CEDA's Top 10 Speeches **2017**

A collection of the most influential and interesting speeches from the CEDA platform in 2017

committee for economic development of australia

CEDA's
Top 10 Speeches
2017

A collection of the most influential and interesting speeches from the CEDA platform in 2017

committee for economic development of australia

About this publication

CEDA's Top 10 Speeches 2017

ISBN: 0 85801 316 9

Designed by: Robyn Zwar Graphic Design

Photography: All images CEDA library.

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 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.

CEDA – the Committee for Economic Development of Australia

Level 13, 440 Collins Street
Melbourne 3000 Australia
Telephone: +61 3 9662 3544
Email: info@ceda.com.au
Web: ceda.com.au

ceda
committee for economic development of australia

Contents

Introduction

Each year CEDA puts together a publication for our members compiling some of the most topical and thought-provoking speeches delivered on the CEDA stage.

With more than 600 speakers at more than 175 CEDA public events in 2017 to choose from, selecting just 10 for this year's compilation was no easy task. We chose a collection of people and speeches that covered the economic, political and social issues dominating discussion in 2017 and will likely remain at the forefront of policy debate in 2018.

The speeches, presented in chronological order, tackle issues including energy security, aged care, housing affordability, waning business confidence and unlocking the nation's potential.

Our contributors remind us that, for Australia to remain a competitive, prosperous and inclusive country, we need to innovate, imagine and be bold in developing public policy.

As the new head of CEDA, I look forward to CEDA continuing to make a strong contribution to policy debate on these issues and many others in the coming year through a robust agenda of events and publications.

I thank all the speakers who took to the CEDA stage in 2017 and helped make this another hugely successful year. In particular, I thank the 10 speakers whose work is presented in this volume for their generous cooperation in putting the publication together.

I hope you enjoy this collection of speeches and look forward to seeing you at a CEDA event in 2018.

Melinda Cileno
Chief Executive, CEDA

> ECONOMIC AND POLITICAL OVERVIEW

> 23 FEBRUARY 2017

> CANBERRA

2017 ACT Economic and Political Overview address

Dr Ken Henry AC

Chairman, National Australia Bank; CEDA Governor

Speaking at a release event for CEDA's *Economic and Political Overview* publication – that noted a growing concern about the economic outlook in Australia, particularly beyond Sydney and Melbourne – National Australia Bank Chairman and CEDA Governor, Dr Ken Henry shed light on the dwindling confidence in Australia's economic future.

In his speech, Dr Henry argued that an economic vision for the country is lacking but urgently needed if Australia is to remain competitive and prosperous into the future. He called on business leaders to make the case for policy change.

Thank you for the introduction and for inviting me to discuss the 2017 political and economic outlook.

I hope you will excuse me for looking beyond the year ahead. My purpose is to emphasise an urgent need for action today, to build a stronger and better Australia for tomorrow.

Acceptance of the urgency of action is long overdue. For some time now, sluggish complacency has been undermining the quality of life available to ourselves, our children, and our grandchildren.

Australia is a great place to live. It is a great place to run a business. And our economy has proven itself resilient.

Over the past 25 years we have avoided a technical recession despite the Asian Financial Crisis of 1997–98; the turn-of-the-century “tech wreck” in the US; and the Global Financial Crisis of 2008–09.

There is much to be celebrated.

But it does not give Australians confidence in the future.

In recent months, the National Australia Bank has surveyed our business customers and the broader community about their attitudes to Australia, including their vision for the nation’s future, sources of opportunity and the obstacles that they consider need to be overcome.

While 90 per cent of the Australians we surveyed consider Australia to be a great place to live today, only half think it will still be a great place a decade from now. And while 82 per cent of businesses think Australia is a great place to run a business now, only 60 per cent believe it will remain so in 10 years’ time.

Remarkably, only one in five Australians believe that we as a country have a clear, shared vision for our future.

These findings are compatible with the writings of respectable commentators whom, for some years now, have been drawing attention to deep community disaffection – with business, with politics and with media – both here and around the world.

And yet, when we asked people what a future Australia should look like, responses were compelling.

Moreover – and this is the most important conclusion to be drawn from our surveys – the visions described by our business leaders and those in the broader community were in substantial harmony.

Most Australians want to live in a future Australia that is: safe and secure, fair, inclusive, tolerant and free. They want lives that are healthy and affordable – and where they can continue to enjoy our open spaces and natural environment.

Most businesses want to operate in a future Australia that has thriving regions and affordable housing options to support a growing population. They want a society that is even more open and inclusive, with a stronger commitment to paying down debt.

This is no fantasy. It is a vision well within our reach. Yet, Australia's leaders are not even looking.

The leadership task is urgent. And it is achievable.

We must start with a realistic assessment of where we are – setting out the challenges and opportunities before us – and then develop a clear roadmap to the future being described by our citizens.

I am here today as Chairman of the National Australia Bank – one of Australia's largest companies and also Australia's biggest business bank. So, I will start with the role of business leaders.

Business shapes the economy.

The commercial decisions of our businesses determine what is produced, for whom and at what price. Our decisions determine who gets a job, how much they are paid, and where they get to live and work.

And right now, business investment is soft.

Since 2013, mining investment has declined sharply; and non-mining investment has been flat, in nominal dollar terms, for several years now. Why?

Of the businesses we surveyed, 85 per cent want to invest more in their businesses and grow. But half of them identified a lack of a clear plan for the future as a significant factor that is holding them back from making investment decisions.

Australian businesses will not invest, they will not create jobs, unless they have confidence in Australia's economic future, and in Australia's place in the world.

According to our research, Australian businesses see our strong rate of population growth as a positive. That is not surprising. And they identify the following as important additional factors in supporting business growth:

- Greater certainty in the domestic economy;
- Less red tape, less regulation and a simpler taxation system;
- Investment in modern and efficient infrastructure; and
- Better access to skilled domestic workers.

It's up to business to make the case for change, and to lead.

In the broader community, there is considerably less support for a larger population. People are concerned about the impact of a growing population on traffic congestion, urban amenity, environmental sustainability and housing affordability. And they worry about our ability to sustain Australian norms of social and economic inclusion. These concerns are understandable.

Australia's business leaders have to accept responsibility for ensuring that strong population growth, and the investment opportunities that go with it, lift economic and social opportunity for all, without damaging the quality of the environment we pass to future generations. That means that we have to take an interest in traffic congestion, housing affordability, urban amenity and environmental amenity, including climate change mitigation and adaptation.

If we want better access to skilled domestic workers, then we are going to have to offer those workers the prospect of better lives. If we want modern and efficient infrastructure, then we are going to have to take an interest in the design of our cities; we are going to have to take an interest in regional development; and we are going to have to take an interest in the planning of new urban centres.

If we want less red tape and less regulation, then we are going to have to demonstrate that regulation is not necessary.

And if we want greater certainty in the domestic economy, then we are going to have to start delivering it ourselves.

Topics that we have traditionally assumed to be in the domain of public policy, and not the stuff of business, are going to have to become our constant preoccupation.

We do nobody any favours – least of all our shareholders – when we boast proudly, on the one hand, that we are the source of jobs and incomes but, on the other, insist that we need accept no responsibility for the impact of our business decisions on communities and the environment.

Future success will be built on a foundation of trust.

This statement is true of every business – but particularly of banking, an industry reliant entirely on the quality of customer relationships, on earning confidence and respect.

NAB's leaders understand our accountabilities to our customers, our shareholders and the communities in which we operate. Every day, we seek to serve our customers better. Our goal is to ensure that the community has greater confidence in our products, our services and our people.

We take pride in the important role that we play in building a stronger Australia. That we lend more to small business in Australia than any other bank. That we are the leading arranger of finance for Australia's major infrastructure projects. That we have the market leading position in the financing of renewable energy. That we contribute to building a more inclusive community by enhancing opportunities available to Indigenous Australians and supporting those affected by domestic violence. That we generate income for millions of shareholders and close to 35,000 employees.

All of Australia's business leaders, including in NAB, could talk more openly, with greater conviction, and more inclusively, about the role we see our businesses playing in building a better future for all Australians.

Meanwhile, our politicians have dug themselves into deep trenches from which they fire insults designed merely to cause political embarrassment. Populism supplies the munitions. And the whole spectacle is broadcast live via multimedia, 24/7. The country that Australians want cannot even be imagined from these trenches.

Today's dysfunction stands in marked contrast to earlier periods of policy success – where politics was adversarial, every bit as partisan – but when the tribal tensions within parties were generally well managed and the political contest appeared to energise policy, not kill it.

Almost every major infrastructure project announced in every Australian jurisdiction in the past 10 years has been the subject of political wrangling. In the most recent Federal Election campaign, no project anywhere in the nation – not one – had the shared support of the Coalition, Labor and the Greens.

Every government proposal of the last 10 years to reform the tax system has failed.

And the long-term fiscal, economic growth and environmental challenges identified in four intergenerational reports over the past 15 years? The opportunities identified in the *White Paper on Australia in the Asian Century?* Simply ignored.

The reform narrative of an earlier period has been buried by the language of fear and anger. It doesn't seek to explain; rather, it seeks to confuse and frighten.

Meanwhile, the platform burns.

Four interrelated policy challenges demand immediate attention, critical to building the Australia that Australians want.

All four predate our present Federal Parliament.

- First is the need to repair the budget;
- Second is the need to plan for a strongly growing, but ageing, population;
- Third is the need to settle the policy framework for climate change mitigation and energy security; and
- Fourth is the need to ensure that we are set to make the most of the Asian century.

I don't have time today to do justice to these topics. I will make just a few remarks – starting with the Federal Budget.

Australia's current tax system was designed to achieve a reduction in the size of government over time, forcing spending below the average 24.1 per cent of GDP recorded by the Howard Government.

But that hasn't happened.

While payments were at 24.1 per cent of GDP in 2012–13, the most recent MYEFO revealed that they had risen to 25.6 per cent of GDP by 2015–16, and are projected to be 25.2 per cent of GDP from 2016–17 out to 2019–20. According to the most recent Budget, payments will then rise further, partly as a consequence of population ageing.

This is bigger government, not smaller government. And bigger government must be paid for.

But how?

It is easy to accept that the Budget has an expenditure problem; it surely does. But this Budget is also relying heavily on fiscal drag to lift revenue by about 3.5 percentage points of GDP – more than $60 billion a year in today's money – over the decade to 2019–20. A fiscal strategy with that dependence on fiscal drag also has a revenue problem.

And the Budget confronts other challenges for which it is ill-equipped.

Even with strong growth in the size of government and public debt, we do not have the infrastructure capacity to support today's population, far less the population of the future.

How will we fund the biggest infrastructure build in our history? And what about infrastructure planning?

A few years ago, I spent some time in Beijing. One of the meetings I had was with an Australian architect. When I asked him what attracted him to working in China, he related an anecdote: The Chinese Government had issued a request for tender to design, from bare earth, a brand new city for two million people. His firm had been successful.

"Now, where else in the world could you have the opportunity for that sort of work?" he asked.

Where indeed?

On the basis of official projections of Australia's population growth, our governments could be calling tenders for the design of a brand new city for two million people every five years; or a brand new city the size of Sydney or Melbourne every decade; or a brand new city the size of Newcastle or Canberra every year. Every year.

But that's not what they are doing. Instead, they have decided that another three million people will be tacked onto Sydney and another four million onto Melbourne over the next 40 years.

Already, both cities stand out in global assessments of housing affordability and traffic congestion.

And even if we do manage to stuff an additional seven million people into those cities, what are we going to do with the other nine million who will be added to the Australian population in that same period of time? Have you ever heard a political leader addressing that question? Do you think anybody has a clue?

