



CEDA's Top 10 Speeches 2016

A collection of the most influential and interesting speeches from the CEDA platform in 2016

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About this publication

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About CEDA

CEDA – the Committee for Economic Development of Australia – is a national, independent, member-based organisation providing thought leadership and policy perspectives on the economic and social issues affecting Australia.

We achieve this through a rigorous and evidence-based research agenda, and forums and events that deliver lively debate and critical perspectives.

CEDA's expanding membership includes 750 of Australia's leading businesses and organisations, and leaders from a wide cross-section of industries and academia. It allows us to reach major decision makers across the private and public sectors.

CEDA is an independent not-for-profit organisation, founded in 1960 by leading Australian economist Sir Douglas Copland. Our funding comes from membership fees, events and sponsorship.

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Introduction



Each year through this publication CEDA delivers for members a reflection on the most influential and interesting speeches on the CEDA stage.

With a Federal Election here in Australia, and unexpected international events, from the Brexit result to the election of Donald Trump as the next US President, there has been much to discuss around domestic and international economics and policy in 2016.

This year CEDA held 200 public events with more than 38,000 attendees, another record breaking attendance for CEDA, again testament to the quality of the speakers who contribute their time to our events program.

However, this of course makes selecting the Top 10 speeches an extremely difficult task.

As always these speeches are not ranked but placed in chronological order. Topics covered in this year's selection include: Australia's economic position, philanthropy, industry innovation in oil and gas and also the arts, transforming transport and infrastructure in our cities and repairing the Federal Budget deficit.

I would like to thank all speakers who took to the CEDA stage this year and contributed to the breadth and depth of conversations CEDA was able to deliver in 2016. In particular, I would like to thank those included in this publication and also CEDA members who sponsored events during the year, and made our program possible.

I hope you enjoy this collection of speeches and look forward to seeing you at a CEDA event in 2017.

A handwritten signature in black ink, appearing to be 'S. Martin', written in a cursive style.

Professor the Hon. Stephen Martin
Chief Executive, CEDA

- > ECONOMIC AND POLITICAL OVERVIEW
- > 8 MARCH 2016
- > NEW SOUTH WALES



Realising our full potential: tax directions for a transitioning economy

Catherine Livingstone AO
President, Business Council of Australia

Speaking at a release event for CEDA's Economic and Political Overview publication in March, Business Council of Australia President, Catherine Livingstone put forward a vision that would see Australia's labour productivity growth return to 1990 levels. In this speech she discusses policy objectives that would help deliver this vision, including: regulatory settings that encourage innovation-led growth and foreign investment; a staged restructuring of tax arrangements; a shift away from stamp duties and insurance taxes; and taking company tax rates down to 22 per cent.

The issues her speech sought to address at the beginning of 2016 remain relevant as the year draws to a close, and will follow the economic debate into 2017.

As you may know, today the Business Council of Australia (BCA) is releasing a discussion paper on transforming the tax system and at this point I would like to acknowledge the extraordinary work led by BCA Chief Executive, Jennifer Westacott and the BCA team. The work that has gone into this paper is very thorough, it is very rigorous and it is a real credit to the team.

But before going into detail, let's step back and ask: why are we even talking about this? What is the context? The context is no less than creating a sustainable future for the country and as EY Tax Policy Leader Asia Pacific, Alf Capito has indicated, the BCA has always seen itself as playing the long game on what's right for Australia and is committed to advocating for good policy design. That is our core role; we seek to describe the conditions that will drive economic growth, remembering that it is primarily business that creates wealth, jobs and the capacity for reinvestment.

The BCA has a major stake in this, one in 10 working Australians are employed by a BCA member company and 10 million people overall are employed in the business sector. Our vision for Australia was set out in considerable detail in our action plan for enduring prosperity, which we released in 2013. The key elements of that vision include for Australia to return to a 3.5 per cent average annual GDP growth – not because it is a magical number, but because if we are to maintain living standards we should target nothing less than the rate of growth that Australia has experienced over the last 25 years.

That vision seeks for labour productivity growth to return to 1990 levels, because without it, as our terms of trade level-off or continue to decline, there are few other leavers that can achieve GDP and wages growth. The productivity task requires commitment to investment and innovation-led growth. We aspire for real income growth to increase to the historical average of 1.9 per cent per annum at the minimum, and to see this country being ranked in the top five comparable industrialised countries in the world for real GDP per capita.

A growing economy is the only path to delivering social progress in areas such as job creation, health outcomes, educational attainment and quality of life infrastructure. And while the policy imperatives identified in the action plan remain as relevant today as when released, the reality is that our degrees of freedom for phased implementation have narrowed. We developed our action plan with acute recognition of the profound changes underway both in the global economy and, as consequence, in the Australian economy. We have often highlighted that these changes include the disaggregation of global supply chains, with 75 per cent of all global trade now in intermediate goods and services and capital goods, not finished goods.

Then there is the extraordinary impact of Smartphones, introduced only as recently as 2007, and enabling access to the mobile internet. What that has meant in terms of disruption of traditional business models is something that every business is experiencing. And then finally, the increasing, if not accelerating, mobility of companies and individuals. We can't stress strongly enough the depth, scale and speed of these changes, and the transition that our economy must make.

Our concern is that, for as long as the current tax debate remains merely a daily commentary on individual tax measures, we risk losing sight of the core objective, which is to underpin a transitioning economy seeking to regain its growth trajectory. It is therefore essential that we are systematic in our approach and that we return to the tried and tested framework for the development of good public policy, which includes four essential steps. First is having a vision such as the one that I have just outlined, which defines the desired future state. Then identifying clear policy objectives that deliver that vision. Recognising the problems that need to be solved in order to achieve those objectives and then putting forward a set of incremental, coherent, purposeful and feasible policy actions to take the country past the problems and towards the vision with all of these actions anchored in first principles.

In a sense, you could look at this process through the lens of a business model for the country. Good businesses have a vision of where they want to get to, they put in place strategies to get there, and they implement those strategies through a coherent set of actions. At all times they maintain a view of the overall shape of the business model, which encompasses how the business is going to generate revenue, how it is going to grow, the capabilities needed in the organisation to deliver that growth and, crucially, the reinvestment capacity of the business needed to make the business model sustainable.

So what of Australia's business model in the context of the vision that we articulated? Well, there is strong agreement that the next wave of growth must be innovation-led. This is acknowledged by both major political parties in key position papers, specifically the Turnbull Government's National Innovation and Science Agenda and the Opposition's Powering Innovation Agenda. The importance of innovation-led growth was also endorsed at the Australian 2015 National Reform Summit by representatives from the community sector, the trade union movement and small and large business.

If we are agreed on the need for innovation-led growth – in business we would refer to this as top line revenue growth – what are the capabilities required? Recognising that in a globalised world these capabilities need to reference the global context. Will we need to be globally competitive in terms of education and skills? We need capable people and we need them to be engaged in the

economy. We need vibrant, agile, growing businesses because the country makes money when business makes money. We particularly need business to be competitive in key sectors where we have a comparative advantage and an approach that is being advanced through the industry growth centre's policy framework, which followed on from the BCA's 2014 report on *Building Australia's Comparative Advantages*. We need foreign investment, with an emphasis on investment that brings mutuality and reciprocity of benefit. And we need regulatory settings that provide encouragement and incentive for the development and the capabilities that I have just described.

One of these regulatory settings is tax. Our tax system is one controllable factor in a volatile, unpredictable global economy. If our tax system is not conducive to people productively engaging in the economy, or to businesses investing, innovating and creating jobs, and if it is compromising the nation's global competitiveness, then the system is undermining our national business model. That's why Australia is talking about tax. And while my focus today is on tax, I will also refer to fiscal policy because of the irrevocable independency between revenue and expenses.

So returning to the framework for good policy development, and recognising that a tax system that reinforces and complements our national capabilities is central for delivering our nation's vision, the next step is identifying the problems with the current tax system. The characteristics of a good tax system include that it is stable and predictable, it provides incentive to work and to participate, it creates a business environment for companies to invest and expand, and it facilitates initiatives around innovation-led growth, such as research and development, entrepreneurship and risk taking.

The problems we now have include major issues with the structure. We are overly reliant on a volatile, narrow base of income taxes, both personal and company. Not many people realise, but 12 companies pay 33 per cent of all company tax, and three per cent of individual taxpayers pay almost 30 per cent of personal tax. This is a very narrow base.

Personal income taxes are increasingly inequitable due to bracket creep, so if we are committed as a nation to a progressive tax system, nothing could be more regressive than the impact of bracket creep. Our rate of company tax is one of the most uncompetitive in the world, adding to our already failing competitiveness. And the complexity and inefficiency of the system has 10 taxes raising 90 per cent of revenue, while the remaining 115 taxes impose significant compliance cost for very little revenue yield. These problems have consequences, taxation can either be an accelerant or an impediment to economic growth, and in our case it is increasingly an impediment.



We see this in decisions made at the margin by business and by individuals. A lower rate of company tax would reduce the after-tax cost of capital, lower the hurdle rate for investment, and lead to an increase in business investments that drive innovation alongside productivity growth and job creation – both of which flow from innovation.

In the course of consultations for EY's report tax reform, *A Better Way*, Former Oceania Managing Partner and CEO, Rob McLeod emphasised how much the headline rate of tax really matters, and it matters for both individuals and companies. Therefore, remembering the importance of applying first principles, every adjustment that we make to the tax system – even if incremental – must be part of a staged restructuring of tax arrangements, which lowers the overall burden on families and business, decreases our reliance on a narrow base, removes the most inefficient taxes and improves simplicity, integrity and transparency.

The BCA has always envisaged at least the following three elements. Regarding personal income tax: changes to thresholds to tackle bracket creep and to encourage workforce effort, participation and entrepreneurship. A lowering of the company tax rate to 25 per cent, noting that this will simply align Australia with the Organisation for Economic Co-operation and Development (OECD) average.

Let me pause here to make an important comment. With regards to integrity, the BCA's strong position is that companies must meet their tax obligations, and where arrangements do not keep pace with community norms, they should be reviewed. Robust integrity measures are an integral complement to more competitive business tax arrangements, but we must support tax transparency that is fit for purpose. We support the need to address the multinational tax issues, but to use this issue to characterise all companies as underpaying their tax is disingenuous at best, and potentially very damaging if it obscures the importance of making our rate of company tax more competitive.

On Treasury's assessment, two thirds of the benefits of company tax reductions flow to Australian households primarily through higher real wages. For a small, open economy, it is inconceivable with our current company tax settings that we can return to a 3.5 per cent growth rate, and all the benefits that flow from it in terms of jobs, wages and living standards. If we come back to our first principles and our focus on growth and national income, a more competitive company tax rate is non-negotiable.

But back to our elements and the third of our reform elements, and that's at a state level, and our suggested tax package will see a gradual shift from stamp

duties and insurance taxes, to carefully designed land taxes and harmonised payroll taxes. There is unassailable evidence that stamp duties and insurance taxes are among the most damaging to the economy, and stamp duties are also highly volatile given their reliance on the property market.

In summary, if Australia does not pursue a package of the kind that we are advocating, the community deserves to understand the implications for the position that we will be in by 2025. Forty-three per cent of Australian taxpayers will be in the top two income tax brackets, income growth will slow to an average rate of 0.9 per cent per year, compared with a gross rate of 2.3 per cent that Australians have enjoyed over the past 13 years. Our company tax rate will be increasingly uncompetitive internationally, given the strong indications from other countries that their rates will be further reduced from their already competitive position.

To choose not to embark on a process of restructuring the tax system in the way we, and many others, are suggesting is akin to the then-Former Treasury Secretary, Martin Parkinson's description of sleepwalking our way into lower living standards.

The question is, how to fund it? In an ideal world all of these issues would be addressed through a holistic transformation of the system. The BCA believes that the GST could have been a potential source of funding with appropriate compensation to ensure that low-income households would have been no worse off. An increased reliance on a consumption tax would also deliver an important structural benefit by reducing our reliance on more volatile direct income taxes and by addressing the narrowness of our base.

However, if the GST is not an option in the medium term we need to find another path through, and thus we would support a pragmatic approach based on three clear horizons of adjustment. While the changes we have set out will set us on the right path and boost economic growth, the long-term structural work will still need to be done. Overtime we will need to address the balance of direct and indirect taxation, the challenges of an increasingly digitised economy with new classes of assets, and the challenges of an ageing demographic, which will see fewer people working and therefore fewer people paying tax.

But, we have to start somewhere, and we have to set ourselves on the right course. The first two horizons that we are proposing need to be tackled within one and five years respectively, and our paper includes a menu of options around how to fund them through careful changes to concessions that improve policy design and provide structural correction to the system. Horizon three moves us much closer to our destination, with the growth dividend from



the lower rates in horizons one and two starting to flow through, giving the nation choices. Our paper sets this out in more detail, but let me provide a snapshot of what we are proposing.

Summarising the actions in horizon one and two together, within five years we suggest implementing a moderate personal income tax and in horizon one we should focus on low and middle income tax payers affected by bracket creep, that is people earning between \$37,000 and \$87,000. Within the same five-year time frame we would move on a glide path to a more competitive company tax rate of 25 per cent and in horizon one we should immediately correct for the current anomaly of having two company tax rates by harmonising the rate to 28.5 per cent. The current arrangement is distortionary and fails to come to terms with the ecosystem of the interactions between businesses of different sizes. Britain tried this approach and has since corrected the mistake, it's just bad policy. The glide path to a rate of 25 per cent cannot afford to be a spurious promise. To have an impact on business investment decisions it must be legislated with the proviso, as is the case in the UK, that parliament has the flexibility to adjust it if global circumstances change dramatically.

So back to the question of how to pay for these changes. Well, we're not the Treasury, but we believe there are concessional arrangements that should be considered. It is the job of Treasury to model potential adjustments and identify the five-year cash flow assumptions. This is a complex task and there will be choices about how we calibrate the pace of change depending on how quickly the benefits from these adjustments flow into the economy. It is also Treasury's job to chart thoughtful transition over time and across generations at a point in time, and to understand potential unintended consequences. It is most important in redesigning concessions, even those that provide a revenue dividend, that the objective must be to improve tax policy and the design of that policy and the structure of the tax system, not to fund additional spending. In our paper we have set out some of these design parameters.

Now turning to horizon three, which takes us to 2025, actions would be underpinned by progress made in the previous two horizons and would include an ongoing glide path to take the company tax rate down to 22 per cent. A restructuring of the personal income tax and transfer interface to address the marginal tax rate issue and to provide greater incentives to work and steps to rebalance the mix between direct and indirect taxes including a well-designed compensation package.

If we move through these three horizons purposefully and systematically the growth dividend overtime could be considerable. While we can debate the

impact of a company tax reduction – and all of the modelling suggests that it could be in the order of a \$9 billion increase in GDP – it is important to consider the consequences of the counterfactual. That is, no change in the company tax rate. Doing nothing doesn't mean that nothing will happen. Increasingly, mobile company investment decisions will be attracted by more competitive rates in other jurisdictions, there will be an erosion of the intellectual property developed in Australia. There will be less and less formation of new businesses and therefore fewer and fewer employment opportunities, particularly for young, mobile people.

I have already quoted one former Treasury Secretary, Martin Parkinson, on living standards. Another, Ted Evans, made a similar point in saying that a nation can choose the level of unemployment that it is willing to bear. The dividend from achieving a higher growth rate, compared to the rate we have now, is substantial. Our nation's economy could be \$1.5 trillion greater, which represents an entirely different scenario from the current forecast in terms of resilience, reinvestment capability and, most importantly, living standards.

As I mentioned at the start, the other side of the tax story is our fiscal arrangements and, as with any business model, there are deep interdependencies. Again, just to be very clear, the purpose of tax reform is not to raise overall levels of revenue to simply fund additional spending. Australia has a structural overspending problem and raising the overall level of taxation would not solve this.

Over the last 10 years spending has exceeded our rate of GDP growth, and the Intergenerational Report forecasts that this will continue with real annual GDP growth at 2.7 per cent and annual spending growth at 3.6 per cent. This is just unsustainable. We have made poor spending choices in health and education, as the standout examples – as in we could have had better outcomes for the same expenditure.

Additionally, we continue to make substantial expenditure commitments on new programs, exacerbating the overall deficit. We have no choice but to face up to the deficit challenge. It's compromising our capacity to pay for the services that people need today and our capacity to make investments at the national level, which will underpin future wealth generation, whether that is physical infrastructure or knowledge infrastructure. Failing to address the deficit also makes Australia vulnerable to global economic shocks and, should these eventuate, we may find ourselves having to make unpalatable choices. If our business model is social progress afforded by generating long time economic wealth, making such unpalatable choices is unacceptable and would represent a failure of our business model.

Comparing our situation favourably against weaker economies is a hollow comfort. No business experiencing difficulties would excuse inaction by pointing to another business that is experiencing even greater challenges. If I return to the business model interdependencies, addressing these fiscal issues will actually increase our capacity to move through our three horizons of structural tax reform.

Now, all of this involves choices and trade offs and the politics is hard, that is self-evident. But good process can provide strong protection for governments in tackling tough decisions. These decisions should not be rushed and the governments must be allowed to work through the options carefully and systematically based on the best available data. As we know, the better of our major structural reforms to the economy, like the GST in 2000, came after years of intensive analysis. We believe that the policy development framework that we have set out, which clarifies the vision and the purpose of the change and offers choices, will be a useful contribution to this. The single tax focus of the current debate militates against taking a framework approach, and worse, it obscures the real purpose of reforming our tax system and strengthening our budget position.

As the election draws closer, our politicians have choices about the mandates they seek. For the last 10 years we have emerged from federal elections with governments that have no meaningful mandate for structural reform whether that is in tax, workplace relations, regulation or fiscal policy. When a business is facing a difficult decision and you are sitting around the board table trying to grapple with it, it is the person in the room who asks, "What is the right thing to do here?" who sets the discussion on the better course. The question has multiple dimensions to it moral: ethical, reputational, fiduciary. But the answer is the course that furthers and protects the long-term interests, in that case, of the company and its shareholders.

The national leadership model that we require is a collective dynamic involving the parliament as whole, interest groups like ours and the community, which asks, "What is the right thing to do in the long-term interests of the country?" My colleagues and I felt this keenly last week when Australian of the year David Morrison addressed the BCA and spoke of what had shaped and motivated him as a leader.

Let me finish this afternoon with a quote from David, he said, "Leaders recognise that they are the recipient of a legacy left by those who have shaped them to this point in their lives: role models, teachers, mentors, and agents of change. True leaders then ask themselves, 'What is the legacy I am going to leave'."

