with workforce changes.
- Ensure everyone has the foundation literacy, numeracy and digital skills to get ahead in the modern world.
- Ensure our educational institutions adapt to changing skills needs.
- Make sure there are clear pathways through the education system into skilled jobs.

## **We make sure no one gets left behind and has an opportunity to contribute.**

We can do more to get the best out of all Australians.

Gender should not be a barrier to economic opportunity. Our society and our workplaces must respect all Australians, regardless of gender, race or social background. Business has a role in providing workplaces that meet these goals, which in turn helps business get the best out of its people and help raise participation in the economy.

We need to break the cycle of entrenched disadvantage. Opportunity needs to be shared across the country which means making the most of the potential of our regions.

## **We rebuild our public finances**

Government must be on a sustainable footing. We can't carry high debt levels forever as we will need the buffers to meet future challenges – and there is no way of knowing what crises may come our way.

The foundation of a strong fiscal position is a strong economy. The foundation of a strong economy is strong businesses. But we also need to have a close look at how we fund the pressures of an ageing population, and future investments in health and aged care.

Austerity drives involving the cutting of government programs are not the answer. But governments will need to continue to seek to deliver programs efficiently and avoid waste and duplication of effort.

Nor is the answer to resort to higher taxes as this will create disincentives to invest and be a drag on growth. The tax system needs to evolve with a changing economy. It can't just rely on bracket creep that takes money out of the pockets of those trying to get ahead. We need to look at the whole tax mix. We also need to make sure we are delivering services efficiently and without duplication between states and the Federal government.

The tax and welfare system needs to account for differences in wealth as well as incomes. This means that when assessing the capacity of individuals to contribute to the cost of services, their wealth as well as their incomes should be taken into consideration. We must avoid the situation where an average earner struggling to get on the property ladder is subsidising the costs of a retired person who has millions of dollars' worth of assets.

### **Questions for discussion:**



Do you agree these are the big shifts needed?

How do we build a consensus behind needed reforms?

Have we lost our appetite for reform, and do you think big reform is possible?

# Conclusion – changing lanes

The fallout from the worst global pandemic in a generation has triggered a reset around the world.

As countries work to get back on their feet, all nations are now in race to rebuild their battered economies. The competition for the tools to power ahead – such as attracting significant investment, highly skilled talent, and ideas – will be fierce.

Australia has come through COVID-19 better than nearly all other countries. We have a first mover advantage. More people are now employed here than before the virus and we have reason to be confident.

But as nation we are yet to come to terms with the big, unstoppable changes we face and the damaging consequences of standing still. As outlined, these challenges include the rise of Asia, the impact of digital and technology, altered business models, the changing nature of work, climate change and global volatility.

For many years, Australians enjoyed life in the fast lane of growth thanks to the hard work achieved through significant economic reforms.

This includes the productivity enhancing changes during the 1980s and 1990s including the wages accord between business and unions, the introduction of enterprise bargaining agreements, the floating of the dollar, trade liberalisation, financial market reforms and the introduction of the Goods and Services Tax. These helped open up the Australian economy and improve our competitiveness.

There have been countless reviews over the past 20 years arguing the case for reform to lift living standards, growth and wages. Governments have attempted to respond. But unlike in the past, when governments now attempt to make even modest reforms, they are met with community resistance. Building a consensus for change has become harder.

The reality is that while Australia seems to be travelling okay, the momentum for growth in living standards has gone and won't return without further reform. We can't continue living on borrowed time.

Through this consultation process, we want to understand if people really have lost their appetite for reform and why. We want to know whether people are willing to embrace change if their future incomes depend on it. During COVID, the community proved it was willing to make personal sacrifices when they understood it was for the good of everyone.

But right now, the reluctance over time to take important decisions means other countries have overtaken us, and we've slipped into the middle lane.

We're doing better than other countries who are stuck in the slow lane with their economies growing at less than two per cent a year and dragged down with high unemployment.

We've been happy to coast along in the middle lane. Our economy is growing but not as fast as it should be, and we've become too reliant on the rest of the world to define our future.

In the middle lane, we have a speed limiter on our growth potential.

No matter how hard we try to accelerate, we won't be able to surge ahead unless we consciously make the big shifts to move into the fast lane.

In the fast lane, Australia's economy can experience growth at more than three per cent a year. We can pay off the nation's \$1 trillion mortgage faster and bring down the jobless rate even further.

In the fast lane, we can deliver around \$10,000 extra per person over a decade; the result of one per cent higher annual productivity growth where we produce goods and services more efficiently.

We can develop new high tech, high paying and high productivity industries, on top of our existing strengths of agriculture and mining.

We can expand our share of the global goods and services export market valued at \$US25 trillion. At the moment Australia captures 1.4 per cent of this market, if we expand our share by even a little our incomes would grow.

We can take a slice of new clean energy investment which is expected to exceed \$1.5 trillion by 2030, more than 10 times the size of the iron ore market.

And, ultimately, we can transform into a more modern, advanced, and dynamic economy but only if we make the right sets of choices.

**We want you to help us think about what those choices need to be.**



**Question for discussion:**

How should business, government, and the community work together to lift Australia's economic performance?

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