At the very least, we are going to have to find radical new approaches for infrastructure planning, funding and construction. And that includes energy infrastructure, critical to our economic performance and our quality of life.

The biggest challenge confronting the energy sector is that climate change policy in Australia is a shambles.

At least 14 years ago, our political leaders were told that there was an urgent need to address the crisis in business confidence, in the energy and energy-intensive manufacturing sectors, due to the absence of credible long-term policies to address carbon abatement. It is quite extraordinary, but nevertheless true, that things are very much worse today.

And what about making the most of the opportunities of the Asian century? You never hear our political leaders even talking about this topic today.

Addressing these four challenges will require, at the very least, all of the following:

First, apolitical infrastructure planning and pricing, including the widespread use of road user charging.

Second, a much lower company tax rate, or some other mechanism that reduces substantially the cost to Australian businesses of equity capital sourced from abroad, achieved much more quickly than is presently under consideration by our Parliament.

Third, the removal of stamp duties on residential property.

Fourth, symmetrical tax treatment of interest and capital gains.

Fifth, an overhaul of state-based royalties.

Sixth, market-based price signals to guide climate change mitigation and long term investment in the energy sector.

Seventh, a broader base and higher rate of GST.

And eighth, a substantial adjustment to roles and responsibilities between the Commonwealth and the states.

I stress that this is a minimum set of long-overdue reforms.

Bear in mind also that our present fiscal position means that “buying reform” through budget-funded compensation in excess of normal indexation is not an option. Reforms have to be directed to strengthening, not weakening, the budget.

Of course, I have no confidence that this list of urgent and essential reforms will be achieved by today's parliaments.

Not so many years ago, an optimistic nation of Australians could be proud of a country that pioneered world-best policy and nurtured world-best institutions. But nobody any longer looks to Australia to see how it should be done.

And yet, there are very few places with our potential, blessed with such an extraordinary set of opportunities. This is a country rich in opportunity, especially because of unprecedented developments in several Asian economies with which we have strong complementarities.

Australians are calling for their leaders, in politics, in business and in the broader community, to develop a shared commitment to a clear vision for our future.

It's time to deliver.

> WOMEN IN LEADERSHIP

> 2 MARCH 2017

> BRISBANE

Australia's wasted human potential

Professor Marcia Langton AM

Founding Chair, Australian Indigenous Studies and Director, Indigenous Construction Resource Group

In 2016 Australian women made up half of Australia's workforce yet earned only 77 per cent of the average men's income. Women remain underrepresented in leadership roles. While progress has been made in narrowing the gender gap, inequality remains an important issue in the Australian workforce.

At a Women in Leadership forum hosted by CEDA Professor Marcia Langton recounted her experiences growing up, studying and building a career under a cloud of racial and gender discrimination. Professor Langton AM set out a case for ambitious targets and high expectations to ensure the potential of Australian women and disadvantaged groups is never squandered.

I acknowledge the Turrbal traditional owners and pay my respects to their elders past and present. I would like to acknowledge a very special elder and author who is with us here today, Albert Holt.

What an honour it is to address you on women in leadership. I have attended several CEDA events and I agree with others that the cross-sectoral mix of participants and speakers, the neutrality of the presenters, their rigour, their respect for diversity, willingness to innovate and frankness, are rare qualities in our public life making CEDA an ever more important national institution.

Allow me to say a few things about my personal history. I was born here in Brisbane. My grandfather, an Iman man from the Upper Dawson River Valley who married my grandmother in Bidia country on the Mitchell River. I lived as a child in many places here in southern Queensland from the coast to the far inland. I lived in houses from time to time but also a corrugated iron shack and a tent. I was a pupil at nine schools and it seemed that at each one the racial discrimination seemed worse by turn, until I attended the University of Queensland where, in 1969, it was intolerable. The constant racial abuse and harassment of Aboriginal people here in Queensland, along with a very formal system of legal control separation, toughened me for the challenges ahead. I eventually finished a first class honours degree at the Australian National University and completed my PhD at Macquarie University. I worked here in Queensland in my adulthood for a period in Brisbane, and later in the north, and undertook the field work for my PhD in Eastern Cape York.

I came of age in the civil rights era and realised at a young age that I had a responsibility to beat the odds. I came to this conclusion both as a result of the wise counsel of older people who had been denied an education but sought equality, and as a result of watching those around me with so many odds stacked against them they conceded defeat. This was painful to watch and a fate that I refused. There were many in the Aboriginal community here in Brisbane who were influenced by Martin Luther King Junior, but there were also others such as Pastor Don Brady who favoured the Black Power movement. I became familiar with the various civil rights schools of thought. To hear expressions such as: “Equal rights”, “Black is beautiful”, said out loud gave me a new way of thinking about our situation.

Many of my older Aboriginal family members had lived on the large administered reserves and skin colour ranged across all the tones. But whatever their colour without a written exemption from the Department of Native Affairs, they were wards of the state. Others had been released by the superintendents of these reserves to work for station owners, where in some cases they worked under indentured labour conditions. I think of my life course as a trajectory from a dirt floor to a glass ceiling. When I heard an American woman outlining feminism in Japan in 1970 a new language was introduced to me, and I recognised immediately the vision of being a fully completed human being with a right to achieve my destiny without discrimination.

This has not been an easy path but I recommend to all young women to choose their right to exist in their full potential over any lesser fate. International Women's Day on the 8th of March each year reminds us that we must do more to ensure that the full potential of women in all aspects of human endeavour should be unleashed by removing the sexist discrimination and limits to their equal treatment in the home, the workforce, and in society.

For myself the disparity for Australian indigenous women in education inclusion and other areas of life, is a glaring injustice. The right of women to choose their own pathways to life, to be mothers or not as they wish, be educated, to seek a career, to work, to be rewarded for their work and to be treated with dignity. All of these remain elusive abstractions of human rights standards, so many women never enjoyed, but nevertheless a very serious goal that all of us must pursue.

In Australia women have campaigned for and won a measure of equality. Australia is not the most progressive country in the world with respect to women's rights and enjoyment of their rights, nor is our nation at the bottom of the graph with the countries where women are treated as property, denied education, denied the right to own property, denied most basic freedoms, and treated in appalling ways physically and emotionally. Australia is in about the middle, and this is the international data from the OECD.

But let me turn to Libby Lyons's work. She is the CEO of the Workplace Gender Equality Agency, and Libby reported last year at CEDA events on the third year of the agency's reporting of this kind of data. It is worth reiterating the picture presented in the 2016 report here on work places with more than 100 workers and data compiled from 12,000 employers and four million employees. So that's the data snapshot. Men earn nearly $27,000 a year more than women, five out of six CEOs are men, but the pipeline of women into manager roles is strengthening. Women make up half of the nation's workforce but earn only 77 per cent of men's average full-time income according to the latest gender equality score card.

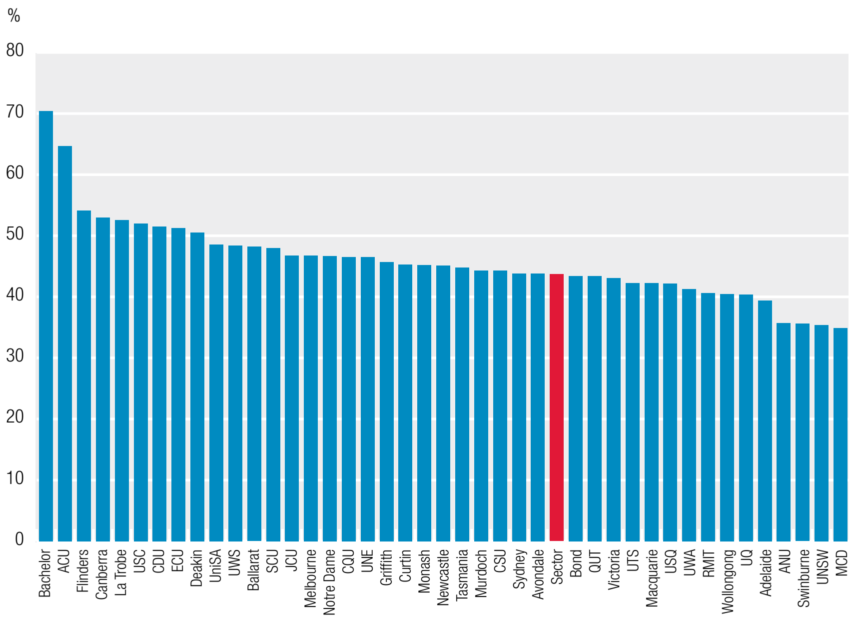
The new data shows the average full-time female employee took home almost $27,000 less than the average male employee in 2015–16 with the salary difference rising to almost $94,000 at the top level of management. Women are also underrepresented in leadership roles, holding just 16.3 per cent of CEO and 37.4 per cent of all manager roles. The score card shows improvement in key gender equality indicators with lower pay gaps and greater movement of women into management roles and increased action from employers to address gender equality. So, the percentage point movement since 2013–14 on full-time total remuneration is at 23 per cent. The largest industry gender pay gap is in the financial and insurance services at 33.5 per cent but it's down 2.6 per cent. Key management personnel who are women: 28.5 per cent – it's up by 2.4 per cent. Employers with policies to support gender equality – almost 71 per cent, and that's up 4.5 per cent. Employers who have conducted a gender pay gap analysis – 27 per cent, up three per cent. And appointments of women to manager roles – 42.6 per cent, and that's a new data point.

And so Ms Lyons reported the data confirms the gender pay gap is in favour of men in every industry and the underrepresentation of women in management and leadership roles. Employers are stepping up to the challenge in greater numbers with proactive gender equality policies. For the first time more than 70 per cent of employers reported they had policies in place to support gender equality. So that's your close the gap summary.

In my own sector, the higher education sector, there is good practice towards gender parity. The Universities Australia, inter-institutional gender equity statistics are summarised on this graph[1] and the red line is the median.

FIGURE 1

REPRESENTATION OF FEMALE ACADEMIC STAFF – THE UNIVERSITY SECTOR 2012 (2014)



Source: Universities Australia

So the representation of female academic staff across the sector stood at 43.9 per cent. The institution with the highest representation of female staff was the Batchelor Institute in the Northern Territory with 70.4 per cent at the other end. And this is the higher education institution with the highest proportion of enrolled indigenous students because of its founding purpose. But the very low numbers and proportions of indigenous people employed in the higher education sector and the parity goals present the nation with a challenge.

Kilborn, Lock and Scheepers in *The Conversation*[2] state the situation in this way: women may outnumber men in the ranks of the university students but men still outnumber women in leadership roles in nearly all areas of professional work places. But discrimination is not a simple problem and there are cohorts of men who are disadvantaged. Professor Eleanor Ramsay also writing in *The Conversation*[3] asked the question: there are fewer males at university so should they be an equity group? Her conclusion was this: the focus on total numbers of male and female students overlooks the differences in socioeconomic disciplinary and institutional patterns with large numbers of males more privileged on each of these dimensions. Thus simply targeting an increase in male student enrolments could lead to increased enrolments from high-socioeconomic status students. This would undermine the national target to reach 40 per cent of low-socioeconomic status students by 2020, and further increase males' disproportionate representation amongst the most privileged students. But our missing male students, she writes, are indigenous, from low-socioeconomic backgrounds and regional and remote locations. So targeting these groups makes a lot more sense.