> NATIONAL PRESS CLUB ADDRESS

> 29 MARCH 2016

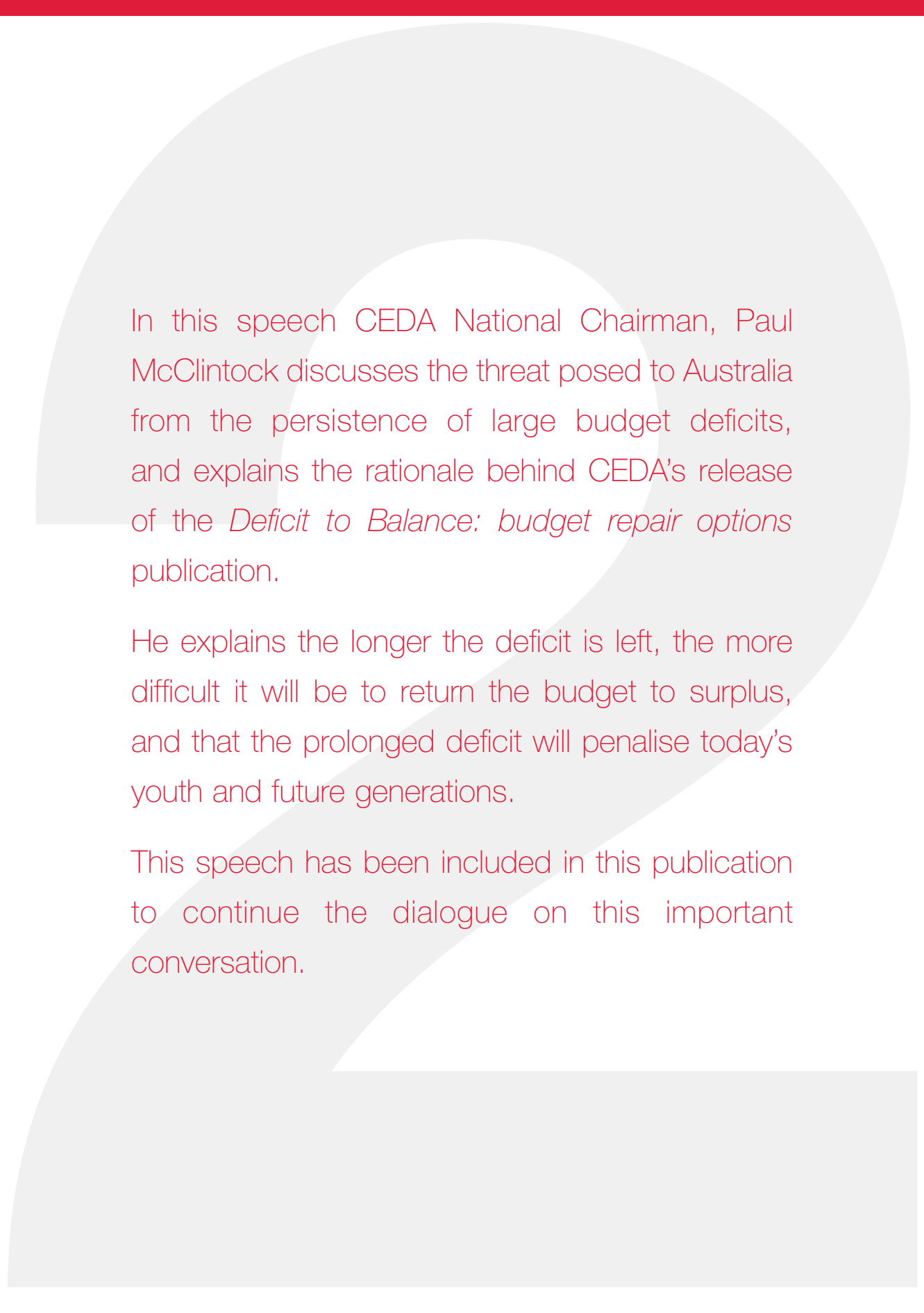
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National Press Club Address

Paul McClintock AO

National Chairman, CEDA



In this speech CEDA National Chairman, Paul McClintock discusses the threat posed to Australia from the persistence of large budget deficits, and explains the rationale behind CEDA's release of the *Deficit to Balance: budget repair options* publication.

He explains the longer the deficit is left, the more difficult it will be to return the budget to surplus, and that the prolonged deficit will penalise today's youth and future generations.

This speech has been included in this publication to continue the dialogue on this important conversation.

Firstly, let me acknowledge that we are meeting here on the land of the Ngunnawal peoples and I pay my respects to elders past and present. I also want to thank the National Press Club for the invitation to speak today and acknowledge your role, shared by CEDA, in providing a platform for driving discussion and debate of nationally important issues.

And finally I would like to acknowledge the CEDA Board and Balanced Budget Commission members present, who have contributed to the research paper that we are releasing today.

A grave fiscal problem

You all know CEDA well – we have been driving policy discussion and debate through research and events across the country for 56 years. We exist to promote the economic development of Australia, not the interests of our members. We believe that economic development, achieved sustainably and equitably, underpins the social development of our country.

We do this by selecting topics we believe are key to the economic debate, commissioning research and then releasing it through events organised by our chapters in all mainland states.

So why have we decided to address the issue of fiscal policy so differently, releasing a policy paper – *Deficit to Balance: budget repair options* – with the endorsement of the CEDA national board and its very distinguished Balanced Budget Commission, and have it presented here by me as the National Chairman?

The answer is twofold.

Firstly, we believe no economic problem, which is in our power to resolve, is graver or more urgent in Australia than the persistence of large budget deficits. Secondly, we believe that failure to keep fiscal balance at the centre of economic policy is strangling the effort to design and implement a more appropriate tax policy. So, let me explain both.

Australia's deficit problem is particularly alarming because despite a quarter century of sustained economic expansion, we have had eight years of deficit.



Under current projections we've still got another four years to go. This is not normal – our total estimated deficits from 2008–2009 up to 2018–2019 will be nearly as high in GDP terms as those incurred after both the recessions of 1982–1983 and 1990–1991 put together. And net Commonwealth debt as a percentage of GDP will be unprecedented.

Despite promises from both major political parties to return to surplus this is yet to eventuate, and on current forecasts achieving sustained surpluses seems unlikely. In fact, it is astonishing that we are on the cusp of an election campaign and there is so little focus on the deficit.

Perhaps this is because people assume it is going to be fixed based on current forecasts, but our paper reminds us that successive governments have been extremely poor at meeting surplus forecasts and the numbers look no more plausible this time around.

It also reminds us that the forecast balance in four years' time is based on the political quicksand of a 20 per cent increase in personal income tax collections in just the first three years, which history tells us will be impossible for our politicians to ignore.

In short we are seeing fiscal strength drain away and the solutions on the table don't seem credible. Clearly the longer deficits continue, the greater the difficulty in returning to surplus.

Prolonged deficit also penalises today's youth and future generations, who will end up paying for current spending despite Australians being wealthier than they have ever been.

My generation is five times wealthier than my father's generation – yet by running deficits during this period of economic expansion we are essentially saying that our increased wealth is not enough and we expect future generations to pay for our spending today.

This is not just spending the inheritance – it is equivalent to racking up credit card debt and expecting your children or grandchildren to pay it off. This should be unacceptable and if you are under 30 you should be up in arms telling my generation that the current situation is completely unfair. In addition to the impact on future generations, deficit during this time is a huge risk for our economy more generally.

As a player in the global economy, running a large deficit means we don't have the flexibility to respond to unexpected economic shocks. This means political choices to insulate and boost our economy become limited. Deficit and the resultant interest on debt narrows government spending choices by

reducing the Budget pool and diverting money that could otherwise be spent on delivering services and infrastructure.

Just look to the latest Intergenerational Report which shows by fiscal year 2055, the deficit will have increased from a projected base of close to zero to six per cent of GDP.

Unless we act now the accumulation of interest payments will absorb a significant portion of government spending, reducing the pool available for needed services.

The second part of our reason for arguing the centrality of fiscal policy is its obvious impact on the tax policy debate.

When we decided in September last year to do this report, we were concerned that the tax reform debate was beginning to resemble an under 10s footy match.

The players had long gone from their set positions in pursuit of the elusive ball and now, six months later, there is a growing sense that at half time the referees went home ... and quite possibly took the goal posts with them. There also seems to be a lot of balls on the field.

Now we accept that there are many reasons why political leadership is struggling with the long term tax policy issues, and all of them will need to be addressed in time.

But we do argue that the most significant reason undermining this process is that we are starting at the wrong place – the old joke about asking for directions and being told not to start from here comes to mind.

This is because too much of the pain of change is needed to make up for the deficit before any other incentives can be offered in return. Top quality tax reform is a benefit of strong fiscal policy, and we have a much better chance of community consent to change if we fix the deficit first.

That repair process can also be the basis of getting the community back to an understanding that resources are not unlimited, and that when you reach the maximum level of acceptable revenue raising, that's what will determine your expenditure – every extra dollar spent over and above GDP growth will need savings or greater tax.

Putting fiscal policy back in the centre also has the advantage that politicians do not need to demonise current programs, or citizens who utilise them. It is very hard to get consensus if you have to attack the current benefit and its beneficiaries – it is much easier if you can argue that we just have a limited amount of money to go around.



Forming the Commission

In looking at this issue, the CEDA Board noted that the political community agreed that the Budget should be brought back to balance. So we established the Balanced Budget Commission.

The high-level Commission draws together experts from the public sector, academia and the private sector and full details are in our document.

These people were chosen because of significant experience working in economics and policy, having served under governments from both sides, as public servants at the highest level and leading economists.

They were tasked with coming up with options that are realistic and can help bring the Budget back to balance, bearing in mind the requirement to also sustain economic growth.

Taking into consideration Australia's current position, CEDA went back to the start:

- What is our fiscal objective?
- What are the rules? and;
- How do we deliver a document that states a way forward which can be applied to the Budget next year and to the policies of the major political parties?

We also applied the overarching principles laid out in sage advice from former Prime Minister John Howard at CEDA's Annual Dinner in November last year that any options must be practical and fair.

Firstly, the Commission's approach was to set the parameters. The urgency of the issue meant we set fiscal year 2019 as the target date to return to balance – the end of the current forward estimates. We can see no benefit in delay unless there is a significant change to our economic performance. This is the first key recommendation.

The next was the “how to get there” and in particular what were the respective roles of revenue and expenditure – for this the Commission looked to history and long run averages.

The average share of tax to GDP in the years between the introduction of the GST in 2000–2001 and the GFC in 2008–2009 was close to 23.9 per cent. This is consistent with the ceilings adopted by both Coalition and Labor governments and as a result, that's the tax cap that we have chosen.

The tax cap of 23.9 per cent is just common sense, as it is the ceiling that has been used by Treasurers Costello, Swan, Hockey and Morrison, the Intergenerational Report and the latest MYEFO and underpins the current government's plan to return to surplus by 2020–2021.

It is practical and not based on any sort of ideology – and because it is the historical average you could argue that it has, as a result, community consensus and acceptance – it is the norm.

Applying a tax cap of 23.9 per cent implies total revenue of 25.5 per cent when you add about 1.6 per cent for non-tax revenue. If 25.5 per cent is our total revenue target, then we need to cap expenditure at the same level to balance the budget. These caps on tax and expenditure are our second key recommendation.

Using publicly available data, this translated into the need to raise an additional \$15 billion in revenue by fiscal year 2019, and to cut expenditure by \$2 billion. Raising an extra \$15 billion is no small amount. While we believe our suggestions have the best chance of gaining community consensus, they won't be painless.

Nevertheless, you may be wondering whether our focus on the short term fiscal solution, and the acceptance that it will need to rely primarily on increased revenue, appears in some ways to be letting the politicians off the hook on long term structural reform. On the contrary I would argue that it is about getting us to the strongest starting line for that endeavour.

At the moment I can see another political term drifting past because we haven't done this and we won't be any closer to fixing either the deficit or the long term structural problems.

Perhaps in more benign times we may have accepted this, but we can no longer afford to do so, as even if we balance the books in the short term, section five of our report shows that the long term challenge of maintaining balance remains.

The latest Intergenerational Report suggests that a deficit could likely reoccur beyond 2019 as expenditure is predicted to grow faster than GDP.

This is where I should say that we see this report as focusing primarily on part one of the solution – unapologetically it focuses more on the revenue side to get us to the tax cap of 23.9 per cent and return us to balance.

However, to maintain balance and ensure the deficit does not reoccur there will also need to be a greater focus on expenditure post fiscal year 2019, part two of the solution.



I predict that part two will be the much harder task because of its long term nature, its size and this focus on expenditure. But I also predict that if we do not respond to the current challenge in the way we are recommending today this task will be immeasurably harder.

Solutions

So the Commission set the balance timetable for fiscal year 2019, and it set tax levels at 23.9 per cent and expenditure levels of 25.5 per cent of GDP – it then developed some options, detailed in section seven of the paper, to see if it could meet the John Howard tests of being practical and fair.

I will start by saying that our numbers are based on a variety of published sources. The aim of this exercise is to show that it is possible for the government to balance the Budget with measures that would in most likelihood win community consensus as part of an overall plan to fix the Budget and which may be broadly acceptable to both sides of politics. We have selected the numbers and policies from a raft of measures and estimates available to the general public.

Government and the Opposition – through the Treasury and Parliamentary Budget Office – have obviously got tools to do more precise modelling but we think our figures are definitely in the ballpark.

I also want to again provide a disclaimer that we don't endorse any particular option – our point is to prove that the goal is attainable – that a fiscal year 2019 balance is entirely reasonable.

So what are the solutions

So we've analysed and put forward a number of revenue and expenditure measures that governments can choose from, and for full details I urge you to refer to options in section seven of the report.

We excluded taxes or savings that were “off the table” for either the government or the opposition – although that is of course a moving feast. This meant that on the revenue side of the equation, we ruled out higher personal income tax rates and changes to the GST very early on.

Given this, we were left with raising non GST indirect taxes, such as taxes on petrol, alcohol, luxury cars and tobacco, or raising direct taxes by reducing or removing taxation concessions, such as those available for superannuation and investment purposes.

On the expenditure side, we have measures such as reducing the size of budgetary assistance to industry, improving public sector efficiency and some measures to reduce the growth of health-related costs.

The paper's options are each designed to provide a practical and fair combination of measures – the first two lean heavily on superannuation, while capital gains tax features to some extent in all of them – as do the limited indirect taxes available. We have suggested five different packages, but of course you can all design your own.

As I remarked earlier, getting back to surplus won't be painless – some of it will be tough but we have tried to ensure almost all measures proposed will not affect the most disadvantaged in our society.

In addition, it is important to note that we are not saying that the people who will be losers in implementing such measures deserve it.

The reality is we do not, at present, have enough money to fund everything that needs to be funded, including important areas such as health which is predicted to grow at a faster rate than the economy in coming decades.

We believe that the series of measures we have put forward are the most palatable and realistic way we can balance the budget in the short term in order to then deal with longer term structural problems.

In short, I will summarise with these key points from the CEDA report:

- We are spending more than we are earning and we've been doing it for far too long;
- It is taking too long to get rid of the deficit and the current path to fiscal balance proposed by government is not believable; and
- While we need broader tax reform, that is best done during periods of fiscal strength.

On a happier note CEDA is here to help and we hope that politicians of all persuasions can use CEDA's contribution today to recalibrate their approach and their ambitions. If politicians want to set their sights on doing something useful in the next term – balancing the budget should be it.

Equally while many business organisations are urging powerfully for longer term tax reform, I hope they can support a return to surplus in the short term, so that then we can get to the long term reforms needed with more confidence.

CEDA's timing has been chosen because the lead up to the Budget is the time national attention is focused on this issue. Hopefully this document will help influence how people assess the coming Budget and inform policies in the next term of government and those put to the electorate over coming months.

The reality is getting community consensus around structural economic reform, such as tax reform, is a long process and it won't happen in the run up to this election. However, getting the deficit under control in the short term will help clear the air to start this important conversation.

- > TRANSFORMING CITIES:
TRANSPORT AND INFRASTRUCTURE
- > 13 APRIL 2016
- > QUEENSLAND



Keynote address

Sir David Higgins

Executive Chairman, High Speed2

High Speed2 (HS2) Executive Chairman, Sir David Higgins discusses how governments make major infrastructure decisions, and poses the question whether these decisions are always in the best interests of business and the country. In the aftermath of the GFC, governments globally have invested massive amounts of money to reinflate the economy. Mr Higgins points to Bernie Sanders and Donald Trump as recognition that many in America, and countries the world over, believe the successes of their country have passed them by.

He predicts a number of trends that we must recognise now as crucially important for our cities of the future, and talks through the social benefits that can be associated with significant infrastructure investment.

Yesterday morning I was commuting to work and I woke up in Toowoomba. I took the new plane service down to Sydney – what a fabulous new addition that is to Toowoomba, which makes it so simple to go to work.

I caught the train in from Sydney Domestic Terminal into Wynyard, got a hotel right next to it, worked for a day, caught the train out this morning and I arrived at Brisbane Airport, then caught the train in down here. I was a couple of hours early so I went to Jimmy's On The Mall to have a coffee and then I walked across the bridge, and it reminded me of when I lived in Brisbane in 1985. I used to come to the TAFE over in South Brisbane to learn about economics and accounting. I had a great lecturer who was moonlighting from Queensland University. And I remember the debate about the 1988 World Expo, and the debate was: what the hell are we going to do with all of this land that is left over from the Expo? We don't know what to do with it – it's too big for a park and we'll never use it.

I looked at the land now, and I looked at the pocket-handkerchief-of-a-park, which is a great park, and the massive development around it. It reminded me of the same debate that was happening in Sydney, with Darling Harbour and Laurie Brereton, with the question of: what the hell are we going to do with this loss-making liability, which the government has been stuck with, called Darling Harbour. And as you can see, the Convention Centre there is being pulled down now and something 10 times the size is being put in, and the huge success that it has been.

It was interesting to reflect on Brisbane and how it has grown. And to reflect how the decisions, such as to develop Darling Harbour for the bicentenary, or to have Expo here in Brisbane, were so massive. That's what I want to talk about today: how cities and governments make major decisions, and whether they are the right decisions for business and the country.

I thought what I would do is go back and reflect. So, 2006 seems like a long time ago, 10 years ago, what was going on then? First of all, a few things to jog your memory: iPhones didn't exist, apps had not been invented, Barack Obama hadn't started his campaign to be the first black President of the United States, the Arab Spring was still five years away and ISIS didn't exist.

Three years earlier on the deck of the USS Abraham Lincoln, George Bush declared “mission accomplished” in Iraq. The global economy had recovered strongly from the dotcom bubble in 2000. Within a year the Australian All Ords was going to get to 6800, I won't tell you what it is today. Our biggest companies in the resources sector were battling each other out to try and take over each other before making massive acquisitions overseas in aluminium and shale gas in America.

In America, of course, subprime was not a word that we had come to curse. In the UK we had what were called self-certifying 120 per cent mortgages, which means you bought a house for 100 pounds and you borrowed 120 pounds from the bank, and you promise the bank that the salary that you put in the form was really your salary. That's how the business worked in the UK, and we wonder why we got into the strife we did. Two of the biggest banks in the UK were fighting to take over ABN AMRO, which left the successful bidder virtually bankrupt in that process. Within two years the GFC, as it has become known, became something that we are all now very aware of. Very few people and governments got it right, if you have seen the movie the *Big Short* you will realise that a few very, very lucky people did get it right, but the vast majority of governments and companies got it completely wrong in terms of where money was invested in the lead up to the GFC.

Where are we today, eight years after the GFC? There has been a massive amount of money that has been spent by central banks on trying to reflate the economy in order to get consistent growth around the world, and to get an inflation target of two per cent. You would have to say this has been done to limited success.

I think governments all around the world and central banks are really struggling to work it out. Has this been the right strategy? Trillions of dollars have been invested to deliver sustainable economic growth. I ask the question: has all this money left our cities safer, more inclusive and more sustainable? I would say that the recent enthusiasm in the US election, if you follow it, for people like Bernie Sanders or for Donald Trump, recognises that there is a whole raft of people in America, particularly young, and blue and white collar workers, that believe the economic growth and success that America has gone through has passed them by. And that is a real challenge for us, a challenge for our countries, and certainly a challenge for our cities.

So, I do not have a crystal ball, I cannot predict the next version of the GFC, but I can indicate some trends that are crucial for our cities in the future.

The first trend is mass migration. What you're seeing all around the world is that the world's populations are moving to cities. They are moving to cities because that is where the best jobs are. The bigger cities have a more diverse skill base and therefore they are better able to compete than smaller cities. People are attracted to migrate and live in these cities because of the economic wealth, but also because of the environment. The environment particularly of cities in the West is seen as attractive, and of course you will know that Europe faces huge challenges now because of migration from the Middle East and from Afghanistan. If infrastructure starts to struggle with this migration, then these cities are going to lose the quality of life that have made them so attractive.

The second trend is security. The tragic events recently in Brussels, Paris, Turkey and Pakistan remind us that the risk is now from home-grown terrorists, and the question is: how do cities respond to that? Firstly, do we turn our cities into security states? If you have visited some notable European cities recently, you will have seen how much effort has been spent to keep these cities secure, and the costs associated with this. How do we maintain the quality of our public spaces and achieve citizen confidence without turning our cities into security zones?

The third trend is our ageing population. In the Western World, China and Japan there is a huge demographic bulge that is coming through. I looked at the Australian stats and in 2050, 25 per cent of the population will be over 65. In 20 years' time there will be a million people over 80. It is not just the public health cost to consider, it is the design of our cities, accessibility, and how people will get around our cities.

The fourth trend is climate change – man-made or otherwise, it doesn't matter. Southern Africa is suffering its worst drought to-date. In the UK in 2014 we had the worst floods on record and of course this year we have had enormous floods in the north of England. Hurricane Sandy in the US in 2012 caused \$32 billion worth of damage as well as damage to key infrastructure in lower Manhattan, which was out of action for quite a long time because people hadn't thought about a storm surge. Thames Barrier was built in 1982 to prevent the North Sea flooding London. They anticipated it would be used one or two times per year, and it was for the first decade. In the last 34 years it has operated 176 times, 48 of those in the winter to stop London from flooding.



Finally, the fifth trend is technology. How will we shop? Drones for deliveries, driverless cars, computer algorithms replacing many routine white-collar jobs. Businesses like Uber and Airbnb are already challenging our traditional services-based industries. How are our cities going to cope in the coming decades with these huge changes in technology?

So that is my reflection on what has happened over the last 10 years, and what I think the trends are that we need to consider and address going forward for our cities. But now I would like to turn to my own experiences in urban regeneration.

Where was I in 2006? I had just started a job setting up a delivery authority in London for the 2012 London Olympic Games. Three years before that, I left Lend Lease as CEO after eight years. You realise after being a CEO of eight years that you become a generalist, which means you know a lot of things about many things, but nothing in great detail. So I realised that I had to go back and retrain myself. I was interested in urban regeneration and infrastructure, but what did I really know about the UK planning policy? Or for that matter, most of the UK beyond the west of London and Heathrow? Very little. Therefore, going around and contemplating solutions in the UK was a waste of time.

So I applied for, and got, the job as Chief Executive of a government agency called English Partnerships. It was the nation's national regeneration agency, it had strong planning powers to set up development corporations, and had a strong balance sheet, and it was the residuary body for the various companies that had been set up in the 1960s, 1970s and 1980s to deliver new housing for over three million people across the UK. There were 22 new town authorities across the UK and English Partnerships was the residual body for these authorities.

Over the next three years I spent my time crisscrossing England, in particular, meeting communities and community leaders and listening to them and trying to understand what challenges they were facing. In some of the cities there was just a real desperation because there was poverty and there were no obvious areas where you could see that wealth could come into the community. There were little job opportunities and poor housing availability, and with these issues come consequential social problems in cities.

I want to give one example of a city that had a different challenge, and that was coping with growth. The city is called Milton Keynes and it is a city about 50 miles north of London. It was identified in early 2000s as key to the Government's national growth strategy. A city of 250,000 people planned to grow to 500,000 people in 25 years, so doubling in size. It has strong rail connections, and strong motorway links.

The company I was in charge of, English Partnerships, was asked by the Government to set up a development cooperation to oversee this accelerated growth. As I met with community leaders and did my own research I realised that, from a planning point, yes you could fit another 250,000 people on the land around Milton Keynes – that was not the problem. The problem was there was no infrastructure plan whatsoever to match the massive acceleration that was planned for this city.

What we did, as a group of business leaders within Milton Keynes, is work together and develop a business plan. We said if the city is to grow and double in size over the next 25 years, it needs to be sustainable. We want jobs to match housing. If there are half a million people living here, we want the equivalent jobs – not that everyone in Milton Keynes would work in Milton Keynes, some would commute to other cities and to London, but you want it to be an equal growth of job opportunities. What businesses did we need to attract, what universities, what skills did the city need to have to become a viable, thriving, competitive city rather than just a dormitory suburb of London?

We then looked at the infrastructure, the transport upgrades that needed to be achieved both in heavy rail and motorway junctions, the sewage systems, we developed an entire public transport strategy. We wanted to keep the things that made Milton Keynes special, such as the fact that 25 per cent of the city was comprised of public parks. We wanted to keep the things that made the area so friendly for families, such as the segregated cycle ways. We wanted to keep the elements to the city that inspired growth.

We developed this economic plan and we developed a range of growth options, from very low growth to high growth. What we did, is we matched it then with infrastructure and investment. We put the whole scheme to the community as a referendum and the community chose the high growth option, and now Milton Keynes is a thriving city and the transport updates have been made. Major offices have moved there, including the company that I was Chief Executive of, and the National Rail Company moved its headquarters there as well.



Back to 2006 in London. London won their right to host the Olympic games, and to put East London in perspective, I honestly didn't know much about it until 2005 when I started spending time there. What struck me was the complete physical degradation of the area where the games were planned to be held. It was on the boundary of four different councils, so it was a forgotten part of London. It had been a toxic waste dump. It had been a site where the Blitz rubble had been dumped. It had been the physical dumping ground for the raw sewerage of West London.

It was a horrifying area of deprivation, but probably even more insidious was the feeling of social deprivation of the area. The average life expectancy in this area was six years less than West London. You had whole families that were workless – so three generations in the one family that didn't have a job. It was a matter of skills, and if you got any element of skill training, the first thing you did was get the hell out of that place and move to West London. It was an area that required very substantial change. The Olympic bid was really to build the venues just for the games. We ran an eight-month campaign within Government and Treasury to get the right money to invest in the infrastructure of East London and do it properly, forgetting the games and rebuilding the city of East London. This city of a million people had no department store, no major shopping centre, no pay day office buildings, therefore no major jobs in the commercial sector, no central government jobs. It was a forgotten part of England.

In March 2007, 18 months after winning the Games bid, we got the £9 billion necessary to rebuild this area of East London. Seventy-five per cent of that money went on long-term infrastructure and housing. Today, Stratford is transformed. The foundation of the urban regeneration was public transport. Nine railway lines converge in Stratford, including the new Crossrail line, which is a massive rail link going across the heart of London from one side to the other. Each train will carry 1000 people per train, and trains will run every three minutes. It is a massive people mover and it opens in two years' time.

That was the foundation for the Stratford and East London transformation, and today the Olympic-side alone has 20,000 jobs on it and 5000 homes, and only continues to grow with headquarters moving there and international museums being based out of there. The community is transformed.

Fast-forward to today, to my current role as Chair of HS2. This is a two-stage high capacity, high speed (at 400km an hour) train that runs through the heart of England. It is 500 miles long and starts at London, it goes up to connect to the West Coast near Preston, and it goes to the East Coast to York, and on the way it has stops in the heart of Birmingham, into the heart of Manchester and into the centre of Leeds. Done in two stages, Stage One is opening in 2026, which goes just north of Birmingham and Stage Two, which goes to the other two major cities. The rail connects the UK's four biggest cities with a combined population of some 15 billion people, with another 21 major cities connected indirectly through interchanges and lines onto the traffic. That is HS2 as a concept.

There was an argument put against HS2 at the start, that this is a £50 billion project; how could we possibly afford to invest in HS2 at £50 billion when there have been massive cuts in health spending, pension cuts and disability allowance cuts? Surely there are better places to spend £50 billion than on one single railway line, and doesn't this railway line only save 20 minutes on the journey to Birmingham? Surely if you just gave us decent broadband, we would be perfectly happy to sit on the train rather than spending the £50 billion. That was the case put two years ago. The Government wanted to proceed, but there was huge opposition from within the regions.

Three weeks ago the House of Commons, in the third reading – after two years of Committee proceedings on the HS2 Bill, with over 1500 people partitioning over the concerns about the Bill – we went to a vote. And 400 MPs voted for it, and 40 against it. So, 10 to one.

The argument we put is it is not about the railway line, it is not about the speed, it is about capacity. The real challenge we have in the UK is about an imbalanced economy. The easiest way I can describe that is if you look at the average cost of houses in Birmingham, Leeds and Manchester – the second, third and fourth largest cities in the UK. The average cost of housing and the average cost of office buildings in those three cities is one-third of the cost of housing and offices based in London. It is just so distorted that it's ridiculous. It would be like saying Brisbane's office space is one-third of the cost of Sydney's office space. There are only three of the FTSE 100 companies in the whole of the UK that are based in those three cities, the rest are in the South.

So you have an entirely distorted and very centralist unitary economy, a thriving city of London – world competitive in financial services, communications, fashion, you name it. And then we have a struggling North, that is underperforming, and one of the major reasons for that is that massive investment goes into the South and not in the North. I explained it to a number of politicians by showing them a chart of the path of travel patterns every day. London is a city of eight million people within the M25, but it has a metro area of another eight. There are another eight million people that live within a one-hour journey to the centre of London that can travel by regular train services into London every day. That is a catchment of 16 million people, so it has a massively diverse skill base to draw on.

North of England, if you take Birmingham, Midlands and Yorkshire, it has the same 16 million people, but there is no evidence at all of anyone commuting between those cities to work. In fact, if you look at Leeds and Manchester, they are 35 miles apart. Less than half a percentage of the population commute everyday between those cities to work. Why? Because the trains are old converted buses and there are only four of them an hour. It takes two hours to get from Birmingham to Leeds. When we finish, not only will we put a massive capacity on there, it will be the single biggest capacity increase in the UK's history.

The UK rail system is actually very strongly growing. It has had a five per cent compound growth in patronage in the UK for 20 years. It is by far the fastest growing railway system in Europe, it's much faster than the French or German systems, but it has had no new railway lines for 100 years. This is because there is always a great desire to patch and mend their existing Victorian network. This is the only way we can get 18 new train paths on high capacity trains, to really transform the way the UK operates, and to take the huge load that is now on the motorway network, which in many areas in the country is grinding to a standstill with demand.

That is HS2, we have developed a strong coalition, bipartisan support – all the major parties supported the bill for the second major vote in the Commons. We are seeing the project strongly supported by business leaders and local regions from across the North of the country. This is the biggest strategic bit of infrastructure in the UK and it will be the catalyst to transform the imbalance in the economy. It's 10 years away from HS2 opening in Birmingham, and already Birmingham is being transformed. The biggest bank, HSBC, is committed to moving its UK headquarters to Birmingham and one of the major reasons for that is HS2, which will connect them within two hours to all of

the UK. Already office building inspections are underway, and the city is being transformed in the expectation that in 10 years' time, HS2 will be coming to the city and transform journey times, not only to London, but journey times to the North as well.

The examples I have used of Milton Keynes, East London and HS2, show that the rising tide of economic wealth that comes from infrastructure properly invested can benefit, pay for and contribute to the infrastructure itself. The key in the whole of that is, firstly, to be able to set-out that everything you do will stand the test of time. It is really, really critical, and we are making some really big decisions in the next few months on the second stage of HS2 on where stations will be located. I don't want anyone to come back in 20 years' time and say, "they got it wrong", "they got the wrong stations" or "they picked the wrong city centres". You need to campaign, and you have to campaign consistently, because it will take a long time. It will be seven years from the start of the HS2 campaign to the royal ascent of this project. Maintaining that commitment requires a massive public campaign. Finally, you have to have discipline in the execution in order to maintain public trust.

So our cities face enormous challenges, as I said at the start, from changes such as: climate change, migration, security, ageing populations and technology. But never before has there been a better time for governments to borrow against infrastructure assets. Either to borrow to build them, develop them or to underwrite risk against an asset that has future value. It is never going to be like this ever again, with money printing and the cost of capital. Never before has there been such a demand from pension funds to invest in infrastructure assets, because they have to match that income against the pension liabilities. The bond and the cash market isn't much of an option nowadays to have an asset to match those liabilities. It is an enormous opportunity to look at the ways of funding it.

Most major public infrastructure will struggle to show a return on the direct basis, either on a fare box or tolls, it is just the way it is. It is very, very difficult to calculate the other benefits that comes from the investment, but the examples I have used show you that infrastructure can harness these to cover development costs. In London now, community infrastructure levies, or supplements, to local rates have been fundamental in funding a substantial part of Crossrail. They will fund an even greater part of Crossrail Two, which is the next big mass transit system in London. They are funding the 40,000 apartments that are currently being built in Battersea to fund the northern line extension. Tax incremental financing, which is a US model that has been



around for 30 or 40 years, matched by public municipal bonds, is a very valid way of bringing infrastructure investment and delivery in advance of need into communities. There is nothing wrong with that method of financing. Bring that forward.

Finally, one last thing for everyone in the room here: infrastructure and decisions like this come down to people. It is not always fair to blame governments and politicians for failing to deliver infrastructure. These are your cities and this is your country and you will be called upon to either contribute to strategy, or to second people, or just to stand up and be counted when it comes to supporting major infrastructure and investment in this country. I encourage you to do that, because future generations are going to look at our generation and say what sort of legacy did we leave them for their cities.

> INNOVATION AND THE ARTS

> 29 APRIL 2016

> SOUTH AUSTRALIA



Innovation in the arts

Rupert Myer AO

Chair, Australia Council for the Arts and
Director, Myer Foundation

Australia Council of the Arts Chair and Myer Foundation Director, Rupert Myer discusses the important role the arts sector plays in Australia's economy.

Mr Myer discusses how the “ideas boom” proposed in Prime Minister the Hon. Malcolm Turnbull's National Innovation and Science Agenda – as a counter-measure toward the declining mining boom – needs to consider the role the arts sector has to play in all innovative endeavours. He advocates the inclusion of an A for arts in the STEM abbreviation, to recognise the necessary role the arts play in every sector of the economy.

Thank you CEDA for this invitation. This is the fourth time, and the third city in which I've spoken in my role as Chair of the Australia Council at a CEDA event, and I think that is actually quite significant. There's a real interest among the broader community about what's happening in the arts sector and the cultural sector. For me, there's a slightly personal reason for being so keen to speak at CEDA events, in that one of my most influential lecturers and tutors at university was Professor John Nieuwenhuysen, who served for many years as the National Director of CEDA. And in some small way, it's a way of acknowledging that time at university.

I've been imagining how Steve Jobs might have addressed this topic, innovation and the arts. He might have chosen to share with you how he studied calligraphy at the university in Portland, Oregon after having noticed how beautifully handwritten every poster was throughout the campus. He acknowledged later in life that calligraphy taught him about typefaces, varying the amounts of space between different letter combinations, and great typography. In a recent obituary of his calligraphy teacher, Jobs is quoted as recalling about the art form that:

It was beautiful, historical, artistically subtle in ways that science can't capture, and I found it fascinating. None of this had even a hope of any practical application in my life, but 10 years later, when we were designing the first Macintosh computer, it all came back to me. It was the first computer with beautiful typography. If I had never dropped in on that single course in college, the Mac would never have had multiple typefaces, or proportionally spaced fonts.

He might also have referenced other key artistic influences in his life that contributed to products brimming with imagination, beautifully designed, elegantly packaged, and creatively marketed and made with materials, colours and operating systems all requiring invention. It's the intersection of the arts and innovation that is at the heart of the products that Jobs produced, and a key to his and to Apple's success. That intersection is the focus of these remarks.

The topic gives licence to speak about the role of the arts as both the genesis and frontier of innovation. The arts embrace broad expressions of human creative skill and imagination, practices, traditions and disciplines, typically producing work such as painting, music, literature, dance, among much else, to be appreciated primarily for their emotional power. While innovation is commonly perceived as a technology driven phenomenon, it is in fact present in all forms of human endeavour, be that in science, medicine, social development, the environment, or the arts. It's important to every sector of the economy, and every part of our social fabric. Innovation certainly leads to the creation of new products, processes and business models. Equally, innovation expands

our understanding of the human condition, furthering our insights into cultural systems and values, and understanding who we are as a people and a nation. It is a concept that, in one form or another, has endured for millennia.

Australia was a land of innovation long before the arrival of first Europeans. The way in which the first Australians adapted and re-adapted to the challenges and conditions of this continent is testament to their inventiveness. Innovation is not commonly part of the historical narrative about our Indigenous peoples, yet the evidence of their initiatives is clear. The inventiveness of the boomerang, the woomera (a spear throwing device), the yidaki (also known as the didgeridoo), are but a few of the more obvious examples.

However, it goes much further. In the 2014 book *Dark Emu* by Bruce Pascoe, one of our many great Indigenous writers, the author uses direct quotes and drawings from the diaries of early English and Scottish arrivals as evidence that Aboriginal people had a sophisticated understanding of agriculture, aquaculture, engineering and physics, as demonstrated through innovative land and water farming techniques, housing constructions, and the materials used to create effective tools and weapons. Many of these were inextricably linked to the centrality in their communities of cultural and artistic traditions.

An embodiment of this linkage between science and art is your very own son of South Australia, David Unaipon, commemorated on our \$50 note. A Ngarrindjeri man, Unaipon worked in a seamless manner across fields in philosophy, science, literature and music. His scientific work and inventions included, in 1901, an improved and patented handpiece for sheep shearing, and in 1914, he anticipated the idea of the helicopter, applying the principles of the boomerang.

In his 2014 *Quarterly* essay, *A Rightful Place*, Noel Pearson wrote that to grow socially and economically, people should hold hard to four things: identity, territorial lands, language and culture. He wrote on the importance of respecting memory, tradition, rituals and values as preconditions for change and innovation. He wrote that we risk becoming a smaller nation with a smaller sense of our own possibilities if we don't place our culture at the centre of everything we do.

This is a great time to be having a conversation about innovation. In December last year, the Prime Minister launched the National Innovation and Science Agenda. Or as he put it at the time, he ushered in the "ideas boom", arguing that with the mining boom receding, the purpose of the agenda is to help create the modern, dynamic, 21st century economy Australia needs, by providing incentives for, and rewarding, innovation, entrepreneurship and risk-taking. There is a rich conversation still to be had about the connections

between the arts and community, technology and innovation. These are the connections that are shaping the way we're now thinking about national prosperity, gross domestic product, national income and international exchange. Professor Nieuwenhuysen would be very pleased that I got all those together.

There is a growing momentum around the world to give the arts a stronger role in addressing the major global issues of our time: issues such as sustainability development, citizen engagement, identity, global recessions, digitisation, and large waves of immigration. While the spotlight on innovation is welcomed by the arts sector, we are keen to see the policy unfold to recognise the critical interface between science and the arts, linked as they are by the common threads of creativity and invention. In the arts, we are conscious of the public perception that science equals investment, and arts equals subsidy. This is a stereotyping that we are working with significant focus to disperse, both in rhetoric and in reality.

At the time of the innovation agenda launch, some members of the arts community expressed some dismay at such a detailed agenda for innovation being promoted without reference to the arts. There was some relief when, in February, the Federal Arts Minister, the Hon. Mitch Fifield responded by assuring the sector that he sees the arts as very much part of the innovation agenda, and that the agenda in its current form is the first word, not the last word, on innovation.

This sentiment has a theme that reverberates in other parts of the world. Recently, Canada's Liberal Government announced that it would invest nearly C\$1.9 billion over a five-year period in various cultural industries. Their 2016 budget reads:

Our cultural industries represent a key sector of our economy, and the intersection of art, science and technology offers infinite opportunities to innovate and problem solve. Investing in the Canadian cultural sector helps to create jobs, strengthens the economy and ensures that the unique Canadian perspective is shared with the world.

The Australian Government's innovation agenda aims to drive smart ideas that create business growth, local jobs and global success, with increasing value being placed on the development of ideas, collaborative thinking, and innovative solutions to complex problems. These are core skills honed and refined in pursuing arts subjects, as well as science subjects. Here we find the intersection of science and the arts with innovation. The agenda is framed around four key pillars: capital and culture, collaboration, government as an exemplar, and talent and skills. Put simply, that is backing our entrepreneurs, working together, leading by example, and developing talent. The arts happen to be

very good at the development and expansion of those skills for a broader application. The Australia Council has a history and tradition of investing in social entrepreneurs, through a range of funding arrangements, over many decades.

One of the most important and sustained of those in which we invest is the Synapse program, undertaken as a partnership with the Australian Network for Arts and Technology, based here in Adelaide. Synapse includes a residency program, in which artists are placed in science organisations, and collaborate with scientists for a period of time. For the past 14 years, the partnership has been a catalyst for experimentation across art, science and technology. The program is unique in offering intense periods of research and creative exchange between professionals, that can lead to the transformation of practice within both the arts and science.

Arts practitioners are also great collaborators. As many art forms, particularly the performing arts, are primarily group experiences, the arts become a prime tool for understanding, and building skills and collaboration as a generic skill applicable across any number of disciplines. Some of the most ground-breaking artistic work has resulted when artists with knowledge and expertise from distant genres and unrelated forms collide and spark new ideas.

Looking at the third pillar of the agenda, namely governments leading by example, the value of immersion in the arts across diverse portfolios of government has been proven many times over in areas of health, education, communications, defence and the environment. The arts and culture have a powerful halo effect on political exchange, projecting a country's values and beliefs. It's hardly surprising that emphasis is being placed more often on culture first, business second.

The last pillar, developing talent, places significant emphasis on the expansion of opportunities within science, technology, engineering and mathematical education, commonly referred to as the STEM subjects. There is justified concern in the secondary and tertiary education sectors that without strong STEM skills, young Australians will not be well equipped to create and utilise digital technologies, or to work across industries throughout what will inevitably be diverse careers. Women are significantly under-represented in STEM courses in schools and universities, and in the careers for which these skills are essential.