So needless to say the goal of indigenous parity in the Australian workforce and especially in the higher education sector is a distant goal. One's professional life is shaped, yes, by family background, education, by career experiences and also by values. To speak of leadership is to speak of values. There is little I can say to an audience like this about leadership, except to say that for those who face discrimination, be it gender or race discrimination, the notions of equity, equality and dignity become the most important in seeking to fulfil our potential. To understand that such potential is greater than others can imagine becomes a particular kind of personal challenge demanding persistence and fearlessness. I have had to ask myself often: "What are you afraid of?" For me if the answer is the criticism or disdain of others who do not believe in my inherent potential, I can then feel comfortable in pursuing my goals regardless of the obstacles.

When I first enrolled at the University of Queensland I was one of two Aboriginal students. That was 1969. Now there are 30,000 indigenous university graduates. At the Universities Australia Conference in recent days Professor Peter

Buckskin reported that in 2016 there were about 400 indigenous academic staff working in Australia with 100 of those Associate Professors and above. Among the targets announced by Professor Tom Calma at the conference were these: maintain institutional growth rates for Aboriginal and Torres Strait Islander people's enrolment that are at least 50 per cent above the growth rate of non-indigenous student enrolment and ideally 100 per cent above. Aim for retention and success rates for Aboriginal and Torres Strait Islander students equal to those of domestic non-indigenous students in the same fields of study by 2025. Aim to achieve equal completion rates by field of study by 2028.

And Universities Australia has released a comprehensive report to justify the new targets for indigenous equity. In 2015 there were more than 15,500 Aboriginal and Torres Strait Islander students enrolled in universities. This equates to 1.6 per cent of all domestic enrolments. In the 2011 census 2.7 per cent of Australia's working age population identified as Aboriginal or Torres Strait Islander. Since the introduction of a demand driven funding system for universities, indigenous enrolments have increased year on year by up to 10 per cent with an annual average over the period of approximately eight per cent. There are now 70 per cent more Aboriginal and Torres Strait Islander students attending university than there were in 2008, while the overall domestic student population has increased by 37 per cent over the same period.

The indigenous enrolment growth rate in 2014–15 of about seven per cent, was more than triple that of the overall domestic rate. Since 2010 the number of Aboriginal and Torres Street Islander students graduating each year grew by 54 per cent compared to 21 per cent growth in non-indigenous student graduations. So those are very encouraging figures. But I've also mentioned the dark side and that is indigenous men are extremely disadvantaged in that picture. So our indigenous academic workforce has a very high proportion of females, our indigenous student population has a very high proportion of females.

The Closing the Gap data on overcoming indigenous disadvantage reported each year in parliament tell us clearly that there is a strong link between education and employment. At high levels of education there is virtually no employment gap between indigenous and non-indigenous people. The economic impact of parity goals in education for disadvantaged groups are now well understood, and I think that kind of data and also the workforce gender equity agency data puts paid to the arguments against affirmative action. These targets are affirmative action targets. The measures taken to reach them and the successors so far are affirmative action measures, and I don't think that any of us would argue against affirmative action when each of us owes our education and our careers to those affirmative action measures.

So each one of these indigenous graduates will contribute economically to their own families and to the nation. Among the growing yet small indigenous professoriate and doctoral graduates there are outstanding women and each one a leader in a special way. Today here with us is Tracey Bunda, Professor Tracey Bunda of the University of Southern Queensland. In Melbourne, I'm lucky to have as a colleague Dr Misty Jenkins of the Walter and Eliza Hall Institute. Here in Queensland executive leaders such as Pro Vice Chancellors Professor Cindy Shannon and Professor Bronwyn Fredericks. Doctors such as Dr Sandra Eades of the Baker Institute, and many others, have shown that leadership is not just a matter of excellence in one's field, but also a matter of values. Each one of my female colleagues in the sciences, the social sciences and the humanities who has made an outstanding contribution has resisted the soft bigotry of low expectations. We have in common our regard for others who deserve to reach their potential. This requires that we set ambitious targets for them and expect much more from them.

I sometimes think of this as survivor syndrome especially in a room full of men who see no need for these measures. But it's more than that. That's a negative way of looking at it. I've been fortunate to build up a circle of brilliant colleagues through having these values of wanting others to do well also because it improves all our lives. Success is measured financially but it is also measured in other ways. Our personal assessment of career satisfaction often lies in whether or not we have contributed to a better understanding of a problem, a better work place, a better society. In our daily lives this often comes down to whether or not we have reached out to others who are at risk of wasting their potential and offered them assistance in reaching their goals. This is the most satisfying part of being a teacher or a university lecturer. To develop successful strategies for populations larger than the people in our own immediate environments is another satisfying part of professional life. Needless to say gender equity has an economic impact. We need only think of the wasted potential of all those women who did not succeed in their fields because of gender discrimination. The same can be said of racial discrimination. I think of the thousands of indigenous people who might be enjoying the same standards of living as other Australians if they had been accorded equitably the opportunity of education.

The wasted potential, the loss of economic impact of the many thousands of people denied the opportunity to achieve their ambitions can be measured, and in some of the literature has been measured. Feminist history teaches us that the dissolving of the boundaries of the domestic roles attributed to women was a necessary part of the campaign for equality.

Beyond the domestic confines so rigorously maintained in an older more sexist Australia lay an economic frontier. This is why the reckoning of gender equity by the Workplace Gender Equality Agency is crucial and why the data it collects and reports is important. This is why the targets set for indigenous parity are important. If Australian governments and institutions regard the economic potential of women in the same way as for men and take seriously the economic waste that discrimination incurs, we begin to see change. Sharp and Broomhill[4] discuss for instance the concept of gender budgets now introduced in 40 countries around the world. Our own Department of Foreign Affairs and Trade has a gender equity approach to aid programs with targets of 50 per cent female involvement in supported projects. Australia's *Gender equality and women's empowerment strategy* of the Department of Foreign Affairs and Trade applies across all of the department's work, and I often wonder why there isn't such a strong policy domestically.

The new frontier involves the challenges posed by the fourth industrial revolution. Australia has a STEM problem. Our governments are failing to produce the numbers of graduates from schools and institutions of higher education in the science, technology, engineering and mathematics fields. This applies across our population and special policy and program attention is required for women and disadvantaged groups. In the same way that the progress we've made in the last 50 years on wage gaps, on gender equity in the work force has required special measures. The demands of a rapidly changing economy and work force with respect to investment in education and equity should be higher on the national policy agenda.

My university has a formal list of graduate attributes and these have made me think about the nature of citizen attributes that Australians might have. A full complement of desirable attributes would include a sufficiently high educational standard to provide the ability to compete in the new digital workplace environment: driverless cars, trucks, buses and entire operations operated by an automated framework are simply not news anymore. A high level STEM competence for all citizens might soon become a universal standard expected of all.

Women and disadvantaged groups must be catered for as we move further down the path of this industrial revolution. To fail to include them would be to waste their economic potential and to create an underclass of digital marginals. I will be investigating further the new report from Universities Australia on reaching indigenous parity with regard to this challenge. All Australians in the workforce will be affected, however, by the fourth industrial revolution. Presentations at the World Economic Forum in Switzerland have warned that the fourth industrial revolution will have an unevenly negative impact on the economic prospects of women even though the sweeping changes caused by disruptions to the labour force will result in more women progressing into senior positions. Automation and disintermediation as imminent results of a fourth industrial revolution will lead to job losses that will impact both men and women equally. That's a prediction for the United States of America and these impacts will vary from country to country, but Australia is not prepared for them in terms of education and labour force change strategies.

Alexandra Georgescu, Oracle University Marketing Manager[5] has estimated the impacts in the US in the following: "Given women's low participation in STEM professions some of the fastest growing areas of job creation, women stand to gain only one new STEM job for every 20 lost across other job families".

I note that CEDA has paid attention to this problem and so too the Federal Government with its industry 4.0 taskforce and other initiatives. There is much more to be done. We need ambitious targets for women and for disadvantaged groups across our population to ensure that our nation avoids increasing the economic wellbeing divide based on ability to perform in an increasingly automated work place.

It makes sense that targets are feasible and staged. It is important that the issues are rigorously measured and reported. The right target is always parity but getting there as we know is difficult. It has been 50 years since I first entered a university as one of only two indigenous students and at a time that the idea of women university graduates was still highly suspect, especially here in Queensland. Today I can have this discussion with you as we consider the problem of gender equity. My dream was to be a scientist but racial discrimination prevented me from pursuing that course at about the age of 12. I have succeeded nevertheless because of another dream, the dream of equality. It is a matter for all of us to consider now whether we allow sub-optimal and out of date attitudes to damage our nation, our economy, and waste the potential of more than half of our citizens.

Endnotes

1 Universities Australia, *Selected Inter-Institutional Gender Equity Statistics – Australia wide – 2012*, November 2014, page 9.

2 Kilborn, V, Loch, B and Scheepers, H. "Here's how to get more women promoted to top jobs in universities." *The Conversation*, 27 November 2015.

3 Ramsay, E. "There are fewer males at university, so should they be an equity group?" *The Conversation*, 7 September, 2015.

4 Sharp, R and Broomhill, R. *A case study of gender responsive budgeting in Australia*. UK Commonwealth Secretariat, 2013.

5 Georgescu, A, "Women and work in the fourth industrial revolution," *Oracle University training and certification blog*, 22 November 2016. Accessed from https://blogs.oracle.com/oracleuniversity/women-and-work-in-the-fourth-industrial-revolution

> THE BUSINESS OF AGE

> 16 MAY 2017

> PERTH

Ageing successfully in the absence of the Fountain of Youth

Professor Susan Kurrle

Curran Professor in Health Care of Older People,
Faculty of Medicine, the University of Sydney

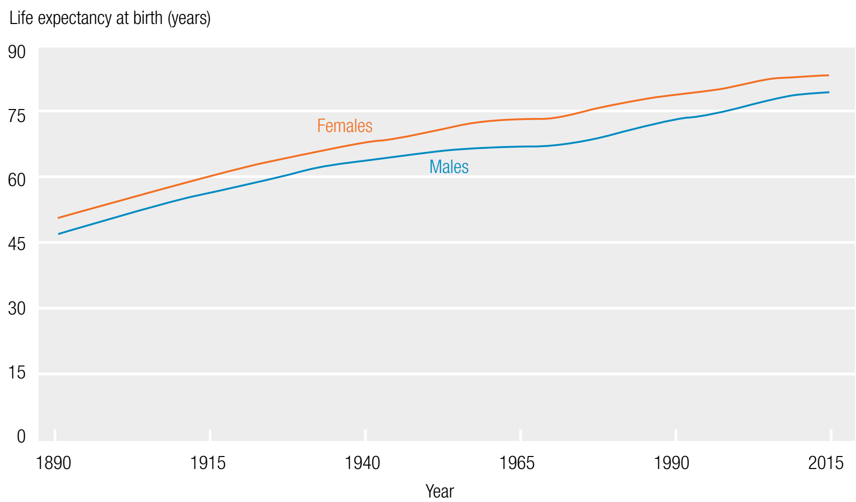
Around 15 per cent of Australians are aged 65 or older with many living well into their 80s and 90s. How we care for our ageing population has serious ramifications for our economy. Aged care is a topic that will increasingly be a focal point of public policy development.

In her presentation to CEDA's panel discussion on the business of age, Professor Susan Kurrle outlined what we need to do at an individual and community level to ensure older Australians live healthy, independent lives and what the ideal aged-care facilities of the future might look like.

Thank you CEDA for having me, it's a very different audience for me to my usual medical students and colleagues, but I find it really interesting that we are all here today. There's lots of contradictions in ageing and one of them is we talk really negatively about old age, about the elderly, about crumbles, about geriatrics, about the grey tsunami, about what it's going to do to our economy. But I will bet there is not one of you in this room that does not want to have the opportunity to live into old age. We really need to think about what we are doing personally and professionally, individually and as a community to make sure that we are ageing successfully. That's what I am going to talk about today. I am a Geriatrician. I have the dream job. I work half time clinically, both in Northern Sydney and in Southern New South Wales, so I see city and country. I am mainly in the community, but I also do research and I have had this wonderful opportunity with the NHMRC Cognitive Decline Partnership Centre where we are doing some very interesting research and you are going to be the first to hear some very interesting results.