Broad advocacy has now developed to transform the STEM subjects, with the inclusion of an A for arts. This advocacy is based on the view that on their own, the isolation of STEM subjects from the arts leaves them incomplete, rendering the society in which this occurs vulnerable to unbalanced and

unsustainable progress. The focus of that transformation ought to be from STEM, not to STEAM, which is somewhat 19th century, but to TEAMS, with the arts at the centre of the conversation of technology and engineering, with maths and science. And the acronym TEAMS is a constant reminder of the benefits of cross discipline collaboration and cooperation.

As both an evolving and ancient concept, TEAMS has a range of interpretations, though its key aim is to highlight the closeness of the disciplines, through the common element of creativity. In the educational context at primary, secondary and tertiary levels, TEAMS would involve the development of inter disciplinary curricula that foster cognitive, social and emotional abilities in young people. It is very much part of the way in which the national curriculum is developing, with TEAMS at the centre of that, as a potential to make a significant difference.

The philosopher Martin Buber wrote, in his *Paths in Utopia*, that a good and great idea will rise again, when idea and fate meet in a creative hour. The spirit of the age demands that it does. However, beyond core beliefs, policy makers demand an evidence-base that confirms the value of public investment in the arts. The measurement of cultural value requires a sophisticated language and a framework that sits both alongside and apart from its instrumentalist benefits and economic contributions alone. Some of that important work is being undertaken in an Australian Research Council (ARC) funded project, Laboratory Adelaide: The Value of Culture, led by Julian Meyrick, who I believe is here today.

The role of the Australia Council for the Arts is to foster and pursue cultural ambition across the nation. Our vision for the arts has been developed through sustained dialogue with artists, and all those who present, produce and support the arts. In that context, we have framed our strategic plan, and shaped our priorities around pursuing our vision for Australia as a culturally ambitious nation. The Australia Council for the Arts is a funding body, yet distributing Commonwealth funding is by no means the only thing we do. We approach our role more broadly, as a key advocate for, and investor in, our country's artistic and cultural future.

Part of our own innovation agenda includes supporting arts organisations to respond to the dynamic economic and cultural environment, by creating new business models for their own organisations. We are just one of the many partners involved in the development of the arts sector, and in that context we actively work with other parts and other levels of government to seek and attract new investors and private sector support.

Every moment has a context, and right now that context for all of us in the arts, and in some way all of us in the country, is the sum of a number of things. An imminent Commonwealth government budget, with whatever policy and spending implications it carries for the arts, an election campaign in which the arts might have a higher profile than previously, especially here in South Australia, where there have recently been significant public gatherings and meetings, and much discussion. And thirdly, the announcement of the catalyst funding outcomes for Commonwealth Government funding, and of course next month the four-year funding outcomes for the small to medium arts sector.

And the context of these remarks, in a sense, is right here. South Australia has a long history as a state that has embraced and embodied arts innovation and cultural leadership. It was well ahead of its time in projecting the arts as a central element of its wealth as a community, and to its long term prospects. Since the publication of Richard Florida's bestselling book *The Rise of the Creative Class* more than 10 years ago, and much subsequent literature, I might add, we have become far more aware of the value of a creatively vibrant city as a desirable place to live, and to attract a high quality workforce.

The industrial transformations facing this city and state, and recent contracts announced, will be impacted by the quality of the creative life on offer. Central to success is the ability to attract and retain the human capital necessary to seize the opportunities created by an innovative economy and society. Having a strong arts sector, well-resourced arts organisations, artists across and between disciplines experimenting and testing boundaries, are now global prerequisites to secure that talent. Innovation arises from creative thinking. It advances and facilitates change. It's transformative, transcends disciplinary boundaries, changes established patterns, and can stimulate human behaviour and responses in unanticipated and unpredictable ways. Innovation is not the domain of any one discipline, but is driven from the successful interaction of many disciplines and diverse ways of thinking.

If we are to really capitalise as a nation on the ideas boom, we need to deepen and widen our concept of innovation to seek convergence between scientific, technological, artistic and societal imperatives, in pursuit of an innovation ecology that will continue to shape both our future prosperity, and our identity in a challenging and dynamic world. Whatever our endeavours – be they technological, engineering, maths or the sciences – placing arts at the centre of our innovative hubs will garner greater innovation, and lead to wealth beyond simple monetary wealth, but cultural, societal and spiritual.

If you want to lead the world in innovation, hire an artist and let them inspire your teams. If that happens to be a calligrapher, I'm pretty sure that Steve Jobs would be very pleased. Thank you.

> MAJOR ECONOMIC ADDRESS

> 17 AUGUST 2016


> VICTORIA



Major economic address

The Hon. Malcolm Turnbull

Prime Minister of Australia



This speech was Prime Minister the Hon. Malcolm Turnbull's first major address since the July 2016 Federal Election and aimed to outline the Turnbull Government's economic agenda for the next term of government.

The Prime Minister provided an important overview of the Government's budget measures, while considering the significant challenges faced from domestic and international pressures.

Ladies and gentlemen, when the Parliament returns on 30 August, it will be nearly four months, and a long Federal Election, since we last met. And now that the dust and the votes have settled, the Australian people will expect all of us – Government, opposition and crossbenches – to make the Parliament they have elected work for them.

The big economic challenges and opportunities we faced in May are still there. And central to them all is this – how do we ensure Australia remains a high-wage, first-world economy with a generous social welfare safety net? How do we ensure that we advance a fair Australia, a just society, where all share in our prosperity, at the same time as we drive strong economic growth?

Now to be fair, we must tell the truth. We know that the times in which we live are ones of economic change unprecedented in both its scale and pace. And while we recognise that these times offer extraordinary opportunities for Australians, the changes they bring with them will not always be welcome.

Yes, new jobs are being created, but old ones are being lost. New firms are being established, but some old ones are shrinking or closing. Our economy continues to grow well, by any measure, but there is hardship too. So with success and prosperity comes the responsibility to ensure the most vulnerable among us, the least advantaged in our society, are not left behind.

As Sir Robert Menzies said more than 60 years ago: “We believe in free enterprise; not enterprise free of social obligation.”

We cannot assume that the rising tide of economic growth will lift all boats, we have to make sure that it does. We don’t do this with populist politics that deny reality – hiding under the doona, hoping the real world will go away.

We have seen in our country a massive mining construction boom rise and subside. We have seen commodity prices rise over a few years to the highest in our history and then decline almost as rapidly. The world in which we live is more competitive, more connected than ever before. With half of the world’s middle-class soon to be living to our north in East Asia, the opportunities for the full range of our exports are immense – from Tasmanian wine and lobsters to higher education, from advanced manufacturing to financial services, from design to tourism.

And while mining construction has declined, we are today exporting record volumes of coal and iron ore and will soon be the world’s largest exporter of LNG.



But those opportunities – including for resource and energy exports – exist for many other nations too. In these times of challenge and opportunity, we need a clear economic plan to secure our future. We took our positive economic plan for investment, jobs and growth to the election and now, returned to Government, we will work to deliver it.

Our plan includes our National Innovation and Science Agenda, our historic investment in the defence industry, our export trade deals, a tax system that encourages investment, growth and jobs, a strategy to get the budget back into balance and guaranteed funding for Medicare, health and schools.

The composition of the new Senate is now clear and I and my ministers are engaging with all the crossbenchers with the aim of securing support for a sound and responsible policy approach that will better secure Australia's economy. This is not, and should not be about ideology. The objectives of our plan should be supported by all parties.

But the critical test is not whether you say you believe in a balanced budget, or more investment and more and better paid jobs, or whether you believe in guaranteed funding for health and education, but whether you are prepared to support the measures that will deliver those goals.

Nobody should underestimate the importance of this moment as a test of the capacity of our political system to make the right calls on the nation's behalf. An increasingly competitive global economy puts pressure on every country to be the best it can.

As the Intergenerational Report in 2015 showed only too clearly, if we had stayed on the course set by the former Labor Government we would be facing net debt of 122 per cent of GDP by 2055, or some \$5.6 trillion.

By comparison, net debt in Greece today is 176 per cent of GDP, and Italy it is at 111 per cent. It was a dreadful prospect. Now, we have significantly improved that situation already.

But the ratings agencies have, since the election, sent unambiguous signals that there is still much to be done in getting the nation's finances in order. Moody's only today has stated that any deterioration in fiscal consolidation – budget repair in other words – would put downward pressure on our AAA rating.

Now we sing Advance Australia Fair – but there is nothing more unfair than saddling our children and our grandchildren with mountains of debt that we have created because our generation could not live within its means.

If we aren't prepared to make the tough choices today – younger Australians, future generations, will be forced to pay back the debt through a combination of higher taxes and a lower quantity or diminished quality of government services. In short, through lower living standards than they would otherwise have enjoyed.

So as we work to secure the future of the next generations, we look out on a global economy perhaps more fragile than at any time since the financial crisis almost a decade ago. Growth is slowing across the international economy and uncertainty is rising. Protectionism and inward-looking policies are starting to gain a foothold.

Political divisions in advanced economies – particularly where there is high unemployment or a high risk of unemployment – are feeding on a sense of disenfranchisement among many people who feel the rapid economic changes of our time have left them behind.

Political responses to this mood of disaffection can have the potential to destabilise global growth, perhaps even reversing some of the spectacular gains that we have made over recent decades, through open markets and free trade.

The best way to foster economic inclusiveness is through participation in the labour market, via strong jobs growth. We need policy settings in place so that the private sector can flourish and generate the jobs that people value and which will provide economic security for them and their families.

To deliver this kind of inclusion, we need to make sure students receive a great education that sets them up with the skills they need. But we also need to make sure that we have the right tax and regulatory settings to ensure businesses back themselves by investing and creating jobs.

It isn't a binary choice. We need both and that is precisely what my Government's plan will deliver.

The International Monetary Fund has revised down its growth projections for both 2016 and 2017 – a pattern of downward revisions we have seen repeatedly since the Global Financial Crisis.

The IMF has made it clear that if governments want to put growth back on a stronger and more sustainable path, they need to do more to support growth in the short-term and, crucially, they must deliver on structural reforms that support a rise in living standards over the medium-term.



Now, we approach this uncertain global outlook in Australia from what is fundamentally a position of strength. We are going through a period of economic transition from a huge mining construction boom.

This transition was inevitable.

Once those gigantic mining construction projects were complete, after capital outlays running into hundreds of billions of dollars, there was inevitably going to be a downturn in business investment. This was predictable and it was predicted.

The question was whether Australia would have a hard or soft landing? Would the economy be able to adjust and adapt? Australia has answered with resilience.

Despite the greatest terms of trade shock in our history, brought about by the fall in global commodity prices, we are continuing to see strong business conditions and robust consumer confidence, with real GDP growth running at 3.1 per cent and 225,000 new jobs created in the past year.

This is a standout growth performance in a fragile global economy – stronger than any of the largest advanced economies. So we are a resourceful and resilient people; we have built a stable democracy and the world's most successful multicultural nation. We have demonstrated the skills, the enterprise and ingenuity to adapt to the global volatility of our times.

But we have to keep working hard to sustain that impressive performance. In a rapidly changing world, the keys to a successful 21st century economy are investment, technology, innovation, good infrastructure and open markets. The Coalition's economic plan will ensure that Australia is more productive, more competitive, more innovative.

Now, we know that one of the reasons growth has been more subdued has been weak investment. It stands to reason then, that the way you ensure that strong growth continues is to make sure that every lever of government economic policy is pulling in the direction of encouraging investment.

Everything our Government does is focused on powering economic growth – more investment, a strong and vibrant business sector and hence more jobs.

That's why we took to the election, and set out in our budget, business tax cuts. If you reduce the tax rate on businesses, the return on their investment increases, business will invest more, and you will get more jobs and higher wages. That is the right policy response for the conditions we face.

Chris Murphy – who led the modelling exercise for Labor’s Henry Tax Review – has said that lowering the company tax rate is the top priority for tax reform. And the International Monetary Fund (IMF) has recommended we cut the company tax rate to international levels, to make sure Australia is a competitive place to invest.

However, I want to emphasise that while we believe in lower taxes, paying them is not optional. That’s why we introduced the diverted profits tax so that firms who shift their profits overseas will have a 33 per cent increase in their tax bill. We want to reduce the tax burden for businesses that do the right thing and pay their share, and ensure there are strong penalties for those that do not.

A stronger economy – a tax system with integrity – means we can afford to support world-class education and health services, including guaranteed funding for Medicare, without weighing down our children and grandchildren with a mountain of debt.

Everything we seek to achieve, all of our hopes, hinge on strong economic growth. Economic success, remember, is all about people – their lives, their future, their security, their capacity to realise their dreams.

That is what we are working for in our Government today. Now, good budget management is a vital component of our economic plan. We set out in the May budget a carefully-considered roadmap for the responsible fiscal management that will deliver future economic security and we will proceed with our budget commitments.

In the upcoming sittings, we will introduce an Omnibus Bill that puts together all the Government’s savings measures that we understand from the election campaign the Labor Party is prepared to support.

The budget bottom line that Labor outlined during the campaign relied on over \$6 billion in Coalition savings that they have not reversed, including \$3 billion in measures that they previously opposed.

And this is after Labor’s earlier multi-billion dollar backflips – \$3.6 billion on the pension assets test and \$4.5 billion on the Schoolkids Bonus. We will work constructively with Labor and the crossbenches to pass those measures. Now I note that since the election Bill Shorten has said: “Labor is going to be constructive; we are going to be positive.”

A genuine commitment by Mr Shorten to bipartisan support for a responsible approach to the budget can help deliver positive results for the broader



Australian community. We will take him up on that. We are ready to reach across the aisle. But Labor must be prepared to bring an open mind and some fiscal rationality to any discussions, as well as a commitment to support spending reductions that they have already said they will back.

Australians will not stand for a repeat of the aftermath of the 2013 election when Labor decided, incredibly, to oppose savings measures it had itself proposed. Nor will voters tolerate a repeat of Labor's most recent exercise in fiscal cynicism, where they opposed responsible savings right up until the eve of the election, only to capitulate at the last minute in what was ultimately a futile attempt to make their numbers add up.

The time for posturing is over. The reform challenges for Australia are significant and urgent. Continued economic success requires Australians to be smart, strategic and agile so we can take full advantage of the opportunities on offer in new and expanding markets around the world, especially of course in the fastest-growing economies of Asia.

This is not a time for rigid ideology. The onus is on Labor, like everybody else, to revisit and review outdated policies that present a roadblock to reform. Importantly, as we all know, economic reform is not simply about budget repair.

Measures of Australia's multifactor productivity – which measures output across a mix of capital and labour inputs – have remained stagnant over the past decade, well below the long-term average annual growth rate of 0.8 per cent.

The productivity slowdown signals the need for a new era of microeconomic reform.

The double dissolution election was called to resolve the deadlock with the Senate over two vital pieces of legislation which restore the rule of law to the construction industry – re-establishing the Australian Building and Construction Commission and ensuring that registered organisations, unions and employer organisations, have to comply with the same standards of governance and accountability as the company directors.

These Bills will be presented to the Parliament again as soon as we return and we are seeking the support of the Senate crossbench to secure their passage.

True to our election campaign commitments, we will also be asking the Parliament to expedite the carriage of amendments to the Fair Work Act to prevent a union takeover of the Country Fire Authority in Victoria. We are

committed to protecting the independence of the 60,000 CFA volunteers who put their lives on the line defending Victorians and the property from bush fires. They are community heroes and we stand shoulder to shoulder with them.

The Coalition believes it is vital for our future economic security to make the most of the exciting opportunities for Australians to grow their businesses in the markets of the world, in particular the large economies of Asia. As one of the great trading nations, we have much more to gain from free trade.

Protectionism offers nothing but declining living standards to Australia. Regional Australia in particular has a vital vested interest in our opening more markets – indeed the agricultural export “dining boom” has offset, at least in part, the consequences of the downturn in mining construction activity in many parts of regional Australia.

The rapid growth of the Asian middle-class is the biggest economic transformation of modern times. And recognising that, we concluded five free trade agreements in the last three years – Japan, Korea, China, Singapore and of course the multilateral Trans Pacific Partnership.

These agreements give our farmers a competitive edge by removing tariffs on their produce. They provide new openings for our service industries – our architects, engineers, lawyers and planners; our tourism sector, financial services industry and aged care providers.

They give our small businesses opportunities to scale up and export – be it a Tasmanian cherry grower or a Geraldton fisherman. Securing even a tiny slice of a market in a single Chinese, Japanese or Korean city can provide a very healthy income stream well beyond what can be achieved Australia.

The Coalition continues to work hard on free trade agreements with India and Indonesia. We continue to seek to open new doors to trade and investment, because expanding exports to the large markets in our region or globally will deliver massive new opportunities for stronger economic growth and jobs here in Australia.

It is in that regard vitally important that we keep an unrelenting focus on the policies to re-energise global economic growth. We have to work even harder to maintain the momentum behind open markets and free trade, which is why we will press hard for ratification and implementation of the Trans Pacific Partnership of 12 of the world’s leading trading nations.



Britain's vote to leave the European Union creates the need for Australia to renegotiate important trade deals with the United Kingdom. Following my discussion with the new British Prime Minister, Theresa May, our respective Trade Ministers have begun exploring avenues and arrangements to increase trade and investment in preparation for Britain's exit from the EU some years hence.

To extend our success as an advanced 21st century economy, we also need to leverage technology to encourage the growth of new business, and to ensure our traditional industries stay at the cutting-edge of technology.

PricewaterhouseCoopers has estimated this has the potential to add around \$1300 per person to Australia's GDP in 2024, and as much as \$4300 per person by 2034 – as well as creating more than 540,000 new jobs.

In every element of our national life, every part of our business life, every part of my Government's work, innovation will be a vital driver of growth. The economies, the businesses, the nations, that succeed in the 21st century are those that move fast, that are innovative, that are adaptive, that are agile.

In December last year, we launched our \$1.1 billion National Innovation and Science Agenda to bring more Australian ideas to market, incentivise entrepreneurs and invest more in education and research. Our plan makes it easier for start-ups and innovative small business to access early stage capital and to take great ideas to market.

Key to this agenda will be ensuring our children get the education they need in science, technology, engineering and maths, the skill sets that drive advanced industries and the applications and the skills on which they depend – including machine languages, coding.

Innovation must be an economy-wide story; it's not just about start-ups; it's about all firms and industries using technology to improve productivity and competitiveness.

Australia's farmers are among our most innovative using precision technology that provides for better water use, extends growing seasons, and increases crop yield. Our resources sector is anything but "old economy" – remote controlled trains and trucks are just one of the reasons mining recorded a 22 per cent increase in labour productivity last year and a five per cent increase in multifactor productivity.

The Coalition's Defence White Paper invests \$195 billion into defence capability over 10 years, which includes a \$1.6 billion investment to specifically support local advanced manufacturing and high technology jobs in innovative industries.

The Defence White Paper is a plan for ensuring our defence forces have the capabilities they need to keep us safe in the 21st century. But it will also serve to ensure that as far as possible, every dollar that can be spent in Australia, in our own advanced manufacturing, innovation and technology, will be spent here.

Through this plan, we will make Australia more secure, not just in terms of military capability but by building up the technology and industry base that will help deliver a stronger 21st century economy.

If we see this plan through over the next three years, I believe Australians will have every reason to approach the decades ahead as they do today – confident, outward-looking, secure and self-assured. If, on the other hand, we falter in our plan to transition the economy, there is a real risk of Australia falling off the back of the pack of leading economies.

We must meet the challenge of getting our budget under control, bringing down debt and deficits – and ensuring we have the productivity-boosting policies in skills, trade and the workplace that will drive investment and jobs.

This policy prescription is a considered, pragmatic response by my Government to the challenges we face if Australians are to enjoy continued economic success. It should not be as controversial as it is sometimes represented to be.

Is anybody really asserting that a focus on innovation is bad for the economy? That opening up trade opportunities in the wider world is not in Australia's interests? Or, alternatively, that making our industry less open to competition will somehow provide Australians with a magic recipe for economic security? Of course not.

This is no time to pretend, as Labor does, that the good times will just keep on rolling no matter how much you tax, how much you borrow, how much you spend. That is simply not how it works in the economy of the 21st century.

Yes, it will be tempting for some to exploit people's fears and insecurities about the rapid pace of change in our world. But none of the regressive anti-business, anti-growth agenda we have heard from Labor does anything to address the real challenges facing the Australian economy.

It is vital that all of our political leaders see the world as it is, not how they might like it to be, or how they fondly imagine it might once have been. Unless we embrace the volatility of a more competitive and interconnected world, we face the risk of economic stagnation that means less investment and less jobs.



And unless we deal sensibly with the challenge of living within our means, Australians, and our children and grandchildren, will be facing a future of higher taxes, higher public debt and, ultimately, a reduction in the quality of services our society wants and expects.

These questions are fundamental to the future living standards of all Australians. And those who will be hit hardest if we do not sustain a strong economy and the strong revenues that flow from it will be those who are the most disadvantaged, the most reliant on government services, the most vulnerable.

So we will work constructively, cooperatively and creatively with the new Parliament – both the Opposition and the crossbench in both the House and Senate – as well as with state and territory governments.

This is my commitment. But I will be asking for a commitment in return.

I will be asking the Parliament to face up to the fact that Australia's future is and can only be one of confident engagement in the global economy. As a nation, that will mean we need to be at our innovative and competitive best if we are to secure the successful and prosperous future all of us want for ourselves and our families.

> INNOVATION IN OIL AND GAS

> 8 SEPTEMBER 2016

> WESTERN AUSTRALIA



Innovation in oil and gas

Mary Hackett

Regional Director, Australia, GE Oil & Gas



GE Oil & Gas Regional Director of Australia, Mary Hackett looks at what factors are needed to create innovation and whether Western Australia, and Australia more broadly, can be a world-leading innovator in the resources industries.

She discusses industry collaboration and community as vital components to the recipe for innovation, further stating that when this combines with adversity and a compelling vision you have a formula for success.

The question in front of us today is: can WA be an innovator? Can Australia lead the world in technology? Can it inject something special into the globe in terms of its current position? Can we grow dramatically from here?

Let's look at what's possible elsewhere. Let's have a look at Israel. Israel isn't blessed with resources. It's in a little bit of a tight spot geographically, in a war torn region, and yet it is emerging as a technology leader in the world. Per capita, Israel has the largest number of start-up companies in the world. It's got more NASDAQ-listed companies than any other country outside the US and China. And it has the third highest rate of entrepreneurship. That's unreal isn't it? Looking at a country like this, which starts with very little and complete adversity, you wonder how that happens. I think it happens *because* of adversity. It happens from that desperation point. It happens because of community, and that's what I'd like to talk about today: the combination of adversity, a compelling vision, and community.

How do you build a community? Can Australia do it? Is Australia in a place where it could create something so dramatic and something as globally recognised? Well, we've got a little bit of form. If we look back to our origins, Paddy Hannan – and I'm not being biased here by putting the Paddys into this mix, they were fairly considerable in the foundation of WA. So back to Hannan, the gold prospector whose discovery in 1893 near Kalgoorlie in Western Australia set off a major gold rush in the area. Can you imagine what it was like for these early settlers and gold prospectors, given where these people came from? With clothes that were totally unsuited to the climate – an alien climate in terms of what they were used to – and yet they endured, they looked for different ways, and they created what ultimately became the Kalgoorlie Project.

Then add Irish engineer Charles Yelverton O'Connor – or C.Y. O'Connor as he is better known. Add him to your community and that power of innovation. You get what we now know as the Goldfields Pipeline – still the world's longest water main, which carries water between Perth and Kalgoorlie. And C.Y. worked on an empirical basis, and this entire water line is built on formulaic data. Nobody knew whether it would work or not, but the community was with them, up to a point, and sadly there is a tragic ending around it and you can see what happens when community lets you down.¹ But generally, John Forrest (the first Premier of WA) got behind them, he had the leadership. So there was desperation, there was a vision, and there was true community – that feeling of getting together and being a community.



So, I just think this whole concept of competition is overplayed. Humans have survived because of competition; yes, it is survival of the fittest. But has humanity prevailed because of competition? I don't think so. It's prevailed and it's excelled because of language groups, because of joining together, and because of creating combined outcomes. Again, I think it just underpins everything we've got to think about.

And there's a little example from nature that I'd like to use. There's a phenomenon in nature called murmuration; it's a collective behaviour of birds where they move together *en masse*. It's a big show at mass scale, an event to repel a competitor, or as a food gathering type exercise. It's just amazing. But the nice thing about this is, first up, it's predator avoidance, but secondly, it's a small community working together.

They create a short term goal and then the group works on a long term vision. So the whole aspect comes together from a strong vision that is based on the groups working together. Now the really important part is every bird has a role to play, and that's my message today. Every bird has to be in this, because you can imagine if they're not, it's going to turn ugly pretty quickly. But this is what I think we can draw on: every bird must flock together.

Now let's look at WA. So far we know we need desperation, we know we need a compelling vision, and we know we need community. So in WA, just looking at oil and gas and talking liquefied natural gas (LNG), we've got 800 million tonnes per annum supply base. Will those trains continue to operate into the future? Will we be able to have a productivity level in Australia that makes our product saleable into the future? That's our question; that's our burning platform. Are we at a point where we're going to see LNG trains shutting down because we can't get the unit cost down to a level that works for us? Are we going to see mines shut down and, tragically, are we going to see ourselves import LNG? Are we going to see an LNG ship sail into Sydney harbour delivering imported gas? What a tragedy. What an absolute loss, for a country that is rich in gas reserves. But unless we create something different, that's a very real threat and a very real problem that we could be facing.

From a resource perspective, we've got a highly skilled workforce. We've got our burning platform, and we've got a vision that we can grow not only in WA, but we also can excel and we can export to the world. We can give the world something very special based on current technology and based on the people that we have. So that's what I think we can do. We've got to find a way to tune ourselves into creating that.

I'll give an example here of GE and what the company does in terms of technology, but my example also has a community thread to it. GE has 400

factories worldwide, 50,000 engineers, and the emergence now of our smart factories – what we call The Brilliant Factory – which is about creating a visualisation of your stream. It gives you a 3D model built from sensors, which tells you where you are at every point of the production process or your manufacturing process. It allows you to look into every single part and tells you how to remove constraints from people's day-to-day work to deliver the outcomes and, ultimately, the dreams that you're aiming for.

It gives you a lifecycle of the product as you build it; you've got a full 3D digital twin. We call it digital twinning. So you've got a twin for life that will tell you your history and, based on current performance, what your predicted future will be for either the product or for your manufacturing stream. Now, I don't tell you this because I want to show off GE's capabilities. Well, I do a little bit. But I show it more because it isn't about the technology in and of itself. It just doesn't sit there and happen. It's incredibly hard, and you'll find one factory does it so much better than another factory. Is our industry bonded, or collaborative enough to know how vast the differences are between factories? Does our industry understand the outcomes from what a brilliant factory can bring? Are our industry's problems on the ground being answered every day?

GE is lucky to have a strong history of lean manufacturing, six sigma – it's not the process, but people's mindsets that allows problems to be solved. I've got people around me who want to solve our problems and challenges. So that's kind of an inside insight on our digital process, which is always, always underpinned by this power of community and the power to say, as a group, that every bird has to play its part in the flock. Because as soon as you get one bird out of tune, your system starts to fray at the edges and you start to get problems. So, the question is, how do you build up that essence internally to get really, really powerful outcomes?

The other part is: how do we look out toward our community? We've got to look to our community and what's happening in our oil and gas community now. And there are some amazing things happening. There are a lot of conversations on foreign fatigue, and the fact there are so many networking groups. But there have to be lots of groups. You have to start creating bonded communities. It takes time and it's hard work. If I can talk a bit about the coal seam gas (CSG) story over in Queensland, it didn't start off so well. They had three pipelines, three plants and they weren't, you would say, cohesive about it. But it's been repaired. We're seeing the operators come together, they're getting common inductions, common driving processes, common safety forums. It's small fry and it sounds small. But it's big, it's hard. All of this stuff is really, really difficult.



Similarly, Symphony here on the West Coast is sharing meteorological data, which they've never done before. But this is the start of something that can be really great. Then we introduced the Contractors' Forum and this is the broader community and this was about bringing that whole piece together and having the supply chain talk to the delivery chain. And it's hard, it is really difficult, but we are drawing it together. And then National Energy Resources Australia (NERA). Of course it's the ring that binds it all. And at Energy Industry Collaboration Group (EICG), we talk about whether we can get our learnings into our schools, into our technical training, and our vocational training. Can we deal with universities? Can we then create a strong robust workforce as a complete community?

Standardisation is a big one in terms of how we can stop reinventing the wheel every time we go to build a plant. GE has subsea equipment and when I started on the workshop tour, there were actually three different sets of trees from three different customers. And they are all a very, very different colour of yellow. And I said, "Gee they are quite different aren't they?" and then he said, "Yeah, we've got a hundred and twenty shades of yellow for subsea trees". And that epitomises to me how broken and fractured we can become as an industry.

If you can go beyond self-interest and raise to national-interest, that is a massive jump and it is not that easy. It's every conversation, every group we get together, there's always some competitive edge; there's some reason for separating out and going quiet. But we know at the heart of all this that if we don't keep that conversation going and work it really hard, then we'll end up just doing what we've always done. We'll end up nickel-and-diming an industry that could be amazing, and we will stunt its growth; we will not allow WA or Australia to grow.

I ask the question: what do we want for the future? Do we want to see that we've got gas reserves that we never, ever use and we're importing LNG? Or do we want to grow and expand? And not only export our commodity but export our capability, and export the intelligence of a remarkable, remarkable industry that's here in Australia.

Endnote

¹ Charles Yelverton O'Connor faced intense public criticism over claims of corruption, which ended in his untimely death. A subsequent Government inquiry found no basis for the claims against O'Connor.

> STATE OF THE NATION

> 11 OCTOBER 2016

> CANBERRA



State of the Nation address

The Hon. Bill Shorten

Federal Leader of the Opposition and
Shadow Minister for Indigenous Affairs and
Aboriginal and Torres Strait Islanders

As part of CEDA's annual State of the Nation conference at Parliament House in Canberra, Federal Leader of the Opposition the Hon. Bill Shorten explored a significant topic dominating international and domestic discussion: how do we make change work in the interests of middle- and working-class people?

In considering this question, he outlined the Opposition's aspirations in regards to: overcoming increasing automation of jobs, the need for more full-time job-creation, bringing household ownership into everyday Australians' reach again, and embracing diversity.

His speech came several months after the Brexit result and a month before the US Federal Election.

Good morning everyone and thank you for that introduction. I acknowledge the traditional owners of the land upon which we meet, and I pay my respects to elders both past and present. Welcome back to parliament and thank you for having me back to your breakfast.

CEDA has a long and proud tradition of taking the long-term view and of bringing intellectual rigour to the big questions. And at this conference you're turning your focus to the future of our rapidly-changing economy. We live in a time, in a moment, when many of our fellow Australians feel forgotten by change, unrepresented in decision-making. Many look upon the chambers on either side of this hall less as an arena where we compete for their interests, and more as a hothouse where nothing grows.

This is by no means a uniquely Australian phenomenon. Last month I visited Canada and the US. I met with leaders of the centre-left parties from Europe and North America. Two topics dominated the formal presentations and the informal discussions on the margins of the conference. The first, was: How do we make change work in the interests of middle- and working-class people? It was a little bit of an eye-opener for me, talking to the Prime Minister of Sweden or Vice-Chancellor of Germany or leaders in France or Canada and the US. And whilst we may care to believe our debates in the south may be different to those in the north, there are more similarities in our political debates than perhaps we would first assume.

This question of how we best represent the interests of a squeezed middle-class – a middle-class feeling under pressure, and of a working class not quite sure how they can better themselves and their children's lives – this is indeed a big topic in first-world nations.

And there was a second major issue which was discussed, perhaps a little more informally: the prospect of President Donald Trump. A campaign that began as a de facto reality TV show, grew into a circus and has now gone beyond farce. Thankfully, with every passing day, with every ridiculous and disgusting remark that is uncovered, the possibility of a Trump Administration fades.

By his own words and his own actions, he has confirmed the worst fears of millions in the US and beyond its borders – that he is entirely unsuitable to be leader of the free world. What happens in the US is ultimately a matter for Americans, but what happens in the US ultimately affects many of us.

Trump, like some of the extremists in Europe, like extremists from every point on the political compass – left and right, draws his power from the people who have felt the rough edges of globalisation and economic change. Workers

who've been outsourced, downsized, rationalised. Families feeling the pinch of flat wages, widening inequality, falling living standards. Marginalised, alienated groups being told that migrants, minorities and big government are to blame.

That's the low road of change – lashing out, scapegoating. The myth that a strong man or woman has the simple solutions. We need to take the other path, the high road. There are solutions to change – skilling our people, investing in education, addressing inequality, promoting inclusion, demanding the equal treatment of women in our society.

Today is the United Nations Day of the Girl Child. But why is it that little girls, even in Australia, have less chance than little boys? This message of sustainable growth through addressing inequality was one which I heard from the remarkable and charismatic Prime Minister of Canada, Justin Trudeau, from the amazing London Mayor, Sadiq Khan from the impressive Mayor of New York, Bill de Blasio.

But they also emphasised our citizens cannot be discarded and left behind. It is not enough to simply promote change, without explaining to our fellow citizens where they fit in. We need to win the argument; we need to overcome the false choices and simple solutions – the proposition that the only way we deal with change is there are winners and losers, us versus them.

We must recognise the mantras of “innovation” and “disruption” can be a confronting message for Australians in insecure work. We need to understand that when a lot of Australians hear the word automation, they think redundancy. That when many Australians hear the call for flexibility, they believe our system is good at flexibility for employers, but not so good at flexibility for employees. That many Australians know the calls for a low-wage, easy-to-hire, easy-to-fire, deregulated labour market do not and will not deliver hundreds of thousands of new, quality permanent jobs.

And as analysis from CEDA and others has made clear, the march of technology in our workplace is unstoppable and it is unsentimental. It's our job, as policy-makers, as leaders of the Australian community, to harness change and make it work for our people's benefit. Making change work in favour of the 45 per cent of Australia's current manufacturing workforce who have no post-secondary skills.

People who came to this country off the boats and into the factories, who gave their all, physically and emotionally, for 20 and 40 years, should not be told there is nothing for them any more except the disability pension. These are the people that will be stranded by innovation and change unless we help them re-train and re-skill.

The last Ford Falcon has rolled off the line. It's worth looking at how the Mitsubishi workforce fared two years after their plant closed. We always hear that Australia shouldn't be in the business of making cars – but what about the people who make the cars and the auto-component companies? We can't treat change as a postcard as we move on to our next adventure, leaving people behind. One third of the workers are back in full time employment. One third are unemployed or out of the workforce. And one third are under-employed – working casually or in jobs where they can't get enough hours.

When you hear those statistics, we cannot be surprised if more extreme politics and more extreme politicians get the ear of people. If that experience is repeated across our community, for all those who are displaced by technological change in the years ahead, there will be a massive waste of our fellow Australians' potential.

We need a targeted growth plan that includes these Australians, that values their contribution. And we should not imagine that advanced manufacturing is somehow remote from the world of innovation. Australia's manufacturing sector is the largest investor in research and development as a share of sector GDP. Investing almost five per cent back into innovation compared to an average of just one per cent across the economy. Government needs to match that energy and focus of innovation on renewing the skills and capacities of our workforce.

In arguing to look after people in the process of change, I'm not putting forward a hypothesis to say we need to put up the tariff wall or defloat the dollar. Nostalgia is no kind of economic strategy. After all, in the lost "golden age" of 40 and 50 years ago:

- Living standards were far lower;
- Exporters that could have flourished, suffocated;
- Less than three in 10 Australians finished high school;
- University was a privilege reserved for the few; and
- The number one cause of personal bankruptcy was medical expenses.

It's not just dishonest to suggest we can turn back the hands of the economic clock, it's wrong to think we would want to. We must be careful of political parties and leaders who are combining the rose-tinted view of how it used to be with a dark shadow of "who is to blame?", seeking the dividends of fear.

The call we can just turn back the clock, that there is someone else to blame for our problems, is a challenge we have to address. For many working

people in Western democracies around the world, the vanished past is a more attractive prospect than the uncertain future. And for as long as people feel that their representatives are talking at them – or over them – we will continue to lose ground to people who rail against “the system” from the outside. The defining argument of the decade ahead depends on making the case for a modern, growing, fair and inclusive economy.

Mindlessly preaching “excitement”, or accusing people of “hiding under the doona” won’t do the job. The proof of the benefits we offer has to be practical, tangible, real: deeds, not words. We need to demonstrate our parliament can deliver a genuine improvement in the lives and living standards of the people we serve.

Australia has achieved a full quarter-century of economic growth, but inequality is at a 75 year high. Unemployment has a five in front of it, but we are on our way to being a part-time nation. Between 2001 and 2006, 60 per cent of the jobs created were full time. Between 2011 and 2016 that fell to 38 per cent. In the last year, only one in every 10 jobs created were full-time. In July, the number of full-time jobs as a share of all jobs in the economy hit the lowest ever level on record.

There are fewer Australians working full time today than during the GFC or the recession of 1991. And while there has been a three per cent increase in the male, working-age population, there has only been a one per cent increase in men working full time. The underemployment rate for women aged 35 to 44 is more than double the rate for men the same age. There’s nothing wrong with part time work, if that’s what you choose – but a lot of Australians aren’t getting a choice.

The Liberals keep trying to spruik “jobs and growth”, as if repetition will get the results – but the growth is narrow and the jobs are part time. People in work are seeing their wages grow at the slowest rate on record, opening up a widening gap between pay packets and the price of life’s essentials.

Our national bargaining structure is stuck in neutral. There is now almost a premium for employers not to bargain, because if they bargain in some cases they are in danger of putting themselves at a disadvantage compared to those who treat employee wages as a cost, and nothing more. Instead of using enterprise bargaining to drive productivity, many employers are merely seeking to freeze pay, or cut it. Meaning Australians take less home at the end of the day.

Real wage rises don’t just measure the health of our economy – they drive it. Consumption is half of Australia’s GDP and it is driven in large part by the 60 per cent of households who spend as much or more as they earn each week.

If working- and middle-class families see their wages stagnate – or worse, cut by the abolition of penalty rates – then demand will suffer.

Retail trade is already lacklustre, in the last quarter, household consumption grew at its slowest rate in more than three years. In order to restore sustainable economic growth, we need to build trust in an economy that delivers for working and middle class people. This means:

- Reforms that boost productivity growth – because you can't generate real income and wage gains without a stronger economy, regardless of distribution. Boosting productivity isn't just interfering with CFA negotiations in Victoria, it's a plan for workplace relations across the nation.
- Tackling inequality – it isn't just about social justice, it is an economic tool. Because hollowing out the middle-class, undermining reward for effort, only weakens demand and holds back growth.
- Ensuring everyone who wants a job can find one – this is not only central to boosting living standards, but critical to maintaining and upgrading the skills of our workforce.

This is about tackling inequality, promoting fairness – but also offering reward for effort, encouraging aspiration.

Aspiration is a word I want to reclaim for the Labor side of politics. Because aspiration is owning your first home – not negatively gearing your fifth. Aspiration is knowing you can look after your children when they are sick – and afford the medicine to help them get better. Aspiration is a student becoming the first in her family to go to university. Aspiration is a young Aboriginal man in a Ranger's uniform, applying his knowledge to care for our natural wonders. Aspiration is a mature-age worker in their 50s, learning new skills for a new job. Aspiration is a superannuation system providing security in retirement for all – not acting as a tax haven for a fortunate few. Aspiration is a devoted couple, doting parents, who deserve the right to get married.

Labor is at its best when we speak for, and serve, these aspirations. We are more than a helping hand for the people who've fallen off the pace. We are the party of fair reward for hard work, of opportunities earned by effort and on merit – not on postcode, gender or ethnicity.

This is why I am determined to put the great Australian aspiration – home ownership – back in reach of ordinary working people. Today, home ownership has fallen to its lowest-ever level among middle- and low-income families. This time next year, homeowners will be in the minority, with more than 50 per cent of people renting because they cannot afford to get into the market. This issue cuts across generations as well as income levels.

In 1990 – before Australia's last recession – a typical home in Sydney cost five times a young person's average income. Saving for the 20 per cent deposit took about three years. It seems incomprehensible. Today, the same home costs 15 times a young person's average income. And saving up a 20 per cent deposit takes nearly 10 years, and their parents. Are we honestly a nation which thinks a tax break for property investors and speculators is more important than helping young families buy their first home?

The secret to success in this country is a large growing middle-class, with more opportunity for those who are less well-off to join it. This is how we restore the equilibrium to our political process. When it's getting harder and harder for Australians to support their family, to pay the bills, to start a business, to put a roof over their head, or save for their retirement, the last thing they need is a lecture from a well-off leader about "living within their means".