Life expectancy – we have to start with figures. We are incredibly lucky in Australia. I don't know how many people realise that every year in Australia we add at least one month to our life expectancy, so we are continually going up, as figure 1 shows.

FIGURE 1
LIFE EXPECTANCY IN AUSTRALIA: MEN – 81 YEARS, WOMEN – 85 YEARS



Source: Australian Institute of Health and Welfare

Men can live currently to an average age of 81 – but there are plenty who live longer – and women to 85. Compare this to the US. The US has a life expectancy that is five years less than ours. They are the worst of the OECD performers and ironically in the next 25 years they are going to be overtaken by Mexico, so they are going to have to import people later.

We all know there are more older people. In 2016, 3.7 million people or 15 per cent of Australians were aged 65 or older. It is predicted this will rise to 8.7 million or 22 per cent by 2056 and then 12.8 million or 24 per cent by 2096. I think what is really important is that older people are still independent and healthy. Incidentally this is looking at older people as 65 and older. I can tell you that those of us that are getting closer to that believe very firmly that middle age doesn't end until at least 75, and old age probably begins much more at 80. That being said, as far as figures go, it's 65.

Now two thirds of older people aren't using services and three quarters of them still own their own homes. I think what is really important is that at least 13 per cent of people aged 65 and over are still in paid employment and there are an awful lot in unpaid employment. A million children a year are cared for by grandparents. I don't know how many of you are aware of that, I wasn't until I started looking at this, but we do know that if you care for your grandchildren one or two days a week it does your brain a lot of good. If you care for them any longer than that, it doesn't.

I think it is important that most older people don't smoke. Forty-one per cent are still sufficiently active, which means about 60 per cent aren't and you will hear me say more about that.

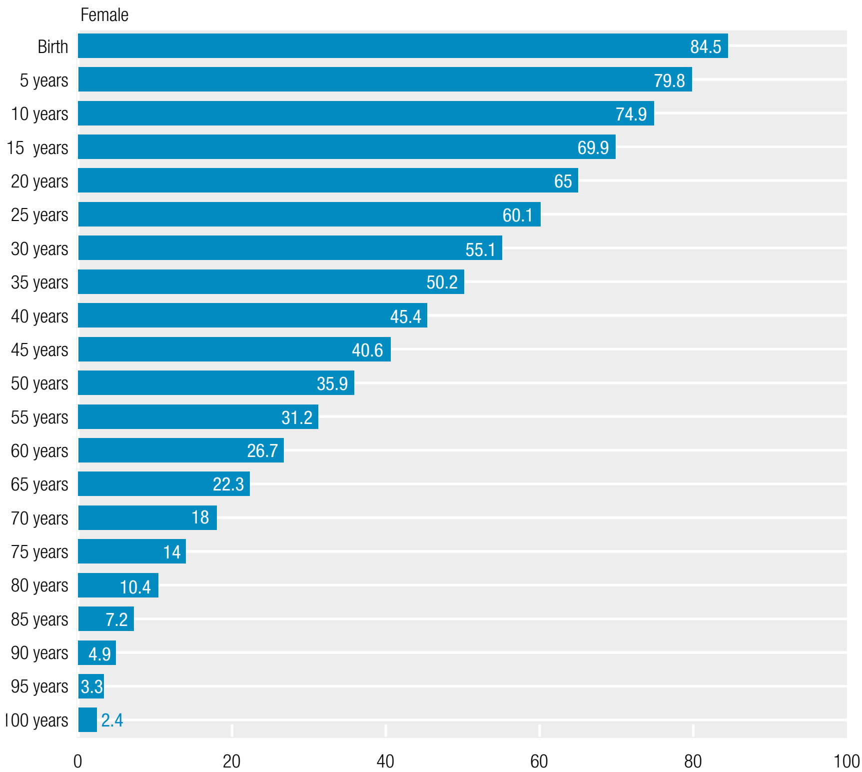
Just quickly, how long have we got to live? This (figure 2) is for women, men are similar. Even at 100 you have got two and a half years of life expectancy. If you have a look at where you are on that graph you still have a lot of life to live and we have to be thinking very much about what we are doing to live well into that time.

We don't have the Fountain of Youth yet, so what can we be doing? I want to give you some examples.

I don't know how many people know Madam Jeanne Calment, she is the longest living human that's known. She is dead now, she died about 20 years ago, but we know her birth date and we know her death date. Now, just consider her brief CV or the synopsis of her life. This is what we should be doing. She took up the sport of fencing, not the paddock sort, at 85. She rode a bicycle to 100 and would have ridden it longer except she got macular degeneration, visual problems, and the Gendarmerie in Arles in Southern France

FIGURE 2

HOW LONG HAVE YOU GOT? EXTRA YEARS OF LIFE FROM YOUR PRESENT AGE



Source: ABS life tables 2013–2015

where she lived confiscated her bike because she was starting to run into people. She lived alone up three flights of stairs until she was 110. She drank a large glass of port wine every day and we will talk about that in a minute. She smoked two cigarettes a day but she walked up and down three flights of stairs every time she smoked one because she hated the smell, so she probably cancelled that out, and she ate a kilo of dark chocolate a week. She gave up smoking at 120, which was interesting, two years before she died, some would say it killed her. She poured olive oil on her food and rubbed it on her skin, the Mediterranean diet. I guess this is the sad bit, she outlived a husband, a child and her grandchildren, but not her great grandchildren. She died at 122 absolutely cognitively intact and for me that is a good thing. We will talk about dementia in a little while, but she is a really good example of staying very fit and active and involved. When you look at the studies of Jeanne Calment and the other centenarian studies from around the world there's a number of very clear principles.

Having the right genes is really important, because longevity is hereditary. But we can't do anything about that – you have got what you've got. Having the right personality is really interesting; learning to see the glass always as half full, rather than the negative, depressive sort of person, they don't live nearly as long and it certainly appears to be related to attitude.

Be physically active and if there's one message you take away from me today it is how important being physically active is, it's probably the key to almost everything. Thirty minutes, five times a week of brisk walking is enough to flush out your brain with oxygenated blood and help keep everything going. You can do whatever sport you like as long as you are exercising briskly for at least 30 minutes, five times a week. Probably resistance training, weights are also good. You don't have to join a gym it can be as simple as doing sit to stand exercises from your chair, 20 or 30 or 40 times in a day because that is using your body weight as resistance.

Being mentally and socially active is important and never ever retire. I think that's really important, or if you retire, retire into something else. Think about U3A, University of the Third Age, Men's Sheds are wonderful, playing a musical instrument, learning a new language. One of my ladies who is 93 is learning Spanish. Being socially active, being involved is really important. We say to people if you can't get a lot of activity then volunteer, it's very important.

Eat and drink well. Eating the Mediterranean diet is the best one for health. I think of it as avocadoes and olive oil, but it's the good fats, it's plenty of vegetables, legumes, maybe not as much red meat, but every Mediterranean diet includes a little bit of alcohol. That brings me to drinking well, and I don't just mean the green tea, which is very good for you, one to two drinks of alcohol a day is probably better than none, in terms of preventing dementia and other problems, one to two drinks a day is good. But remember just because a little is good, more is not better. And we say one alcohol free day a week. There is good scientific evidence for that and I think it is important to say it. Don't smoke, that's pretty obvious, and maintain independence. Don't accept help if you don't need it. We are all doing it now, we all catch taxis instead of walking, or get a lift when we should be walking.

So, what are we aiming to avoid as we age? The three most common causes of death in Australia now are: heart disease, that's predictable, but how many of you realise that dementia is now the second highest cause of death in Australia, followed by cerebrovascular disease? Dementia has overtaken lung disease and cancer, all forms of cancer. The last important one we want to avoid is the frailty and loss of independence that comes as we get older. If you ask older people what they most fear they will tell you: one dementia; two loss of independence due to frailty.

As we get older and when we don't exercise our muscles get infiltrated with fat. That's why I am saying again exercise is so important. Your thigh muscles are your independence muscles, they get you out of a chair, out of a car, off the toilet. You don't have those, you become very dependent, hence my saying sit to stand exercises are very good.

Then dementia – dementia is what I do on a daily basis and I can't do a talk without mentioning it. We know that most people want to live to 85 or 90 and a few brave souls do want to live to 100. At 90, one in two of us will have dementia, which means that if you don't have it you will be living with someone that does. This is perhaps one of the negatives about living longer. Remember dementia is the generic name for memory loss, problems with thinking, function and personality. Alzheimer's Disease is the commonest cause in Australia and we still don't know the cause of Alzheimer's Disease – 110 years after Alois Alzheimer first described it we still don't have a clue why some people get it and some people don't, it's a little bit of genetics, but most of it's a mystery. We don't have a cure, yet.

We know that more than half the people in residential care have dementia, although most people with dementia are still living in the community and the costs are astronomical. I never know how these costs are calculated but I know just residential care for people with dementia is well over a billion dollars a year to the Australian Government, so across Australia it's huge. We know that physical inactivity contributes to 21 per cent of dementia. One in five cases of dementia can be directly said to be due to not exercising.

Again, we need to look at prevention. We get Alzheimer's Disease in our brains up to 30 years before we get the cognitive changes, so there is lots of time to be doing that exercise, to be drinking that small amount of alcohol, to be preventing it happening and being physically, mentally and socially active are really important, and it is never too late.

Ruth Frith, an Australian, took up exercise at 75. She still holds a large number of world records in over 100 years of age in hammer throw, shotput and javelin. She died at 104. She was still riding her exercise bike a few months before she died, but she is a good example of it's never too late to start.

So that's what we can do at an individual level. What about at a community level? What should we be doing? We should be thinking about health-friendly communities, the idea of adequate footpaths, parks, encouraging people to ride bicycles. In Sydney every time there's a new cycleway all the motorists and taxi drivers protest, yet this is what we should be doing. I work in the Netherlands for a month every year and I have my own bike there. We ride bikes everywhere. Everybody rides bikes. You are so much fitter and healthier and safer when you are active. Obviously healthy foods are better than junk foods and smoking I have already mentioned.

I also want to mention dementia-friendly communities. If we all want to live to 90 and one in two of us will have dementia we need to live in a community that supports us. Japan has done it superbly. They are a dementia-friendly nation. Kiama in New South Wales is a good example. They have trained their bus drivers, taxi drivers, police, bank tellers, shop assistants, all of them know what dementia is and what people might need that have dementia. A dementia-friendly community is one where people with dementia and carers are empowered, supported and included, they are not locked in gilded cages. There is a Men's Shed in, I think it's Kiama, where they have included men with dementia, just with a bit of supervision and they are loving it. In the UK, they take them out, they are supervised and supported but allowed to be free range in a way that perhaps we are still not doing here.

Now, residential aged care, and this is, the new stuff. Our partners, of whom Brightwater Care is one, were really keen to know, this is the aged care providers, what is the cost of good quality dementia care. Alzheimer's Australia, which is also another partner, were also very keen to know this. This was a research activity that we funded as part of our partnership centre. It has been incredibly detailed and you are getting the results today hot off the press.

There is lots of discussion about the financial side, what is the best model of residential aged care in terms of cost-effectiveness, return on investment? From my point of view what is the best model of care for the person with dementia? We did something really revolutionary, we asked the consumers what they thought. This particular research is probably the most detailed research that has ever been done in Australia in terms of looking at costs. We interviewed 541 residents, most with dementia, and their carers, so hundreds of hours of interviews in 17 facilities, both home-like, and I will talk about that, and traditional, in four organisations across three states in Australia. These were not-for-profit facilities. The collection of financial data was incredibly detailed. They used the Aged Care Financial Performance Survey. The statisticians and health economists spent weeks with each aged care organisation making sure they got all the costs right. Just to remind you, traditional model, we are talking about the institutions. This is what's still being funded these days, they are like big hotels or hospitals, large, fairly impersonal and with lots and lots of residents, anything from 30 to 180 residents. That's your traditional facility. Your home-like facility, otherwise known as cottage model of care or domestic model, is where you have 15 or fewer residents, varying from six, seven, eight through to 12 or 14, where the kitchen is in the cottage and meals are prepared there, where it's their home. The dog can visit if they want. It's their home, it's not seen as an institution. That's the home-like facilities.

We looked at quality of life and quality of care. We looked at the activities that went on and health care costs, so we have got all the Medicare data, the linked data, all the PBS, the prescription medicine data, the number of times people were admitted to hospital. What we know is that for people with dementia, the home-like model of care, the cottage model of care showed significantly higher quality of life, lower hospitalisations, particularly presentations to the emergency department, and lower use of psychotropic medication, that's the anti-psychotics, anti-depressants. What we found, and this is cutting edge, is that the home-like model is more cost effective than the traditional model.

In the home-like environment you are looking at total costs in the $60 thousands, and in the traditional environment costs are in the $70 thousands. This is an annual difference of around $10,000. I don't know how many people can get up and say we should keep building traditional facilities when there are better ways of caring for people. For me the costs are important but more important for me is the quality of life. The EQ-5D scale is used all around the world and higher is better. It was much higher in the home-like model, and the quality of care, using a six-item scale was also better. I think that's really important.

So, what was important to the residents? Small size, that was the most important thing, so a small home-like environment. Access to outside areas was really important where you didn't have to have a staff member to open the door or go with you, so being able to freely go inside and outside. A staff member allocated to each resident so that you had the same person helping you with showering and dressing, the same person helping you when you are making your breakfast and eating it, the same person perhaps doing things like cleaning. That continuity of care is very important and is much easier to provide in the home-like model of care. Meals prepared in the unit kitchen is really important and residents assisting in meal preparation. This is like a home environment. The summary of my colleagues in Flinders University was that they (residents) not only like it more but it's better for them, and I think that's really very important.

One thing, we know they don't cost more to build. I was on the board of a not-for-profit aged care provider that builds these sort of facilities. They are not more expensive to build. We know that, but if your land is restricted what do you do? High rise may be necessary. How do you get the cottage model access to outside in a high rise?

A facility was built and opened last year in Northern Sydney, it's a HammondCare organisation facility, they have got each floor as a separate cottage. It is really interesting how they have done it with enough access to outside to probably satisfy most people. I think that's probably going to be one of the ways of the future in urban areas. In rural areas where the land is not so expensive – it doesn't matter quite as much.

Finally, what do I think the facilities of the future might look like and where would I want to live when I develop dementia? Group homes generically are used more for younger people with disability. Group Homes Australia took that model with a particular house in Northern Sydney. I have two of my patients in there so I visit often. I am just blown away with that model. The big problem is it is incredibly expensive because it has no Commonwealth funding. It is expensive – six to eight people all in a home as if it was their own home. And it works amazingly well with different ages. The home that I visit often has, I think the youngest is 58, the oldest is 92.

If people say to me what do I want, I would love to see that as the way of the future. We just have to work out how to fund it.

Thank you.

> STATE OF THE NATION

> 31 MAY 2017

> CANBERRA

Enabling Australians to be their best

The Hon. Malcolm Turnbull MP

Prime Minister of Australia

Raising the top marginal tax rate, re-instating the deficit levy on high income earners and amending the Medicare Levy are not part of the Government's economic agenda according to Prime Minister Malcolm Turnbull.

Delivering a keynote address at CEDA's annual State of the Nation event, the Prime Minister said providing opportunities for Australians to achieve their best was the starting point for his Government's economic policies and the Budget. Mr Turnbull cited education, reducing unemployment and enabling equal opportunity as key government priorities.

Yanggu gulanyin ngalawiri, dhunayi, Ngunawal dhawra. Wanggarralijinyin mariny bulan bugarabang.

We are meeting on the lands of the Ngunnawal people. We acknowledge their elders past and present.

Thank you very much for your kind introduction. It is wonderful to be here at CEDA and with so many of my parliamentary colleagues. You've identified the Foreign Minister Julie Bishop, Josh Frydenberg is there and so many others, so many other senior members and members of the parliament here today.

We are committed to the great work that you are engaged on, the great work of national prosperity.

Policies and platforms will come and go, but right at the heart of our political contest is this very clear line – on our side of politics, we believe that government's role is to enable you to do your best. Our opponents in the Labor Party believe that government's role is to tell you what is best.

As Liberals, we know that while we are all born with equal rights we do not always have the same opportunities and so our job is to ensure that the opportunities are there to get an education, to get a job, to start a business, to realise your dreams.

I believe that in an egalitarian nation such as ours, it is the birthright of every Australian to have the opportunity to achieve their potential, through hard work and determination.

The Government that I lead is committed to providing the opportunities for Australians to achieve their best, built on a foundation of security that enables them to strive, and to thrive.

And that is the starting point for all of our policies, our economic plan and the Federal Budget.

Now joblessness entrenches poverty and inequality.

As Dr Philip Lowe the Governor of the Reserve Bank, said recently: "The best thing we can do for income inequality is to make sure people have jobs".

The disadvantage of joblessness is not just borne by those who are unemployed, it affects their family too. One of the greatest challenges facing successive governments is the number of jobless families in Australia, and the impact of intergenerational joblessness.

Academic performance is highest among children from a family with no history of joblessness and lowest for children with two generations of joblessness.

The best way to share the opportunities that come with economic growth is to make sure families at risk have someone in a job, bringing home a regular pay cheque. This improves not only their prospects and living standards but that of their children for years to come.

And so that is why every element of our economic policy is directed towards this goal – getting more people into jobs.

So we are breaking down barriers to employment with policies that support those most in need, while maximising people's ability to support themselves and carve out their own future.

We are encouraging Australians off welfare and into the workforce by strengthening participation requirements.

And we are better targeting the Government's support so that it gives job-seekers what they need to find a good job.

For example, we have earmarked $263 million to expand ParentsNext, which supports young parents to plan and prepare for employment.

Our childcare package will support around one million families who rely on childcare to participate in the workforce, providing the highest rate of subsidy to those with the lowest income.

And we are investing $840 million in a Youth Employment Package to increase the employability of vulnerable young people.

So our policies are not just breaking down barriers to work, but they are also supporting employers to create more jobs.

We are reducing taxes on business to keep Australia competitive. We're replacing the 457 visas with two new programs with stricter entry requirements that ensure we can still bring in the best and the brightest – after all, immigration policy is in a sense a recruiting tool – but at the same time making sure Australians are first in line for jobs.

And alongside the new visa programs, the $1.5 billion Skilling Australians Fund will support young Australians to develop skills in the priority areas through apprenticeships and traineeships, and ultimately help turn our skills gap into job opportunities for Australians.

A world-class education is one of the best ways to enshrine that equality of opportunity, of which I spoke.

Now, I'm an example of the motivation behind our education policy – great teachers change lives. Great teachers changed my life.

And I watch proudly as does Lucy every day, as our daughter Daisy changes the lives of her students.

I want all Australian children to have great teachers who encourage them to reach their potential.

Shortly before the Budget, we announced a major education reform – the introduction of transparent, needs-based, school funding as recommended by David Gonski. Often cited, but until now never carried into effect.

We have to confront the fact that more money has not meant better results for our students. The evidence is unequivocal.

Despite record increases in funding, national and international reports have shown at best stagnating, and at worst, declining performance in our education system.

Students are becoming less competitive internationally and their results in absolute terms have been going backwards.

Our NAPLAN results have not changed significantly over the last few years. Many have been the same since 2008.

And we are being outpaced by poorer nations.

Our maths and science results, for example, have mostly plateaued since 2011, while countries like Kazakhstan and Slovenia have gone past us.

Now not every Australian school has the funding resources that it needs. Some schools were badly under funded by Labor's mismanagement.

Our new, needs-based, transparent, consistent funding will address that mess which they left us with.

So this week in the House we passed legislation which delivers an $18.6 billion increase to schools funding.

And Labor voted against it, revealing that despite talking about needs-based funding, they prefer the special deals, 27 in number, which were entered into in great rush at the end of the Gillard Government to shore up their political fortunes.

Our funding model will correct the inequities and inconsistencies in the current system by ensuring students with the same needs attract the same support from the Commonwealth, regardless of where they live.

We must move on from the funding wars. We have to move on to ensuring that our children get the quality education and the outcomes that they need to strive and thrive in the 21st century.

So that is why we have asked David Gonski to lead a new inquiry – Gonski 2.0 – to advise the Government on how extra Commonwealth funding should be used to improve results and give our future generations the best start in life.

Now our approach to schools funding is another demonstration of the great truism in Australian politics: if you want policy that's more than empty rhetoric – policy that is properly funded, implemented and works for the nation – elect a Liberal Government. Labor floats grand schemes. Liberals fund and deliver vital services.

Labor failed to deliver the funding required to guarantee quality education, a health system that we can rely on and pay for and a Disability Insurance Scheme that protects Australians living with permanent and severe disabilities.

In the case of disability funding, it was a shameful abdication of responsibility to some of our most vulnerable.

Rolling out the NDIS, and ensuring that it is properly funded, is a key priority for government and for people with disabilities, their carers and families.

The NDIS savings fund, once legislated, will make this a reality.

We have established the Medicare Guarantee Fund to secure the long-term future for the Medicare Benefit Schedule and the Pharmaceutical Benefits Scheme. The money will be placed in the fund every year – transparently, assuredly, responsibly.

This is the great modern test of political character. It's one that our opponents have failed.

Only Liberal governments are able to deliver the services and the quality of life that Australians have come to expect and we will do so living within our means so that we are not asking future generations to pay for it.

Now if we recognise that we are all born equal, then surely it follows that everyone deserves an equal chance of improving their stocks in life.

One of the marks of an advanced society in a developed, well-functioning economy, is that each generation strives to improve on the last and has a good chance of doing so.

Liberals not only believe in this ideal, we believe it is the government's duty to enable it.

Remember the clear line between us and our opponents – we believe that government's role is to enable you to do your best, our opponents believe, deep in their DNA, that government's role is to tell you what is best because they believe government knows best.

We are enablers. We know that you cannot reduce inequality of opportunity by putting up barriers that stop people getting ahead. Rather, those barriers entrench the wealth or the poverty that people are born into.

What more hopeless, defeatist principle could there be than the one that tells people they cannot aspire to outdo their parents?

What is more natural, more human, than to do all we can as parents, to ensure that they can outdo us?

That is at the very core of our egalitarian nation, that we are not limited or defined by where we are born, who our parents were or where we went to school.

There is nothing more Liberal than doing all we can to ensure that every Australian has the same opportunity, the same chance, with hard work and enterprise, to get ahead and realise their dreams.

That's why our housing policy improves the integrity of negative gearing, rather than banning it.

We don't want to stifle the aspirations of the mostly middle class wage earners who wish to create a better future for themselves and their families.

We won't deny workers that path to prosperity. Instead, we have taken a comprehensive, multi-layered approach to the complex problems of housing affordability.