If you live in a regional town and are struggling to find a job – and you hear reports of 457 visas being corrupted and rorted, workers being brought in and exploited – it's tough to believe that an open labour market is working for you. When a much-vaunted trade deal doesn't deliver local jobs that were promised, it's hard to have faith that free trade is living up to its part of the bargain.

When interest rates are at historic lows – but credit card rates are at astronomical highs; when thriving small businesses with great ideas are denied access to the capital they need to grow; when, weekly, we hear stories of Australians being ripped off by banks and financial services, but the big four banks post a combined \$31 billion profit; it's hard to accept that the price of strong banks is a failure of ethical standards.

Of course, the Liberals reject these grievances, outright. But in the Labor party, we want to address them, to solve problems, to build a system that works for everyone. I want to make our citizens partners in our politics, not strangers at the door.

If you want banks to be strong and profitable, but also want them to be better – this is why we need the scrutiny of a Royal Commission. If you genuinely support an international labour market – you want the best possible standards, safeguards and controls. Protecting foreign workers from exploitation and upholding local jobs, and apprentices get a start. And if you truly believe in free trade – you know the playing field has to be fair, so all benefit.

Our broader transition to advanced manufacturing depends on embracing new markets and making new investments in return. It is the job of good government to guard against this, to stand up for the jobs, conditions and opportunities of its citizens. A rising tide just can't afford to lift the yachts – it must lift all the boats. It's not enough to merely shrug our shoulders and say:

“The strong do what they can, while the weak – that’s just life.”

Half a century ago, the Labor party believed the best way to grow the economy was to row every oar. Now we know it is our job to steer, to help Australians navigate their futures. But that doesn’t change the basic obligation of a good government.

When we can make a difference, when we can set an example, when we can invest in people’s capacity to succeed, when we can encourage investment, when we can create conditions for a market to thrive – we should. We absolutely should. Take public infrastructure. With the decline in mining-capital expenditure, public infrastructure can be the missing link in our growth story.

We know of the China story, the innovation story, the skills story, the fairness story and with that, there has to be an infrastructure story. Creating good blue-collar jobs in the immediate term – fuelling big contractors and small-businesses, boosting the productivity and liveability of our cities and regions in the long term. From better ports, to road and rail – there is a national to-do list of value-for-money projects ready to go.

And I want government to be a force for good here, an enabler, opening the way for private investors – particularly from our \$2.5 trillion national savings pool. Encouraging a Reserve Bank-model of decision-making, taking away the short-term politics to provide the stability and confidence needed for private investment in infrastructure.

And any conversation about infrastructure needs to include a discussion about our large-scale, long-term energy generation needs. Around our country, there are extremely old, highly polluting electricity plants. As we transition away from our excessive reliance coal power and broaden the mix toward renewables, we need to offer investor certainty in this space too. And we need to offer certainty for the workers and communities affected by this change – making the move to renewables fair for everyone.

That’s why the recent flurry of government comment from the Prime Minister and the rest of the chorus line, seeking to blame wind turbines for South Australia’s one-in-50-year storm while locals were still mopping up the damage, was so unhelpful. I understand we need energy security and a national energy grid – but we need to understand renewable energy is the way going forward.

Creating investment-uncertainty by waging ideological campaigns against renewable energy undermines the market for investment. We are the sunniest continent on earth – and one of the windiest places in the world. And thanks to the work of the CSIRO and our universities, Australia leads the world in

developing the technologies that can turn these resources into clean, safe and reliable energy

If we are strategic, if we are smart – renewable energy can power a whole new wave of jobs, investment and energy for Australia. This is a conference that doesn't just assess the State of the Nation – it looks to its future. The future I see, the future Labor believes in, is an Australia where your postcode doesn't pre-determine your destiny. We repudiate the false binaries of the short-term because we know Australia doesn't have to choose between:

- Growth or fairness;
- Between profitable enterprises or well-paid workers;
- Between jobs or the environment; and
- Between strong banks or ethical ones.

Our economic plan prioritises education – the great equaliser – ensuring every Australian can fulfil their potential. And it is built on family values, because we don't want middle- and working-class Australians to constantly trade off family for work.

I believe that Australian families come in all shapes and sizes – not just the nuclear family: sole-parent families, blended families, gay families. We need to be a nation that embraces diversity, not just tolerates it. You tolerate a traffic jam, you tolerate Brussels sprouts, we embrace diversity. We also need to recognise today's immigrants and refugees are tomorrow's business leaders, community leaders, doctors, teachers and nurses. We know embracing diversity is smart because it makes us a greater nation. We understand seeking a more-even economic playing field for all, helps us all to succeed. And we know retreating to isolationism doesn't stop crises any more than ignoring climate change prevents its consequences.

But – to return to where I began – achieving this model of inclusive growth, tackling the discontent of our democracy, depends above all on our citizens feeling a sense of partnership in our politics. Demonstrating to Australians that the decisions we make here are not removed from their daily lives. Proving we are planning for their jobs, their futures – not our own. Showing it is still possible for our democracy to serve the common good and reward the common efforts of our people.

This is the key to making economic change work for all, to building a stronger future of aspiration and fair reward. That's where to next for Labor, that's the ground we want to occupy. This is our focus, for the year ahead.

> WOMEN IN LEADERSHIP

> 12 OCTOBER 2016

> VICTORIA



Keynote address: Women in Leadership

Kate Jenkins

Sex Discrimination Commissioner,
Australian Human Rights Commission



In this speech, Sex Discrimination Commissioner Kate Jenkins outlines her key priorities: preventing violence against women, advancing economic security for women and increasing diversity in decision-making.

Focusing primarily on the various points of the financial equation that direct women towards less money over the course of their lifetimes, Commissioner Jenkins shares the insights arising from her engagement with women across Australia.

Thank you very much. I'll start by acknowledging the traditional owners of the land on which we meet, the Wurundjeri people, and pay my respects to their elders past and present. I pay my respects in particular to the women elders of the Aboriginal community. As Sex Discrimination Commissioner I've met some amazing people. The women in the Aboriginal community have taught me many things and have changed my view on the world, on leadership and on influencing change.

I'm very excited to be talking to you. When I started my term as Sex Discrimination Commissioner almost exactly six months ago, I identified three priority areas where Australia seriously lagged in its pursuit of gender equality:

1. **Preventing violence against women:** When I talk about violence I'm not just talking about family violence. I'm talking about sexual assault, online abuse, sexual harassment in the workplace, and the high prevalence of violence against women with disabilities, particularly in residential care settings. There are multiple places where women in particular experience high rates of violence.
2. **Advancing economic security for women:** I will come back into this topic a little bit more, but in essence women retire with half the savings of men and are two and a half times as likely to live in poverty in their old age compared to men.
3. **Women in leadership:** Like (CEDA CEO) Professor the Hon. Stephen Martin's comments earlier today, when I talk about women in leadership, I'm really talking about diversity in decision-making. The system has delivered the same sorts of leaders – leaders who don't reflect the full diversity of our community, including multicultural backgrounds.

Despite being a lawyer, I started my role with a strong view that we can no longer assume that the law and generational change will deliver equality. Early feminist activists in the 1980s believed that new laws and generational change would give rise to equality. But, when we look at the statistics, we see that in some areas Australia is still performing poorly.

We haven't achieved the equality that we expected, and that is because we have deeply embedded systemic and attitudinal barriers to advancing women.

After more than 30 years of the *Sex Discrimination Act*, we need more than formal equality or equity, we need substantive equality. This is my task as Sex Discrimination Commissioner.

Substantive equality

Substantive equality means that we not only want equal opportunity for women, but also equal results for women. When we develop policies, programs and initiatives that aim to advance women or equality on their face, we need to ensure that they have that impact when they're implemented. What substantive equality means in practice is that sometimes we have to take steps to rectify current inequalities – temporary special measures.

I want to move away from a purely legal framework to consider the current thinking in Australia on what might be the best way to get us moving forward.

If you're in this room, then you are probably interested in learning about best practice. Like me, you are probably a little impatient that we're still having this discussion and still hearing terrible statistics.

The framework developed by Our Watch, Australia's National Research Organisation for Women's Safety (ANROWS) and VicHealth – *Change the Story* – provides the newest thinking on how we might achieve gender equality, based on public policy thinking, a strong evidence base and public health practices. It draws on Australia's good record of success on behavioural change programs over time – such as seat belts, sunscreen and smoking.

We've changed attitudes and we've changed systems. And we've done this using multiple approaches; there is no one solution.

When you read the *Change the Story* framework, it will be like a light bulb: you'll suddenly see where your programs fit. It advocates that you need to promote gender equality in environments where people live, work, socialise, learn and play. You don't just target one area. When it comes to a community-wide problem, you must look for settings where you can intervene to have the highest impact. It is also a framework that recognises that you need to put in some intensity of effort, particularly for groups that are experiencing multiple types of disadvantage.

Intersectionality

The second thing I want you to leave with is an understanding of the word "intersectionality".

This word captures the idea that people live diverse lives and have a range of different life experiences. We often talk about creating women's programs or a program for Aboriginal and Torres Strait Islander people, as though you've got to choose one. But the reality is the mainstreaming of programs means that a

lot of people don't access the benefits of programs because their experience doesn't match a one-dimensional mainstream experience.

First six months

So what have I done? Since becoming Sex Discrimination my goal has been to better understand three potential settings for change: workplaces, sport and education.

It has been a busy six months and people have been very generous with their time, ideas and experiences. I've worked with both men and women, to help advance equality in work-places. I'm leading a survey that's underway right now looking at the experiences of sexual assault and sexual harassment in university settings. I'm working with the defence force and with police and emergency services to advance equality in those contexts. I'm involved with Play By The Rules, which is a grassroots sports organisation, and also talking to different sporting codes about issues that they're dealing with.

So there's a whole lot of activity underway, but more importantly, I've spent the first six months going around the country and talking to as many different people as I can, with a particular eye on talking to people with different experiences: women in remote, rural and regional areas; women with disabilities; Aboriginal women; women whose first language is not English; LGBTIQ people; young women; and older women.

Economic security for women

While I could speak at length about the stories that I've heard, given that this is the Committee for Economic Development of Australia, I thought I would focus on my second priority: economic security for women.

My conversations around Australia have made me view this issue in a completely different way. In particular, I've heard a lot of women's life experiences and how economic insecurity accumulates over time. I was told by an older woman in Tasmania, "I'm still working now because when I got to the age I thought I would retire I discovered I didn't have enough money and it was too late for me to fix it. So I've just had to keep working."

Much mainstream dialogue is about women's choice: their choice of profession, choice to have children, choice about whether and how to be in the paid workforce. Although we fight hard for women to be able to choose their profession, the stories I've heard suggest that the system is choosing, rather than the individual.

Economic insecurity from cradle to grave

From “cradle to grave” or “womb to tomb”, there is a lifetime story of how women’s economic involvement evolves. I’ve realised that at every intervention on an economic or financial point, women lose out. This reality is reflected in all of the research.

I’ve got a bit of a story, and as I tell you this story I want you to imagine you’re a woman. Some of you will find that easier than others. But for the point of this, I’m really just trying to get you to get a sense of how economic insecurity accumulates over a woman’s lifetime.

So, you’re born as a girl and your earlier toys are dolls and cooking sets while your brothers have balls and trucks. You help mum in the house while your brother helps dad outside. And while mum and dad both work, mum spends twice as much time caring for you and dad spends twice as much time in paid work. You receive more praise for your looks than for brains and ability. Yesterday, Plan International Australia and Our Watch released research on the experiences of girls 15 to 19, and the results showed that only 14 per cent of girls felt that they always received the same opportunities as boys.

You reach adolescence. You’re doing well at school, but you’re encouraged away from STEM subjects, the very subjects we know now lead to the highest paying jobs. Your parents discourage you from male-dominated careers like mining, construction, resources, armed services, trades, often out of fear for your safety – again, highly paid and secure industries.

Instead you chose female-dominated, often lower paid, industries (education, health, social services, hospitality) or sex segregated roles in male dominated industries. Most recently I was in Perth and learnt that in the mining downturn, more women lost their jobs than men because they tended to be in the administrative support roles rather than the trades and operational roles.

No matter what industry you choose, you’re likely to lose out on the gender pay gap, which means that women on average earn 16.2 per cent less than men. Even women who take out no time for parenting, who work fulltime over a 45-year career, will earn \$700,000 less than an equivalent man.

Less money, but more attention. In your first five years of work you’ve got a one in four chance of experiencing sexual harassment and a one in three chance over your career.

Children come along and as a mother you take maternity leave. The financial consequences of this reverberate for the rest of your life. The wage stops, so

does the superannuation and at the most important time for long-term compounding for retirement savings. US research also suggests that women are more conservative and risk averse in their investments. And so in fact may also be saving less. The average super balances for women at retirement are 46.6 per cent less than those for men – i.e. half.

Due to the lack of affordable and accessible child-care and given your earnings are more than likely lower than your partners, you return to work flexibly or move into casual, insecure employment.

The Australian Human Rights Commission's research shows that one in two mothers experience discrimination at work over this period of time, missing out on opportunities and sometimes losing their jobs altogether. Progression stalls while your boss assumes your main focus is your family. You're on the "mummy track" now. Workforce participation drops especially after children. Women have higher unemployment and underemployment rates compared to men. At home you carry the primary caring role for your children and unpaid domestic tasks, limiting your capacity to return to work fulltime.

Indeed, women make up 70 per cent of primary carers and 56 per cent of carers overall, and comprise only 36.7 per cent of fulltime employees. Lack of flexible, accessible and affordable childcare means the choice is often made to pull out of the workforce altogether. This means no income, no superannuation, no savings and no economic independence, which is especially concerning if you're in a violent relationship or single, divorced or widowed.

You earn less, but don't worry, the commercial world has created a market that demands you pay more for things: clothes, makeup, handbags – even haircuts cost more. The media comments on women who wear an outfit twice when Karl Stefanovic could happily wear the same suit for 12 months without comment, to prove the point of the sexism.

As you age you carry the primary burden for elder care. And while you may be working more by this time, you've largely lost the benefit of compounded growth for your savings. Our one advantage of living longer also turns into a negative. We've got to stretch that lower retirement savings for more years. Between 2000 and 2005, single elderly female households experienced the highest incidents of poverty compared to other household types. And we're at the greatest risk of persistent poverty.

That is the story I have been hearing for six months. Now, there will be exceptions and not every woman experiences all these issues. But every point in the financial equation leads women towards less money.

When I sit in some professional environments and women talk about whether they'll go back to work, that it's a lovely time with their children, I really am challenged by that conversation when I know the trajectory that that choice might put them on. I am concerned by workplaces that seem recklessly indifferent to these issues when they let women drift away.

Inequality is a reality

While we talk about gender inequality, a large proportion of our community, particularly a larger proportion of men, don't think discrimination or inequality is an issue anymore.

A comprehensive survey of Victoria Police last year asked the question: "Do you think discrimination still exists for women?" Seventy-three per cent of the women said yes, and 46 per cent of the men said no. What that means is one in two men actually think this conversation is misplaced, "political correctness gone mad". They think that this is driven by crazy CEOs who are just joining the bandwagon. There is no actual commitment to change because these individuals are not convinced that sex discrimination is a problem anymore.

I can assure you, inequality is a reality.

The statistics that I'm giving you about lower pay and increased poverty over time are all true. So is the business case that tells us advancing women's economic security benefits not just women, but families, communities, workplaces and the Australian economy.

You have all heard the statistics. Increasing women's workforce participation will decrease our age pension. Ernst and Young estimated in 2014 that a reduction of women's reliance on the age pension by 10 per cent could conservatively save \$2 billion per annum. The Grattan Institute estimated that a six per cent increase in women's workforce participation would boost Australia's GDP by \$25 billion. A McKinsey study found that companies with more diverse leadership teams were top financial performers during the period between 2008 and 2010, with significantly higher earnings and returns on equity.

The inequality is real and so are the benefits of addressing the problem.

But haven't we already done this? Haven't we got the laws? Why is this not working?

Individual complaints aren't an effective response to accumulating discrimination

Laws work best for one-off individual incidents of discrimination where you can identify the perpetrator. The nature of the disadvantage I've just described doesn't match that formula. It isn't one bad person saying, "I'm not going to pay you". The systemic barriers accumulate over time and are based on many deeply embedded systemic and attitudinal barriers. We need to find different ways around these barriers.

One size does not fit all

While we tend to talk broadly about issues, if people are dealing with multiple intersecting types of disadvantage or discrimination, then many of the gender inequality initiatives have no impact on those groups. In fact, this has the effect of silencing and sidelining those groups to even more disadvantage. We need to talk about the experiences of Aboriginal women, who are 45 times more likely to experience family violence. We need to talk about the experiences of women with disabilities, transgender women, intersex people, women in remote and regional communities.

You can help

My last observation is that there is a great deal to do and that everyone has a role.

The *Change the Story* model says you need multiple intersecting initiatives that all push towards equality. That means everyone in this room has a role. First I need you to be convinced that there is a problem. And then I need you to get behind some of those initiatives that are already at work in our communities – in the home, education in the schools, initiatives in the workplace and government policy. They are all trying to reach, based on good evidence, towards the same outcome. When you think about pay gap analysis, look at challenging unconscious bias, flexible work, superannuation issues, childcare, promotion of women. There are a whole range of initiatives, and I encourage you to support those.

But I also want you to think more widely.

When I came to speak to you today, I thought about what my call to action should be. Because of the complex way in which women accumulate poverty there are numerous ways that this economic life course can be changed by individuals, by organisations, by governments. Here are just three ideas to start you thinking:

- What can you do personally? If you have children or if you care for children, you might reflect on how you influence them about their subject and career choices. The fact that you might be lukewarm about the idea of your child joining the police force has implications.
- As an organisation, I'd encourage you to realise the important role you play in keeping people experiencing domestic and family violence in secure employment. Employment gives both the financial capacity to leave and can also provide social engagement where they might otherwise be isolated.
- For government, I'd encourage policy makers to think about how we can recognise and value unpaid caring work. For example, through superannuation and taxation.

I'll close with one particular story that really stuck with me.

In Hobart I talked to a diverse group of women, including one single mother of four children. She had decided to go back to university to finish her degree. She said her experience at university was constant, relentless comments to the effect of: "Why are you here? What are you doing? You've got four children – you should be home looking after them." These comments came from lecturers and from other students.

Her response was: "I am looking after my children, I am trying to get us off welfare and I'm trying to set a good example for the future."