It includes a new approach to urban infrastructure in cities, with the Commonwealth acting less as a dumb ATM and more as an investor.

A partner in City Deals, taking a stake in city structure not in the sense of only an asset or portion of it, but in owning the outcome of the planning and collaboration.

For the same reasons, we do not believe that permanently increasing the combined top marginal tax rate to 49.5 per cent will make us a more prosperous nation.

The last time the top rate plus the Medicare levy was higher, was in 1988 when it was 50.25 per cent. Now returning to that bygone era would send a very poor signal to Australian workers – don't bother trying to earn just over two times average weekly earnings because once you do, half of every additional bit of effort, half of every extra hour you work, half of every new idea you generate, indeed half of your extra perseverance, determination and enterprise, belongs to the government.

That undermines aspiration and fairness while worsening incentives and economic efficiency.

Just as we seek to improve the equality of opportunity for today's Australians, we are determined that future generations will not be stuck with the bill and have their opportunities diminished as a result.

It isn't fair to ask our children and grandchildren to pay for the lifestyle we demand today.

It's not fair to shirk the hard decisions now, to do so would put our hard-earned AAA credit rating at risk, drastically reducing the quality of life of Australians in the future.

So we have made the tough and pragmatic decisions to put the Budget in a stronger position.

Yes, Liberals prefer lower taxes but we dislike unsustainable deficits and mounting debt even more.

We have delivered all of this while sticking to our values. All of our new spending decisions were paid for by reducing spending elsewhere in the Budget.

Government spending will fall to 25 per cent of GDP by 2019–20, around the 30-year historical average. And average real growth in spending under the Coalition Government, is lower than the average of each of the previous five governments extending back almost 50 years.

We have been criticised in some quarters for taking new steps in the Budget and in our economic plan that preceded it. It's been suggested, in some areas, that this is somehow or other inconsistent with the traditions of the Liberal Party.

Paul [McClintock AO, CEDA National Chairman], noted that Larry Marshall of the CSIRO and Jeff Connolly of Siemens were here – their organisations, their companies being the sponsors – and each of them great sentinels of innovation.

CSIRO in particular, Australia's pride, an extraordinary powerhouse of innovation and research that has spanned generations.

But you know, when you talk about generations and you talk about the traditions of my party, the Liberal Party, and cast back to a speech Robert Menzies gave on 12 April 1965 here in Canberra. He reflected on the success of his governments since they had come into office from 1949.

This is what he said: "Over the whole of this period of 15 years, we have won because we have been the party of innovations. Not the party of the past. Not the conservative party dying hard on the last barricade but the party of innovations".

We see the world as it is, as Menzies did. We see it as it is and we adjust, we develop, we innovate. We are a dynamic political party, a dynamic government that recognises that we must be prepared, as Larry and Jeff understand very well, to do things differently to achieve our objectives and to realise and embody our values.

Every day we have to ask ourselves this question – are we enabling Australians to realise their dreams? Are we giving Australians, born equal, but too often denied equality of opportunity, are we enabling them to have that equality of opportunity? Are we doing everything in our power to encourage them to learn and to earn, to strive, to thrive, to get ahead? Are we doing everything we can to harness their enterprise, their ingenuity, their creativity?

And when we do, we are doing our duty to them.

It's our commitment to Australians, their enterprise, their passion, their genius.

We are the enablers of Australian politics and our Budget, our policy, our economic plan, every element in our program enables Australians to be their best.

Thank you very much.

> STATE OF THE NATION

> 1 JUNE 2017

> CANBERRA

Putting fairness back into the mix

The Hon. Bill Shorten MP

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

Taxation reform is shaping up as a key difference in the policy platforms of the Government and Opposition.

In his address to CEDA's annual State of the Nation event, Opposition Leader Bill Shorten said a future Labor Government would target loopholes in the tax system that allow an unfair advantage to a fortunate few at the expense of the majority of taxpayers. He stressed Labor policies would focus on a better deal for working and middle-class Australians to address what he described as a lack of balance in Australia's economy.

I'd like to acknowledge the traditional owners of the land upon which we meet and pay my respects to elders both past and present.

The CEDA conference has become a fixture in the parliamentary year. It is a chance for both sides of politics, and indeed all levels of government, to come together and to talk about the big challenges facing our country. I think it illustrates in its own modest way one of the great things, one of the unique things that we don't celebrate enough about our Australian democracy: that we tend to go our own way in this country.

Our parties, our leaders, our people have always rejected extremism on both sides from the far left and the far right. We have an adversarial system of politics, I acknowledge. You just have to watch five minutes of Question Time to understand that. But I believe that we're in the business of the clash of ideas, not of ideologies; of competing priorities and policies, not prejudices.

The positions that we take in the community, the votes we cast in parliament are based upon our values and our view about what is in the best interests of our nation. And when we disagree and when we oppose, we do so because each believes there is a better way. And in Labor's case, a fairer alternative.

So, this morning I'd like to discuss some of my priorities for Australia in the short term, in the medium term and in the long term. And I believe it is the job of government to give equal time to all three. If you're only focused on the next day or the next opinion poll, then the bigger problems keep mounting and mounting.

And if you only take that bird's eye aerial view of Australia in 2030, then you can fly over the obstacles and daily hardships that our citizens are facing right now. Now, I believe the short-term problems are clear to everyone in this room: we have a lack of balance in our economy; confidence in demand is simply too low; productivity isn't growing fast enough and its dividends are not being shared with the workforce. Put simply, economic growth is still too low and over-reliant on global terms of trade.

Underemployment and casualisation are at all-time highs and wages growth is at a historic low. Now, some of the problems with wages are cyclical. It's a legacy and part of the winding down of the mining boom. But there is also a problem with bargaining in this country. There are too many excuses for employers now not to negotiate – especially if they've used staff simply as a unit cost, or they see their competitors unilaterally terminating existing industrial arrangements. It's a disincentive for the good employers to keep bargaining.

And we see the problem at the heart of the cut to penalty rates too. Workers in retail, hospitality, pharmacy and fast food did not trade their Sunday rates for a better base rate of pay, or a better set of conditions. They were just cut, rewarding the employers who've opted not to bargain. None of this, this wage cutting and the failures of enterprise bargaining – which have driven years of productivity growth – none of this improves our competitiveness, our productivity or our economy. Instead what we have are stagnating living standards for working and middle-class Australians.

I think the final short-term challenge is also the perpetual responsibility of every government. How do we maintain the great Australian safety net, which lifts people out of poverty, which supports people into work, which empowers people of disability and their carers, which delivers security and dignity in retirement, and of course ensures a strong Medicare if you get sick? They're the short-term challenges.

In the medium term, this morning I want to submit to you that our challenges are more structural. We have loopholes and concessions in our tax system utilised by the fortunate few, which puts much more of the burden on the ordinary pay-as-you-go tax payers, distorting the housing market and making budget repair more difficult.

I also believe that we are not making the right investments in human capital: in schools and skills in the early years of a child's education, at universities and at TAFE. Every dollar that we put into education and training is an investment in our ability to compete, to collaborate and to cooperate with the amazing nations growing to our near north.

It's an investment in a better skilled, more productive workforce for employers and business. Let me be clear: we've been very fortunate with the mineral resources and the investment that's gone into it, and as a consequence our terms of trade are very good. But that is the luck that the world gives us because they demand our commodities. Our challenge is: what is the luck we make ourselves? How do we make sure that we benefit from the Asian century? How do we make sure that we don't fall behind? How do we stay at the front of the pack?

It's the investment in people; it's the investment in education and skills and training that is how Australia makes its own luck to be a clever country. In addition to this human capital challenge we need a new approach to infrastructure clearing the way for superannuation funds and others to invest in good projects to cut congestion, to connect the regions, to create jobs and apprenticeships. The money is there we just need to help create the ideal flow so that our deep and liquid capital markets can invest in the productivity building infrastructure that this nation so desperately needs. And of course after a decade of toxic politics around climate change we are still stuck. We have an energy market unsuited for the 21st century. We have investment uncertainty caused by national policy paralysis holding back jobs and forcing energy prices up. And we have infrastructure operating beyond its design life. For the sake of our economy, for the sake of our environment we just need to put an end to the climate change wars.

In the long term of course we have got the big questions of population. Starting with half the population, the gender pay gap has barely moved in 30 years. And until we get serious about genuine equality for women in Australian life we are putting a handbrake on our economic future. Of course Australians are living longer. And we need quality preventative health, Medicare, hospitals and aged care that can increase not just the length of life but the quality of life. We need to maintain and improve our superannuation system to take the pressure off the cost of the pension and to take pressure off retirees.

Now all of these challenges the short-, the medium- and the long-term require a government's time and energy and resources. And if we want to fund our investments in the future and repair the budget, if we want to guarantee that we can build to last and to pay for it, I believe we need to address some of the structural problems in our tax system beginning with an examination of unaffordable concessions.

Now some tax concessions reward a social good like donating to a charity. Others recognise that no matter how hard and clever you are as a farmer, you're at the mercy of the elements and the seasons and you may well need help in smoothing income over the good and the bad years. And some concessions are just common sense like a modest deduction for people who've got to purchase a uniform for work or safety gear.

But there are other tax concessions which have mutated far beyond their original purpose. They've become the vehicles for aggressive tax minimisation at the expense of the vast majority of Australians. We should not confuse the longevity of a deduction with its legitimacy. The fact that a loophole has been opened for a long time is not an argument against closing it and neither is the political difficulty of doing so.

The fact that a change has been ruled out before either by our own party or another in more prosperous times is no argument for inaction now. Delivering a fairer tax system is a short-term priority for lifting living standards. It's also a medium-term challenge making the structural changes for a stronger Budget.

At the moment we have a bell-shaped tax system in this country. It's a two-class system. At one end if you earn no money, if you have no money you pay no taxes. And then as you go up the bell the more you earn the more you pay your tax. In that bulging middle of that bell is the vast majority of Australians. You know them as the pay-as-you-go taxpayers – they go to work, they make their contribution, they file their returns and they have limited opportunities to minimise their tax.

These Australians don't have multiple investment properties to negatively gear. They can't park their wealth in offshore tax havens. Then you slide down that bell to the other end, where you earn a great deal and you have the opportunity to minimise your income.

We have high net worth individuals who legally and effectively can afford to opt out of paying tax. So we want to put fairness back into the mix. It's why we're taking action on negative gearing and the capital gains discount. These are two unsustainably generous tax concessions that are distorting the housing market in favour of wealthy investors.

Our plan puts first home buyers on a level playing field. And it will save the Budget over the next years $37 billion and, consistent with David Murray's review of the financial system, will also take some of the heat out of the market by preventing self-managed superannuation funds from borrowing.

Superannuation is already tax advantaged. I don't think we should give one section of the superannuation system access to further investment opportunities at the expense of Australians who are locked out of the housing market. This is only one example. But in 2014–15, 48 people earned more than one million dollars and paid no tax at all – not even the Medicare levy – using appropriately priced tax lawyers.

They deducted an average income of two and a half million dollars to get them below the tax-free threshold. This kind of manoeuvring obviously doesn't come cheap. Most paid their accountant more than a million dollars, then of course they can deduct that. I actually think loopholes like this weaken the national Budget and they leave ordinary tax payers to carry a heavier burden. That's why we're going to cap the amount that individuals can deduct for the management of their tax affairs at $3000. This will affect only one in every 100 tax payers, but it saves $1.3 billion to the budget over the medium term. Now, if you're not prepared to make the tough calls for a fairer tax system then you simply end up raising taxes on the people who cannot afford to opt out. That's what we saw a few weeks ago – another budget built upon the back of an increase in income tax.

As proud architects of Australia's great safety net, Labor understands that every element of the safety net has to be securely funded. From a fair pension to a strong Medicare and the National Disability Insurance Scheme (NDIS). In 2013 when we introduced the NDIS, we increased the Medicare levy to two per cent as part of our plan to guarantee the future of the NDIS. Back then wages growth was over three per cent. We just tripled the tax free threshold giving low- and middle-income Australians a very sizable tax cut. And our approach was paired with progressive measures like reforms to private health insurance.

But things have changed substantially in the last four years. Wages growth is now at 1.9 per cent – that is a historic low. Underemployment is at a record high. Part-time work is becoming the norm, not full-time work. Ask any middle-class, working Australian family; living standards are stagnating. Housing affordability is harder in our big cities and it's harder for young Australians.

And parents wonder how their kids will ever afford a house. Apprenticeship numbers have crashed in the last four years down by 130,000. And in one month from today 700,000 people in retail, hospitality, pharmacy and fast food will see their penalty rates cut.

Now in 2014 the Government banged the drum of budget emergency to try and justify its massive cuts to family support and services. Now they're at it again except this time they're yelling about an NDIS emergency, trying to spread anxiety among the people who rely on NDIS as an excuse to increase taxes that working people pay.

We have every right to be sceptical of the motivations of the Government and their intent. And we have every right to stand up for the people who count on us: people on disability, their carers, and middle-class, working Australians.

Now we will support a 0.5 per cent increase in the Medicare levy for the top two tax brackets, Australians earning over $87,000. And we don't say that people who earn that are wealthy, but what we do believe is that when the bulk of the Australian people haven't had a wage rise, when their energy bills are going up, when their kids are struggling to get a deposit, we do not believe this is the right time to increase the income taxes of millions of Australians. It's effectively a cut in their income.

And we don't believe it's the right time to make battlers pay more when the Government is getting rid of the Budget Repair Levy, which will see millionaires – people who earn a million dollars in a year – next year get a tax cut of $16,500.

The Liberals can call their tactics whatever they like. But a tax is a tax is a tax. Labor will not ask people who already spent every dollar they earn and then some more to make another sacrifice while the very wealthy get a cut in the top marginal tax rate at a time when this nation needs to make ends meet.

Now any government worth its salt shouldn't decrease the burden on the top two per cent of wealthiest Australians and then ask millions of other Australians to pay more. And no Labor party would support that. This is a values decision for us. We thought about this and we've come up with a fairer, more calibrated, more progressive plan, which keeps the Budget Repair Levy in place and applies the Medicare levy increase only to those earning over $87,000.

It's fairer, it's better and it raises $4.5 billion more in revenue without delivering another hit to family budgets of people who can't afford it. There is no economic logic to whacking demand and confidence again by hitting millions of Australians who earn less than $87,000 with a tax increase.

Yesterday morning you were the recipients of the Prime Minister's doomsday warnings about not cutting tax for the highest income earners. A couple of things about that. For a start, the current rate today including the Medicare and Budget Repair Levy is 49 per cent. So for the last three years under the Liberals it hasn't been a tax on success. But when we propose keeping the levy somehow it's an Armageddon of economic initiative.

And also before we hear another dishonest lecture about every second dollar going to the government, lets deal in the facts. Firstly, because of Australia's progressive tax system, no one pays the top rate of tax on all their income. For example decisions taken in this Budget would mean that from 1 July 2019, an Australian who earns $200,000 will pay an average tax rate of 34.1 per cent.

Under Labor's plan, the same person on $200,000 will be paying an average tax rate of 34.3 per cent. Now I just find it hard to believe that the difference between 34.1 per cent and 34.3 per cent heralds the end of western civilisation as we know it, and people will just stop working.

There is another important point here. There are a lot of meaningful, valuable jobs held by people I deem to be successful, who will never be in any danger of earning over $180,000. The Prime Minister and some conservative critics have said our plan is against aspiration. It's against effort, determination – you name it. He thinks it is a tax on success.

I actually think this speaks volumes for the way that our current Prime Minister looks at the world – that you measure success by the amount of money you earn. But what about the success of a teacher on $60,000 a year, educating our kids, why does she have to pay another $300 in tax?

What about the success of a nurse caring for the sick? What about the success of a retail worker, working on a Sunday? Why does she have to pay more tax when she's successfully raising her family, educating her kids and paying her bills? What about the childcare workers who started working this morning right around Australia? Most of whom will never get to triple figures.

Just because they don't earn as much as someone in the top tax bracket does not mean they are not a success. And why is it that it's illegitimate to keep a Budget Repair Levy for the top two per cent of wealthiest Australians, and not acknowledge the success of eight million Australians who earn less than $87,000? Where's the Government's plan for their success?

New research published today by the Australian National University shows that twice as many households will be worse off under the Coalition's plan compared to ours. And the heavy lifting – as has been in a number of conservative budgets – will be left to the working and middle-class.

Our plan raises more revenue and it's twice as fair. And you also have to look at the punitive effect of the Budget's increase on the cost of university and lowering the repayment threshold for student fees. An analysis by Peter Martin, Economics Editor for *The Age*, quoted in the *Sydney Morning Herald* shows that for a couple renting, where one partner has left uni and the other is studying, the effective marginal tax rate is over 97 per cent once they clear an income of $37,000. And it stays in the high 90s until $50,000.

This year's Budget did not contain any specific analysis impact on women. And we soon learned why. The National Foundation for Australian Women has found that women on or around $50,000 could face an effective marginal tax rate of more than 100 per cent. A woman graduate working and relying on childcare earning $51,000 and receiving family payments will actually have less disposable income than a man earning $32,000.

This is the Liberals' tax on young people and on women. This is not just punishing aspiration but education and family. Giving a tax cut to millionaires while increasing the income tax for every working Australian is the exact opposite of a fair go. It's an insult to hard working people whose efforts drive our economy, and will hurt ordinary Australians a lot more than it affects the wealthiest in our society.

What is the economic sense of reducing the disposable income of people who spend every dollar when we need confidence in our economy? It goes counterintuitive to where this nation's direction needs to lead us. But in the end, it's all about priorities and choices. The Prime Minister has made his choice and I've made mine. Malcolm Turnbull wants to be the Prime Minister for multi-nationals and millionaires. I want to be the Prime Minister for middle-class, working Australians.

Now in politics there are the things that you would like to do and the things you have to do. Chris Bowen, myself our whole team we would like to lower income tax rates not just for the top two per cent, like the Liberals, but for everyone. Indeed the last time that low-wage earners received a tax cut was under the previous Labor Government.

We would like to do these things, but there are things that we have to do. We have to get the deficit down; it's gone up 10 times under the current Government. We have to pay off debt projected to hit three-quarters of a trillion dollars under Turnbull and Morrison. We have to invest in Australia's future: in education, in infrastructure. And we have to keep our safety net strong. And as the Labor party we have to, we choose to, to put working- and middle-class people first.

So, in conclusion, you've come to State of the Nation to hear days of deliberation and ideas. You come and represent all parts of our massive nation from big cities and small towns and regional centres. You know the scale, the depth and the diversity of the challenges facing Australia. The short-term challenges, the medium-term challenges, the long-term challenges.

You also understand though the capacity of Australians to adapt to change and to make it work for them. You understand the common aspirations our people share. This country isn't built on the idea of the accumulation of wealth or property solely. Our story is bigger and broader than that. As parents and as citizens, Australians expect us in the privileged position of parliament to uphold and honour the contract that we have with the next generation.

Yes our fellow Australians legitimately aspire to a good job for themselves. A job with a sense of security and worth and reasonable pay. But every parent, every aunt, every uncle, every member of this current generation of Australia – we are compelled to want a better job for our kids through a great education and world-class skills and training. We want our children to be able to find a home that they can start a family with. And our future generations expect us to take action on climate change, securing our energy future and locking in cheaper, cleaner and more reliable power.

This is what really matters: the contract we have with the future; the duty that we owe to who comes next; the obligation that every generation of Australians has to hand on a better deal to those who come after us than the one that we received. This is my focus and Labor's focus, not just for next year or the next election but for the decades ahead.

> HOUSING AFFORDABILITY

> 16 JUNE 2017

> MELBOURNE

A long view of Australia's housing affordability crisis

Dr Judith Yates

Associate Professor in the School of Economics, University of Sydney

Rapid growth in the cost of housing in Australia has priced many, particularly the young and lower-income Australians, out of the housing market. The issues of housing affordability were addressed in a 2017 CEDA policy perspective on Australia's housing, *Housing Australia*.

In a presentation before the launch of the report, its consulting economist, Dr Judith Yates, outlined future consequences for the Australian economy if current issues are not addressed. She advocated for a system that recognises housing as "a social good and a basic human right", and recommended a housing system that is fairer and more accessible.

Thanks for the invitation to speak today.

My assigned task today is to provide an evidence-based, forward-looking presentation on housing affordability. I'm going to start with an overview of past trends – I hope that much of this material will actually be familiar to you – and I'm doing that because I think to look forward you actually need to take a long-term perspective, and hence the reason for the title of my presentation.

I'm going to start 40 or 50 years ago and focus initially on housing prices and some of the points I'll make have actually been picked up already by the (Federal) Treasurer and the Assistant Minister to the Treasurer in a number of their speeches on housing, both before and after the Federal Budget.

What I hope to do is to add value to their contributions by putting the policies that they've proposed into a broad perspective and by giving you a sense of what policies might be needed if they're going to have a lasting impact on housing affordability.

Since the 1970s, Australia-wide dwelling prices have risen faster than incomes, which most people are very familiar with. At the moment, we're now at the stage where the dwelling price to income ratio has doubled at around about a ratio of six or seven.

Now, there's a substantial body of evidence that dwelling prices increase basically as a result of demand pressures.

There are:

- Demographic trends, such as rising populations and household growth; and
- Economic drivers, such as growing real incomes, growing real wealth, low interest rates and fiscal policies, particularly taxation policies, that treat housing favourably.

Since the financial deregulation of the mid-1980s, demand has been facilitated by very favourable financing conditions.

These demand pressures, which are basically underlying fundamental pressures, have a bigger impact on price when supply is more inelastic – that is to say, the more supply is constrained in responding to rising prices. Short-run supply constraints – examples are planning delays – will increase housing price cycles, but it's the interaction of underlying demand pressures with long-run supply constraints that generate the upward trend in housing prices.

In Australia, long-run supply is constrained because of our urban settlement pattern. Two-thirds of our population live in a capital city and 40 per cent alone live in Sydney and Melbourne. Structural change, with a shift away from agriculture and mining towards the service sector or service-based economy, has contributed to an increasing proportion of the population living in urban areas.

Increasing urbanisation has resulted in what might be called "diseconomies of scale". These arise because location matters. Increasing demand puts pressure on well-located land, and because of the contribution that land makes to total housing costs, adds to the cost of housing where well-located land is scarce.

This shows up in increasing housing price gradients in our major cities, which have increased dramatically in the last three decades.

In Melbourne, the rise in housing price gradients has been quite dramatic over two decades. And it's not just Melbourne; it's in basically all our major cities. That increase in the dwelling price gradient has been affected by increasing income and wealth inequalities because, basically, prices increase most in locations where people with the biggest capacity to pay want to live, and that's usually where there's little vacant land.

So, what are the implications of these trends? The first outcome, as we all know a lot about from the media, is that increasingly many new households are unable to afford to buy.