> BREAKFAST ON THE RUN

> 27 OCTOBER 2016

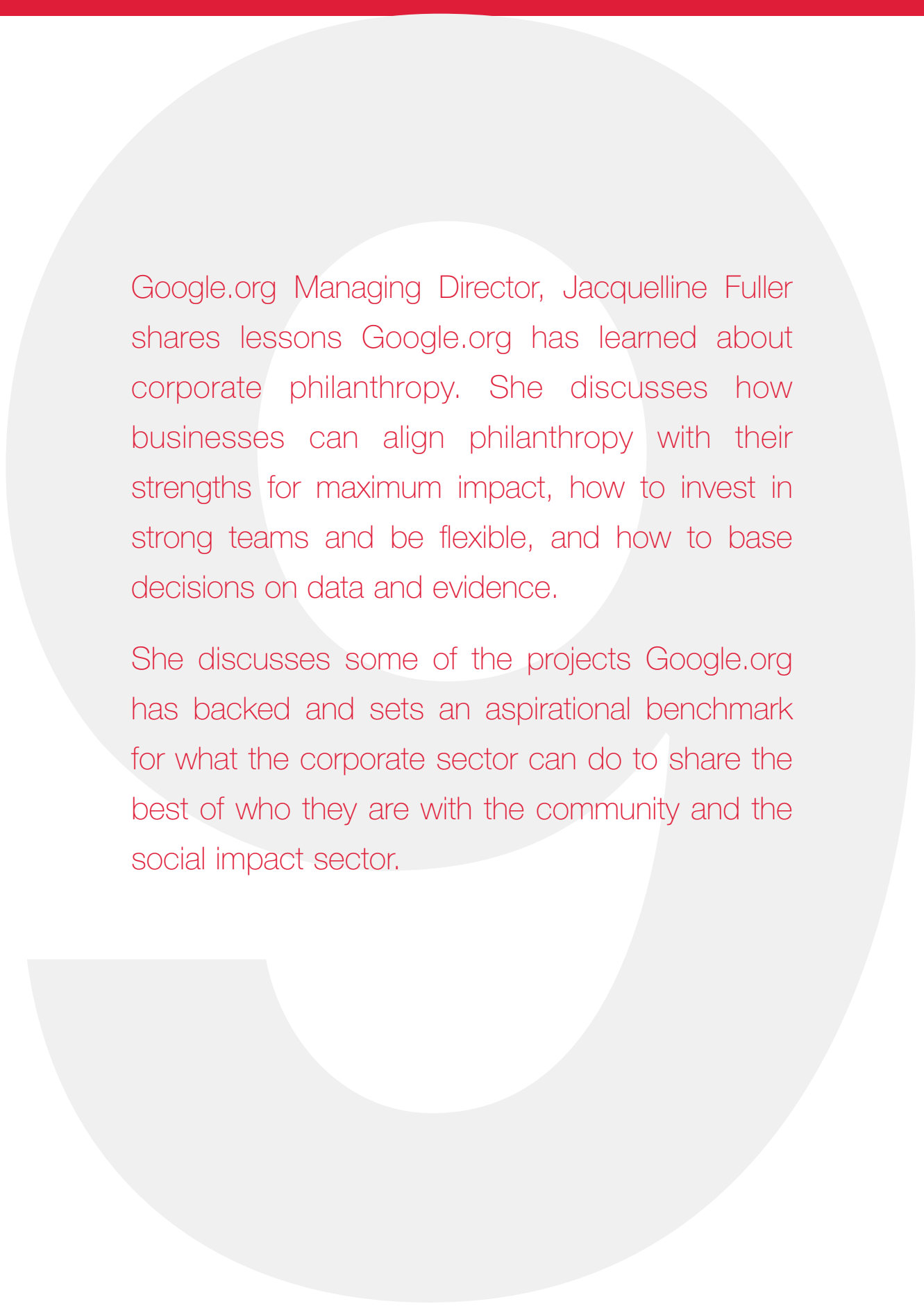
> NEW SOUTH WALES



Innovative and effective philanthropy

Jacqueline Fuller

Managing Director, Google.org



Google.org Managing Director, Jacqueline Fuller shares lessons Google.org has learned about corporate philanthropy. She discusses how businesses can align philanthropy with their strengths for maximum impact, how to invest in strong teams and be flexible, and how to base decisions on data and evidence.

She discusses some of the projects Google.org has backed and sets an aspirational benchmark for what the corporate sector can do to share the best of who they are with the community and the social impact sector.

Thanks for the warm welcome, it's great to be back here. I thought what I would do today is talk a little bit about what we have learned about philanthropy at Google. I'll reach back a little bit into my time at the Gates Foundation and in government as well, and share some of what we have been working on at Google recently, including what we just launched yesterday, and then conclude with a few insights that we have gathered about corporate philanthropy.

So, taking a step back, where did the Google's philanthropy come from? Well, Larry Page and Sergey Brin, Google's founders, actually created Google.org and our philanthropy before the company even launched publicly. In our first letter from the founders, Larry and Sergey said, "Google is not a conventional company, and we don't intend to become one. Part of that is dedicating one per cent of our yearly net profit to Google.org – to philanthropy."

They did that before the company went public so that shareholders would know this is part of who we are, and if you buy into us, you are buying into that one per cent. They set this up with big ambitions, and wanted to devote not just money, but also who we are as Google: our employees, our products, our time, our brand, and our reach. But, they hadn't really thought through what we should do and what we should focus on.

Google.org as an entity launched and iterated many, many times over the past decade as we have experimented and tried to find our footing to answer this question, which I think is a question for all of us as we think about giving back: how can we, as Google, use the unique assets that we have? How can we bring the best of who we are to the table to make the biggest humanitarian impact? That is not always an easy question to answer and it is not always an obvious answer. The answer for every company will be different based on who you are and what your assets are.

I thought I might share a few of the lessons we have learned. One of the key things we have learned is that for Google, we can have outside impact when we focus on technology and innovation. For us that makes sense because it aligns with who we are. At our core we are an engineering company. We have something like 30,000 engineers worldwide. Technology is also an area that is really underfunded when it comes to the not-for-profit sector. What we have seen is the incredible ways that technology can achieve outside impact in business, in communications, in medicine.



When you think about the social impact sector, it can be the land that time forgot. How many of you have had an experience in your daily life of business: you are on your computer, you have got cloud storage, every document is available whether you are in Tanzania or Tasmania, you have got instant 24/7 access, you can do a video conference as you are walking to the airport on your phone. And then, you go and work with the local food bank that you volunteer with, and they have literally got paper and pencil and they are keeping track of things that way. We believe that technology is the best way to achieve impact at scale, and it is desperately underfunded in this sector. It aligns with our core strength and mission and so investing in tech and innovation has been a key part of our approach.

When I first moved to Google from the Gates Foundation, one of the things I was really impressed by is the commitment of resources. It has been over a billion dollars over the last 10 years in cash grants and donations alone that Google has donated. We have found, over time, we get the highest leverage when we match those grants with the pixie dust of Google itself: who we are as Google – that is, primarily, our people. When we can bring those together and marry those strengths we have much more impact.

Let me make those principles real by illustrating what we just finalised yesterday, which was the Impact Challenge here in Australia. This was a model that we created as an experiment a few years ago and it has really caught on, and we come to a place like Australia and we say to the entire country, to the whole non-profit sector, what is your dream? What is your big idea? What is a key innovation that would completely change the course and trajectory of the issue that you are working on? How would you take \$500,000 and make that happen?

We try to be as open as possible because we have found that, around the world, the best innovators are the ones who are working locally on local problems and have insights and ideas that can be used in Australia, regionally and globally. We want to find and fund those innovators and bring them all the resources that they need to make their dreams a reality.

When we launched this project – it's entirely open and crowd sourced – we asked anyone to apply, we then had our Googlers and some esteemed judges to narrow down that list and then we opened it up to a public vote. The reason that we do that is most of the grant making that we do through our other programs is executed the traditional way that will sound familiar to anyone that has been to business school: you do a strategic landscape, you do a gap analysis, you think of your core strengths, you analyse the best players. So we do a lot of that, but in addition to that, we want to make sure that we are open to ideas that aren't in our typical world and are not, what I call, "on

the cocktail party circuit". They aren't necessarily the ones that have the best fundraising professionals and that is one of the reasons why we open it up this way.

The reason why we put it out to a public vote is because, look, the \$5 million in resources we put into this is great, but that is just a down payment. That is just the start of the process. What we really want to do is to help nurture the ecosystem around social innovation that is so vibrant here in Australia and help to kick start that ecosystem, and in doing that, raise up these heroes and say, "Australia, do you know about these heroes in your midst? Have you heard some of the ideas and teams that are doing these amazing things?" and "Come join us, let's help them realise their dreams."

So, for example, in Australia just yesterday you had the highest votes per capita of any of the nine countries we have been to in terms of the public vote – over a quarter of a million votes from the public on their favourite social impact heroes. Which is their favourite strategy? What we have seen by opening it up to the public vote is that we are going to get a lot more of the public coming alongside and helping to invest.

We announced the winners yesterday and I will mention just a few. The public votes for the winner and we had a tie. Out of a quarter of a million votes it came down to fewer than 750 votes separating the top two, and they were The Nature Conservancy Australia using a mobile tech approach to help measure fishing stocks in some of the key areas where fisheries were being depleted.

The second was with the Great Barrier Reef Foundation using a low-cost autonomous robot to help with reef health. In fact, I remember on a trip when I was here with my daughter and going out to the reef that the vendors did a great job of explaining the whole ecosystem and the challenges with the reef. They were talking about the Crown-of-thorns starfish, which are responsible for about 50 per cent of the decline of coral cover on surveyed reefs. They were explaining that they have to go down with divers and take these off one by one because they have to be properly identified – they don't want to take the wrong thing. I just thought, that is never going to work, you are never going to get them all. The Great Barrier Reef Foundation has a robot to help make that happen.

Along with our judges, some other winners included The George Institute for Global Health, which is using an SMS-based, so text-based, support system to help people with chronic disease live better lives. It was so fascinating hearing from this doctor who said, and it is sort of deceptively simple, that when we receive regular text messages personalised to us based on our



health condition – whether that is diabetes to heart disease – it helps us live healthier lives with more wellbeing and improved health. So sometimes it is not breakthrough technology. It is something as simple as text messaging that uses a little bit of machine learning to build algorithms to help personalise the message just for you based on your health outcomes. It can really make a huge difference.

Another one, Centre for Eye Research Australia, has an eyesight self-assessment for people out in rural areas and in rural Indigenous communities where there aren't as many specialised health services. It helps people to do their own eye assessments, which will help them understand their eye health and when they need to get to a health practitioner.

And finally, Hello Sunday Morning, which has a really creative approach in that it is an online movement and an app to help people change their relationship with alcohol. The recipient came up and accepted the award yesterday. He said 20 years ago in Australia we could not have had this conversation about changing your relationship with alcohol, and here we are, using technology to do it in a way that is going to adapt the messages that you receive, and adapt the program that you follow, depending on what works for you. As it turns out, we are all very different. For example, what works for someone may be a peer based support person, which may not work for somebody who wants more of a fact based approach. That's what technology can help with.

Those are just some of the winners from the Impact Challenge and it was an incredible slate of talent. In fact, we do this all around the world. We have done it in nine countries and the calibre of the teams here in Australia and their thinking and creativity is among the highest in the world. In fact, usually we don't even go back twice to do an Impact Challenge because the local ecosystem just doesn't have enough of the kind ideas that we like to see. But, we were so impressed that we are already in talks with our Google Australia team saying, "Okay, what's next?"

Shifting now for a moment from yesterday's work and the Impact Challenge, I thought it might be helpful to just take it up a level and take a step back. So looking back, what are some of the lessons that we have learned at Google.org that might be good fruit for conversation and discussion as we all think together? How do we really change the world? One interesting thing about Australia, you are around fifth in the world in terms of the level of philanthropy amongst individuals, which is fantastic.

Thinking personally, when I used to work for Bill and Melinda Gates, I started with them when their foundation was just a little start-up. Just a handful of people. We were giving away in the tens of millions when I first started there,

and when I left eight years later they had \$30 billion that they were going to give away. I really saw how two people, Bill and Melinda Gates, who were really serious about making a difference in the world, were bringing their business skills to the table. They were saying, “We are not just going to outsource this, and we are not just going to give to whoever comes up to me at a cocktail party. We are really going to think strategically about this.” They did that by bringing the best of who they were, and through their investment and care, they helped raise the calibre of philanthropy being done by individuals.

If you think more globally about philanthropy around the world, what individuals can do is tremendous. I know for example in the US, if you look at all private flows to philanthropy, it is about \$350 billion a year. Now of that, the proportion that comes from companies is, what would you guess? Anyone want to hazard a guess what per cent of that comes from corporations?

It’s five per cent. So if companies just in the US each gave one per cent of their net profit, that would create an additional \$60 billion per year that could be guided to some of the best in the business. Some of the best ideas to take on problems locally in their communities and then globally around the world.

I saw what was happening with private philanthropy and there was this movement to really raise the game and think about how to do it more strategically. But when I looked at corporate philanthropy, there was such huge potential. I thought, this is a really sleepy sector. We are still doing corporate philanthropy the way our grandparents did, and yet there is so much opportunity for good.

Bill and Melinda have their personal money and they have who they are as individuals, but they don’t have full assets of companies. Most people around the world will spend most of their time working for a company. If you ask people what gets them excited to get out of bed every day and to go into work, it’s about being part of a team, being part of a community and being part of an effort that is not only doing great business, but is making the world a better place.

We have found at Google that this is especially true of the millennial generation, and for the people that we most want to hire – the hard-to-get target hires. When we look at our retention statistics, the work of Google.org and the work of Google in giving back to communities is in the top three reasons why people chose to work at Google and why they stay at Google, and this especially includes their opportunity to personally participate. I think corporate philanthropy has amazing potential but I think of course we are underplaying that now. I think we are not quite rising to the challenge as a community or as a sector.



A few thoughts on how we can think about this. I think the number one thing that we have learned is to bring the best of who you are to the table; bring all of your assets to the table. When we first started off at Google.org I think we thought too much about just the money and just the grants – and that's super important, it's an important resource – but again, as we have looked back and as we have interviewed our partners, we have found our most successful efforts are the ones where we can also bring other parts of who we are, like our engineers.

So David Spriggs, for example, is a partner from the 2014 impact challenge for the project Ask Izzy, which is an info exchange app that connects homeless to food, shelter and health services. Here, we saw this scrappy team that was doing amazing work applying technology to the problem of homelessness in Sydney. One of the things that I learned from David's presentation that year is that one in 200 Australians are homeless at one time or another in their life. There are 350,000 services available, and yet you think about the stresses of living on the street and not having a home and trying to access those services, but the thing that struck me the most is that 80 per cent of the homeless population has access to a smart phone. They may not have a data plan, they can't afford that, perhaps, but they can use free Wi-Fi.

David's team applied technology to that problem to help bring supply and demand together around services to give people the dignity, the choice and the efficiency that they needed to find the services available to them. We provided resources, but also provided Google engineers, Google designers, Google team members, to help them realise their full potential. Then that came full circle. So this is an Australian team, Australian-led innovation – flash forward a couple of years later and I'm in San Francisco sitting in a meeting with the Mayor and some other people who are talking about the homelessness problem. And they're saying, "Well, there is this really cool innovation that they are doing in Australia that we should take a look at." I was like, "I know them. I can hook you up."

So David and the team are now paying that forward and helping to spur this innovation all around the world and I think what he might say is the key thing that has really helped is making sure that we were bringing the best of who we are, all of our assets, and not just the resources.

The second thing for us is betting on strong teams, but being very flexible as a grantor in working with our partners. I think too often we enter in with a very rigid approach and don't leave room for serendipity. As a tech company and a tech culture, I mean, goodness, we have it every single day. How many times has Google started out with a product then said, just kidding, we are going to pivot that a bit and go down this path. Or, we are going to try this approach,

but actually it turns out that that is not quite working so we are going to move over here.

I think a lot of times with our non-profit partners we tie them down to very out-dated models where we don't give them the resources they need to innovate. For example, I was on the board of a global NGO that was providing more than a billion dollars' worth of services globally each year. How much money do you think that they had available for true innovation? To try things that had a high percentage risk of failing? What do you think their innovation budget was?

It was less than \$100,000, and that was provided by a couple of engineers in Silicon Valley. Often even our best performing non-profits, the biggest ones, don't have the resources and don't have the okay to fail. What we have learned is that it is okay to fail. Fail fast, lean into it, and share your learnings. So, I think the other thing we have learned as a funder is that we need to provide that same flexibility to our partners.

Finally, I think the last thing that we have learned is to let data be your guide. It is interesting to think about, because as I have been in this business I have seen how often we use data in our everyday business lives; we wouldn't think about making a decision without asking what the evidence is. Then we get into our personal charity or corporate philanthropy and we just sort of go with our heart and do what our friends are doing. I think bringing in more data and evidence into our work, and being able to fund impact evaluations and the sharing of that data can have a huge transformative effect across the sector.

To give a quick little anecdote about what we were working on, one day a poverty amelioration team came in – a couple of PhD economists. Someone on my team teed up this pitch saying they had a great approach to solving poverty. I was like, "Really? What is it?" "Well, they just give money to poor people." I was like, "Seriously? How long are we going to spend talking with these people?" They came in, and what was really interesting is their approach, which is to use mobile phone technology, and mobile money to deliver money from the general public – from people like you and me – directly into the hands of the poor.

By using technology they can move 90 cents of every dollar directly into the pockets of the poor. They have used rigorous studies and randomised controlled trials to find out what the outcomes are; what happens when you give poor people full choice, unconditional choice what they do with their money? Interestingly enough, what the data showed is that it went completely against conventional wisdom, which is that it would be used for alcohol, tobacco, gambling – that sort of thing.



The outcomes they achieved as far as health, education, and investing in businesses were much higher than even the best rates being achieved by the best development programs. For us, that was not only phenomenal innovation and a great way to funnel resources, it also provides a benchmark for us as a sector. It made us say, okay, anybody who wants to take a dollar on behalf of the poor, to spend it on their behalf, needs to prove that they are going to do more with that dollar than the poor would do themselves. I think in our sector, we need to have that kind of benchmarking and be honest with ourselves and with each other about the metrics that we are achieving, because otherwise we are misrouting all of those resources that could be used better and more efficiently by the poor themselves.

In summary, some of the lessons we have learned: lean in to who you are, align with your strengths, and bring the best of who you are to the table. Base decisions on data and evidence and invest in strong teams – then give them the freedom to pivot, learn and discover and share. Thanks very much for hosting me for this conversation.

> CEDA ANNUAL DINNER

> 15 NOVEMBER 2016

> VICTORIA



Buffers and options

Philip Lowe

Governor, Reserve Bank of Australia

In this speech Reserve Bank of Australia Governor, Dr Philip Lowe says that despite economic uncertainty, Australians and business should not pause or withdraw from the world, rather, we must ensure the country has buffers in place to deal with future shocks.

While he says that the Reserve Bank of Australia's central scenario for the economy remains relatively positive, strengthening Australia's buffers makes sense in the uncertain world that we live in.

It is an honour to be able to address CEDA's Annual Dinner. It became a tradition under the previous Governor, Glenn Stevens, to speak at these dinners about prosperity: what it looks like and how Australia might continue to secure it in the uncertain world in which we live. This is a tradition that I would like to continue.

I could understand why you might not have guessed that looking at the title of my remarks this evening: *Buffers and options*. You might have feared that this was going to be an esoteric talk about finance. But that is not what I have in mind. Instead, I chose this title because it summarises the one element of securing prosperity that I want to focus on tonight. Glenn spoke in detail about the various things that we can do to lift our average growth rate. Rather than repeating these, I would like to focus on another element of the challenge, and that is managing risk and ensuring resilience.

To provide some context I would like to begin with two observations.

The first is that Australia's economic success over recent decades reflects both the underlying fundamentals of our economy and our ability to ride out various shocks. The fundamentals that have helped us are well known. They include our openness to trade and investment, our generally favourable demographics, our diverse and talented people, our abundance of natural resources, our ability to undertake structural reform to boost productivity and our links with the fast-growing Asian region. But also important to our prosperity is the fact that over the past quarter of a century, our economy has not been seriously derailed by economic shocks. After all, nothing undermines prosperity like a severe recession in which large numbers of people lose their jobs and see their wealth decline.

It is not as if there has been a shortage of shocks that could have derailed us. There was the Asian crisis, the bust of the US tech boom and the global financial crisis. We also experienced a once-in-a-century surge in our terms of trade and the subsequent decline.

The point is that we have been able to ride out these and other shocks without too much difficulty. In part this is because of the flexibility of our exchange rate, monetary policy and the labour market. We have also avoided the build-up of large financial imbalances. But this resilience is also because when the shocks have hit we have had buffers to absorb them. Because of these buffers, we have had options that not all other countries have had.

The second observation is that today many business people tell us they feel the heavy weight of uncertainty. The long list of factors we hear includes: uncertainty about the transition in the Chinese economy; the future direction of technology; the political environment, both abroad and at home; the impact of high debt levels on future consumer demand; and uncertainty about where the extraordinary global monetary expansion will ultimately end. Understandably, when people feel uncertain, they sometimes feel that it's best to delay making decisions, especially if those decisions are difficult to reverse. We want to seek out more information before proceeding. We want to wait.

So, to draw these two observations together: Australians have managed pretty well over the past quarter of a century, but we feel a bit uncertain about the future.

In my view, despite the uncertainties, we should still be looking forward to the future with some optimism. Here in Australia, with our long track record of good economic growth and our demonstrated ability to adjust to a changing world, we have a set of advantages that not all countries have. Our collective challenge is to capitalise on those advantages. Ensuring a strong focus on lifting productivity is surely the key here.

As we work out how to do this, though, we obviously can't ignore the uncertainties. But neither can we let those uncertainties force us to retreat, to withdraw from the world. If we do this, then we, and our children, will be poorer as a result. Rather, we need to deal with, and prepare for, those uncertainties. This brings me back to the title of my remarks, *Buffers and Options*. Part of our preparation is to ensure that we have adequate buffers in place to deal with future shocks wherever they come from. These buffers provide us with options when challenges arise.

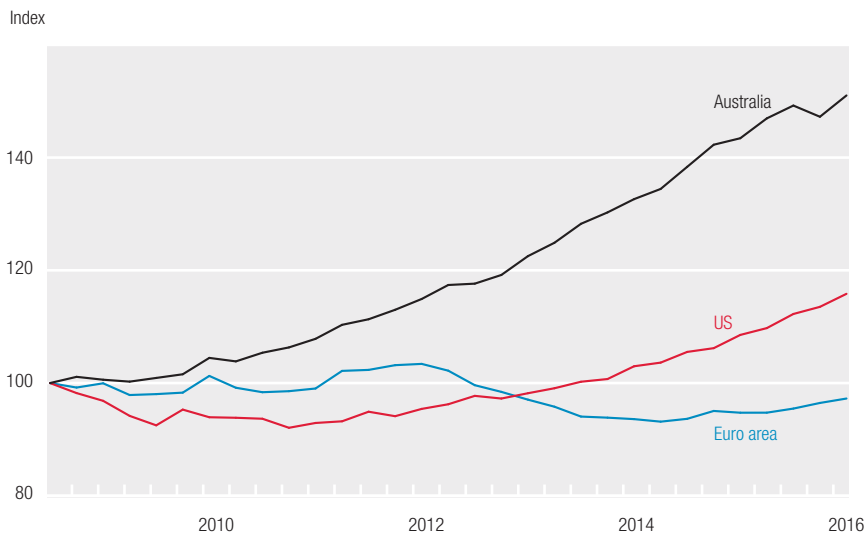
I would like to talk about buffers in three broad areas: the financial system, the fiscal arena and household finances.

Financial system

One area where it is particularly important to have adequate buffers is in the financial sector. The financial sector can either act as a cushion for adverse shocks or it can act as an amplifier. Which one it turns out to be depends upon how well the system is prepared to deal with bad events. If the system has skimmed on liquidity and is carrying too little capital, then it is likely to amplify shocks. Conversely, if the financial system has adequate buffers, it is better able to support the economy in difficult times.

The aftermath of the global financial crisis is a good example of what can happen. This chart (Figure 1) shows how bank lending has grown – or in the case of Europe, contracted – since the financial crisis in 2008. Many banks in Europe and the US simply did not have large enough buffers for the events that unfolded. Even today, capital levels remain an issue for some European banks. Insufficient capital means that some banks are constrained in their ability to provide finance, and helps to explain why banks have not taken advantage of the European Central Bank's offer to lend them money at an interest rate below zero. The European economy has suffered as a result. In the US, the picture is more positive, partly because there were more successful efforts early on to rebuild the buffers in the system.

FIGURE 1
TOTAL BANK LENDING*
December 2008 = 100



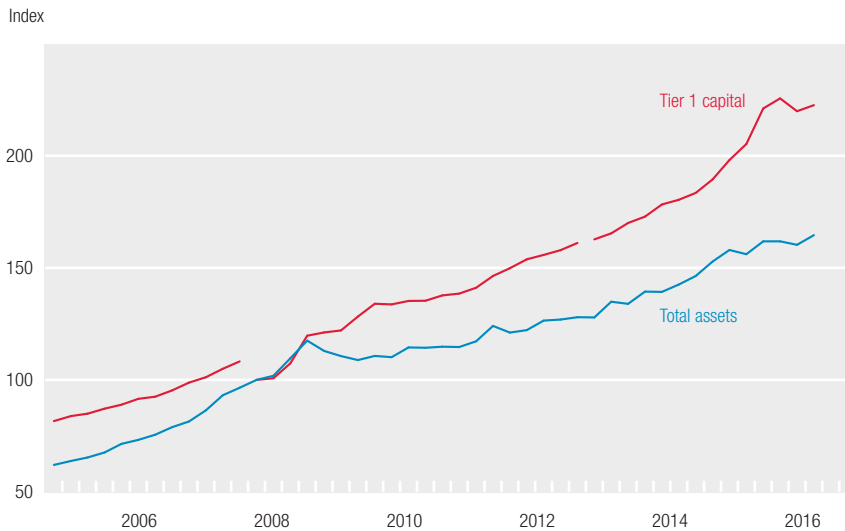
*Total consolidated lending
Sources: APRA; ECB; FDIC; RBA

In Australia, it has been a different story. The banking system did have the capacity to support the economy during the global crisis, although it is important to point out that it did this with the assistance of the Australian Government through various guarantee schemes following the freezing of global capital markets.

Around the world, the experience of recent years has rightly caused banks and their regulators to think again about how large the buffers should be. And the answer has been that they should be larger than they were before. This has been true in Australia too, despite the starting point here being better than in many other countries.

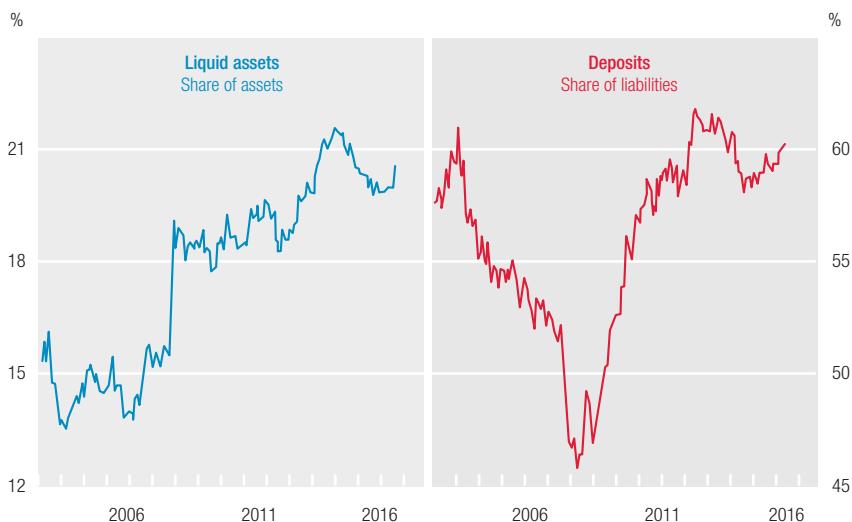
Since the beginning of 2015, the major banks have raised around \$28 billion from new equity and retained earnings, significantly increasing their capital relative to their assets (Figure 2). Banks are also holding a larger share of their assets in liquid form and have changed the composition of their funding towards more stable sources (Figure 3). During 2016, liquid assets have accounted for around 20 per cent of the major Australian banks' total assets, up from an average of around 15 per cent in the years preceding the financial crisis. Banks have also increased their use of deposits and long-term debt and reduced their use of short-term debt.

FIGURE 2
AUSTRALIAN BANKS' CAPITAL AND ASSETS*
 Consolidated group, 31 March 2008 = 100



*Break in March 2008 due to the introduction of Basel II; break in March 2013 due to the introduction of Basel III.
 Sources: APRA; RBA

FIGURE 3
LIQUID ASSETS AND DEPOSITS



Sources: APRA; RBA

These are positive developments and they provide us with an extra degree of insurance against future shocks.

Of course, this insurance does not come for free. Higher capital, more liquidity and more expensive, stable funding all have a price. We need to keep an eye out to make sure that this price is not too high and that we don't constrain the ability of the financial system to do its job. My view is that this has not been the case in Australia and that the changes have increased the resilience of our system.

There is, though, a legitimate discussion to be held as to who pays the price. We see this issue frequently debated in our media. One possibility is that the cost falls on the bank shareholders in the form of lower returns on equity. Another is that it falls on borrowers in the form of higher interest rates on bank loans relative to the cash rate.

Ultimately, the balance is for the market to sort out, but it would seem unlikely that the cost will fall entirely on one side or the other. Over time, shareholders and borrowers will both benefit from these larger buffers to the extent that they contribute to economic stability. The shareholders should experience less volatile returns and borrowers should be more likely to be supported during difficult times. The larger buffers provide a form of insurance to all.

Fiscal arena

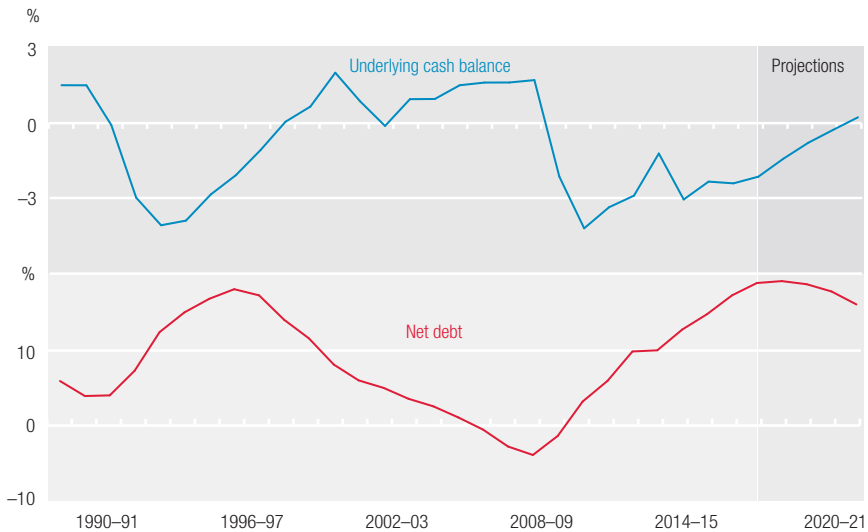
A second area where buffers are important is on the fiscal front.

Again, the events of the past decade provide a useful illustration.

In Europe, we saw examples of what can happen when public finances are not in order when difficult times strike. In some countries, when troubles arrived, governments felt that they had little choice other than to impose austerity measures to restore the fiscal accounts, despite the fact that these measures added to the immediate downturn in the economy.

Australia, again, provides a counter example. When the shockwaves of the global financial crisis hit us, the Australian Government did have the capacity to support the economy through a fiscal expansion. This support was one of a number of factors that helped us get through this period. The ability to provide the stimulus was enhanced by the sound fiscal position that had been built up over previous years (Figure 4). While the exact nature of the stimulus remains a matter of debate, regardless of where you stand on that debate the fiscal buffers that we had did provide us with options that not all other countries had.

FIGURE 4
AUSTRALIAN GOVERNMENT*
 Per cent of GDP



Source: Australian Treasury

Since the financial crisis in 2008, the budget has been in deficit and debt levels have moved higher. Under current projections, net debt is expected to peak in 2017–18 at 19.2 per cent of GDP and a balanced budget is not expected until 2020–21. This would still leave the fiscal accounts in better order than those in many other countries. Importantly, this means that fiscal policy still retains capacity to support the economy in difficult times. But this capacity is less than it once was. We have a smaller buffer than we once did and a smaller buffer means fewer options.

So from a risk-management perspective, there is merit in rebuilding our buffers on the fiscal front. This is a task that can be undertaken over time and it requires difficult choices to be made. As Secretary to the Treasury John Fraser reminded us in a recent speech, the task is made more difficult by slow growth in nominal income. But it is important that we ensure our public finances are on a sustainable track.

This requires a better balance to be established, over time, between recurrent spending and revenue. It is worth pointing out that this does not preclude government spending on infrastructure, where this is backed by a strong business case. Such spending can provide support for the economy and can help generate the productive assets that a prosperous economy needs. Done well, infrastructure spending is not inconsistent with establishing a better balance between recurrent spending and revenue.

Household finances

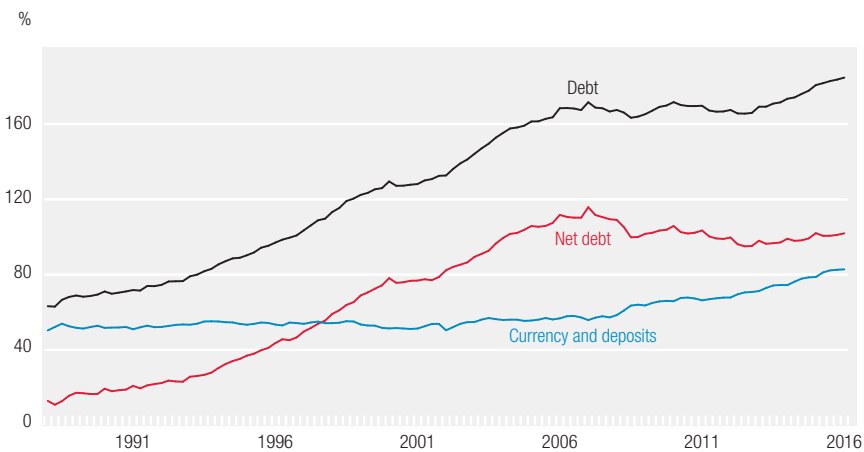
The third set of buffers that I would like to talk about are those in household balance sheets.

These buffers too are important as they influence how households respond to difficult economic times. Ideally, in such times, people are able to draw on their savings a bit, and perhaps even access credit, so that they don't have to cut their consumption sharply. Of course they can do this only if their balance sheets are in reasonable shape.

Again, overseas experience is relevant here. In the US when the recession hit in 2008 some households found that they had simply borrowed too much. What followed was a period of defaults by some, less new borrowing and faster repayment of some debt. The result was a more severe downturn and a more protracted recovery than otherwise would have occurred.

Given this and other experiences, we need to pay close attention to household balance sheets here in Australia too. Debt levels, relative to income, are high in Australia and are much higher than they once were (Figure 5). Currently, household debt is equivalent to 185 per cent of annual household disposable income, a record high and up from around 70 per cent in the early 1990s. If we net off the household sector's holdings of cash and deposits the pattern looks somewhat different. It is important, though, to recognise that the households with the debt typically are not the same ones with the large deposits.

FIGURE 5
HOUSEHOLD DEBT AND DEPOSITS
Per cent of annual household disposable income

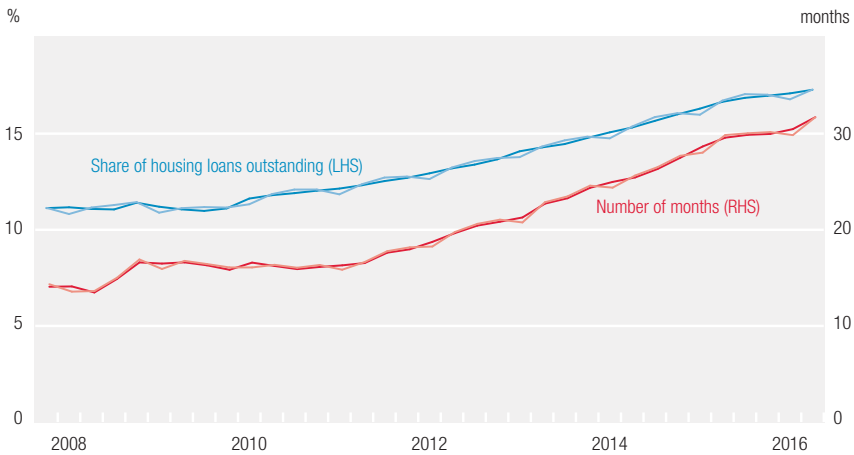


*Household sector includes unincorporated enterprises; disposable income is before the deduction of interest payments
Sources: ABS; RBA

The reasons for the large increase in household debt have been well documented. The lower nominal interest rates that followed lower inflation in the 1990s allowed people to borrow more, as did the liberalisation of the financial system. As a nation, we took advantage of these new opportunities to borrow. As a result, we ended up with both higher levels of debt and higher housing prices.

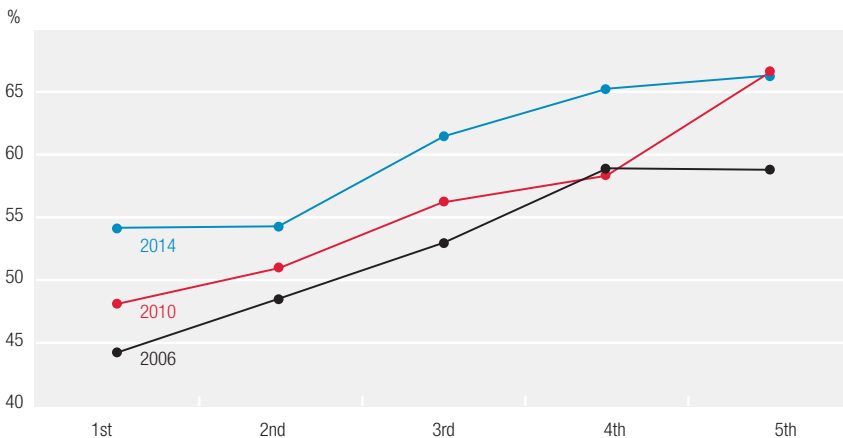
Given the low level of interest rates and ongoing employment growth, most households are managing the higher levels of debt, but many feel that they are closer to their borrowing capacity than they once were and have adjusted their behaviour accordingly. Since the financial crisis, there has been a noticeable increase in the household saving rate. We are not using our houses like ATMs in the way that we were in the decade to the mid-2000s. Gone are the days when higher housing prices were a sign that we should go to the bank and borrow more to spend.

FIGURE 6
AGGREGATE MORTGAGE BUFFERS*



*Data are adjusted for reporting changes; darker lines are seasonally adjusted.
 Sources: APRA; RBA

FIGURE 7
HOUSEHOLDS AHEAD ON HOME LOAN REPAYMENTS
 Share of households with owner-occupier debt, by income quintile



Sources: HILDA Wave 14; RBA

One illustration of this change in behaviour is the large increase in balances held in mortgage offset accounts and redraw facilities. In aggregate, households now have balances in these accounts equivalent to 17 per cent of total outstanding housing loans, which is a buffer worth two and a half years of scheduled repayments at current interest rates (Figure 6). From the survey data we look at, we can see that over recent years more households in all income brackets have got ahead on their mortgages (Figure 7).

This more prudent behaviour is a positive development. Given the high and rising levels of debt, though, we need to watch things carefully. It is important that we avoid a build-up of financial imbalances in household balance sheets. We can never know with certainty exactly what level of debt is sustainable. It depends on income growth, lending standards and asset prices. But it surely must be the case that the higher is the debt, the greater is the risk. Given this, as I said recently when explaining our monetary policy decisions, it is unlikely to be in the public interest, given current projections for the economy, to encourage a noticeable rise in household indebtedness, even if doing so might encourage slightly faster consumption growth in the short term.

Conclusion

So in each of the three areas I have talked about this evening – the financial sector, the fiscal arena and household balance sheets – the story is broadly similar. Stronger buffers give us more options. And more options promote stability and prosperity. If we skimp on the buffers then we expose ourselves to more risk.

It is true that building these buffers does not come for free. In the financial sector, it might mean lower returns on equity or higher lending margins. In the fiscal arena, it means difficult trade-offs about recurrent spending and taxation. And in the household sector, it means consumption growth is slower for a time than it might otherwise be. But this is the nature of insurance. You pay a premium for protection against future uncertainties and to provide resilience. Of course, we need to make sure that this premium is not too high. But it is surely better to pay the insurance premium when the sun is shining than when the storm clouds are building or, worse still, to seek insurance when it is too late.

I am very conscious that this evening I have spoken a lot about providing resilience against future shocks. Before finishing, I want to point out that I am doing so not because we are predicting difficult times ahead. The Reserve Bank's central scenario for the Australian economy remains a relatively positive one.

Instead, my focus tonight probably reflects the inherent cautiousness of a central banker. Just as the past 25 years have seen numerous shocks to the global economy, chances are, so too will the next 25 years. In the past, we have been served well by the economy's flexibility and the buffers that we had. Being realistic, we will probably need these buffers again some time in the years ahead.

At the moment, though, our economy is adjusting better than many predicted to the unwinding of the mining investment boom. Over the next year, we are expecting the economy to grow at around its potential rate, before picking up a bit in the following year. We also expect some further modest progress in lowering unemployment, although spare capacity remains.

The low interest rates are helping to support the economy. And the decline in the exchange rate over recent years has assisted a number of industries. Survey measures of business conditions and consumer confidence generally remain above average. The prices for our commodity exports have also lifted since the start of 2016. As a result, for the first time in some years, Australia's terms of trade have moved higher. This will help to boost incomes and fiscal revenues.

Inflation remains low, but the latest reading did not suggest that it was moving lower still. There remain reasonable prospects that inflation will return to around average levels over the next couple of years.

Finally, to repeat an earlier point, despite the uncertainty in the world, we should be looking forward to the future with some optimism. Australians can continue to enjoy a level of prosperity enjoyed by relatively few people around the world. We have a strong set of fundamentals and a demonstrated ability to adjust to a changing world. We should also take some comfort that our system retains buffers against future shocks. Strengthening these buffers makes sense in the uncertain world in which we live.

Acknowledgements

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