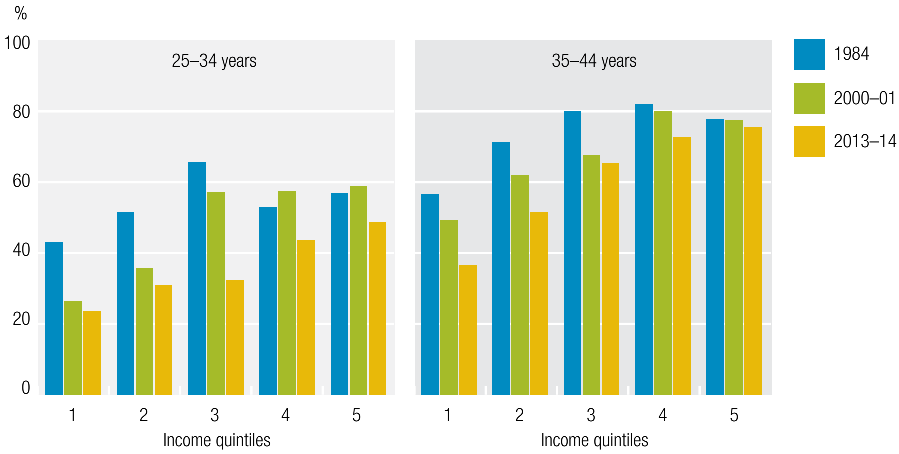
Despite generally declining interest rates since about the mid-1980s, the borrowing capacity of middle-income households has failed to grow at the same rate as the median housing prices.

With today's interest rates, a household on an income of about $80,000 (roughly equal to current median household income) might be able to borrow about $300,000, which leaves a deposit gap of around about $200,000 – considerably more than twice median household incomes. This deposit gap is much bigger, especially if you're in Sydney or Melbourne, because $500,000 is not a particularly realistic median dwelling price for Sydney and Melbourne.

Now, some households bridge that deposit gap by relying on the bank of mum and dad. Current policy proposals suggest they might bridge it through additional contributions of superannuation. However, these solutions really aren't always feasible.

FIGURE 1

HOME OWNERSHIP RATES BY INCOME FOR YOUNGER HOUSEHOLDS



Source: ABS income and housing survey data, results derived from basic CURF data

An alternative for middle-income households is to lower their aspirations and look for a dwelling that costs less than $500,000. However, many will be constrained in their dwelling type and location choices by family or work reasons. Suitable affordable dwellings may not always be available.

For example, fewer than 25 per cent of dwellings in Sydney sell for less than $500,000 and most of these are located in Sydney's outer ring or as far afield as Wollongong or Newcastle. The same applies in other major cities. So, a second outcome is that the middle-income households who do access the market are moving to the fringes of our bigger cities.

But not all can do this; not all can afford to purchase a home and not all want to live where they can afford to buy, and that means there's been a marked decline in home ownership rates among younger households over the past 30 or so years.

Home ownership rates for the under-35s used to be as high as 60 per cent in the 1970s and 1980s. They're currently below 40 per cent according to the latest survey data. This decline is most pronounced for lower-income households who just can't buy anywhere.

What you can see here (figure 1) are home ownership rates from the mid-1980s through to the present time by income quintile – the drop in home ownership rates for the lowest income quintiles are really dramatic. Also, the middle-income, and even higher-income households, are experiencing lower home ownership rates because there are a significant number of higher-income households who can afford to purchase somewhere but they're choosing to rent because they can rent a better dwelling or in a better location or better regions of the city which have better access to jobs and services.

So, the shift of middle- and higher-income households into the rental market, for lifestyle reasons, reinforces a third outcome of the long-term housing market trends, and that is that lower income households are squeezed out of well-located dwellings.

Increasingly, rental housing that is affordable for the bottom end of the market, for low- to middle-income households, is disproportionately located outside of the major capital cities or is poorly located on the city fringes.

For lower-income households it's even harder. For a pensioner basically nothing in Sydney, nothing in Melbourne is affordable. And in addition to that, the supply of affordable rental housing is just going, it's disappearing.

And there's been no growth in social rental housing, which traditionally has been the solution for housing lower-income households. So, an inadequate supply of affordable rental housing means that large numbers of lower income households face unacceptably high housing costs. An increasing number of households are paying more than 30 per cent of their income in housing.

Now, 30 per cent of a high income, means you've got enough left over to do almost anything. Thirty per cent of a middle income on housing means you've got nothing left. So low income renters don't have any options. They don't have the choice of reducing housing costs by living in smaller dwellings or even in less well-located dwellings; there just aren't any dwellings for them.

So, like middle-income purchasers, lower-income renters are being forced to the fringes of our cities or to non-metropolitan regions where jobs are less plentiful and less highly paid. This means they're either forced into longer and costly commutes into job-rich areas such as the CBD, or they have to accept lower-paid or part-time jobs closer to where they live. In other words, they're being forced to make location choices that are likely to reinforce their current income status.

Okay, so, what of the future? Looking forward there can be little sense of optimism about housing affordability outcomes in the future. Demand pressures are likely to continue, economic growth is projected to continue over the next 40 years, although at a slightly lower rate compared with the last 40 years.

Australia's population is projected to grow at only a slightly lower rate than over the past 40 years.

Supply constraints – these are the long-term supply constraints – are likely to remain. Urbanisation trends are expected to continue with the proportion of people living in Australia's capital cities projected to rise from the current 66 per cent to almost 74 per cent in the next 40 years.

Jobs are projected to grow in service and knowledge-based industries, with skilled labour favoured over unskilled. This means the steady growth in earnings inequality that Australia has experienced since the mid-1970s is likely to continue.

So, increasing population, increasing economic growth, and an increase in concentration of well-paid employment opportunities, therefore, are likely to continue to put pressures on well-located land in our metropolitan regions. This pressure will be reinforced:

- Through the continued increasing of income and wealth inequality;
- By a tax transfer system that encourages established households to hold onto the growing equity in their owner-occupied housing, and to increase their housing wealth by borrowing to invest in residential property; and
- By a housing finance system that remains biased to those most able to pay.

Pressures on the private rental market will continue as low- and middle-income households are excluded from home ownership and as higher-income households choose to rent.

So, before I have a brief look at housing policy I think there's a fundamental question we should ask: what is the housing affordability problem we're concerned about? My concern, which I think is most probably a little bit obvious from what I've been saying, is that because of the way our current housing system operates, we face the danger of a downward spiral in terms of income and wealth, which as suggested both by the OECD and the IMF, will work against the jobs and growth agenda set by our current Government. Housing actually has an impact on the way our economy performs as well as the impact that it has on individuals.

Increasingly, it is being recognised that solutions to Australia's housing affordability problems are not simple. As both the Treasurer and the Assistant Minister have said, "There's no silver bullet". Demand side policies – such as increasing grants to first home buyers, introducing concessional saving schemes or allowing access to superannuation – all aim to increase income or reduce the deposit gap. Their main effect will be to enable a few marginal buyers to purchase bigger homes in better locations. They're band-aid solutions. They might be politically popular in the short term, but they'll be ineffective in the long run. They won't change the fundamental causes of declining affordability.

A similar observation can be made regarding some of the so-called supply side measures, for example, allowing asset-rich home owners to downsize without losing any of their socially-generated capital gains is, of itself, unlikely to increase the supply of affordable housing. Downsizing depends on there being an adequate supply of lower-valued housing in a location to which older households are prepared to move. This requires increased dwelling diversity in all locations, and needs appropriate planning policies to achieve this.

Likewise, of itself, releasing land at the fringe of the cities will do little to reduce the cost of well-located land. A complementary, fast, affordable transport system from where land is available to where there are jobs is needed if pressures on land price gradients are to be reduced. Like regional policies, transport policy is not always seen as a housing supply side policy.

Some supply side policies, however, are clearly within the domain of housing policy. An example is the current proposal to establish a housing finance corporation to encourage institutional investment in affordable housing. This is a welcome initiative, but it'll only be effective if there are sufficient resources to fund the gap between what lower-income households can afford and the cost of providing them with adequate and well-located housing. Policies need to ensure that affordable housing is provided in locations where it's needed – in locations that provide access to employment opportunities as well as the basic services. Inclusionary zoning policies make a good start in this direction. However, if inclusionary zoning is to provide a long-term solution for affordable housing, caveats will be needed to ensure that the housing that's provided remains affordable not just for five or 10 years, but in perpetuity.

In general, any incentive to encourage private involvement in affordable housing provision will be successful in the long run only if there are mechanisms in place to assure that affordability is sustained over time. Affordable dwellings need to be protected against profit-taking when land values increase.

Our current system of fragmented land ownership, which allows owners to choose when and to whom to sell, means that development is difficult in in-fill locations. Attempts to assemble development sites run the risk of being held to ransom by individual land owners holding out for higher prices. Maybe we need to be less precious about our right to hold land, to hold onto our property no matter what. Maybe we need caveats to be placed on *all* land, and not just that used for affordable housing, to ensure that it cannot be disposed of at an inflated price.

Such caveats may not be needed if we are prepared to be more adventurous in constraining demand by following the call made earlier this year by the United Nations Special Rapporteur on adequate housing. She called for a shift away from the financialisation of housing and the role that it currently plays as a form of wealth, wealth accumulation, and the reclamation of it as a social good and as a basic human right.

This means we need to decrease demand for housing as an asset. However, many solutions that might do this on the demand side are often seen as being politically difficult or as an undesirable form of market intervention.

We question, but do little to constrain, the rights of our financial institutions to lend as much as they think is profitable for housing, or at least as much as their regulators regard as prudential. We have mortgage insurance that protects lenders but we do little to protect borrowers affected by economic circumstances beyond their control. We don't even consider the possibility of re-regulation, which might put lifetime limits on borrowing for housing, or introducing a compulsory insurance that protects borrowers.

We allow existing property owners to expropriate all the monopoly land rents that arise as demand pressures push up the price of scarce, well-located land, and yet we often expect new entrants into the market to pay for the cost of releasing more land.

We dismiss too quickly the question of whether continued maintenance of individual property rights over land is consistent with a fair economic system in which the benefits of economic growth are shared by all.

We debate the merits of limiting negative gearing for investors but focus too little on the 50 per cent capital gains tax discount that makes positive or negative gearing worthwhile. We entirely ignore the 100 per cent tax discount on capital gains for owner-occupiers.

We fear the options of extending land tax to include owner-occupied housing or the introduction of a wealth tax or inheritance tax.

We're nervous about the idea of including owner-occupied housing in the assets tax for the main Age Pension.

Without a fundamental shift towards redistributing the unearned or monopoly rents that accrue to scarce land in response to demand pressures, Australia's housing system will continue to contribute to growing intra- and inter-generational inequalities in income and in wealth.

And I'll conclude with reminding you of the Treasurer's words in his post-Budget speech to ACOSS, and I quote. “Fairness is the first and fundamental role of government.”

> ENERGY MARKET OUTLOOK

> 11 JULY 2017

> MELBOURNE

Energy market outlook

Audrey Zibelman

Chief Executive, AEMO

Energy security has been one of the hottest policy issues debated in Australia over recent years. This looks set to continue as increased demand for energy and a transition away from coal-based energy places our current systems under strain and pushes up prices. The Australian Energy Market Operator (AEMO) will be a key player in the shifting energy landscape.

Just months into her role as Chief Executive of AEMO, Audrey Zibelman outlined AEMO's agenda. She stressed the sector needs to function as a system and declared AEMO ready to get on with delivering a plan for securing reliable and sustainable energy supplies.

I've been in Australia close to 100 days and I would say that it has been a very interesting time. I couldn't imagine being at a better place at this time and, frankly, in the history of this industry.

What I'd like to do today is to focus a little bit on what the Australian Energy Market Operator (AEMO) is going to be doing, and really the theme of this, for me, is that we are at an unprecedented rate of change in this industry – and that's across the world.

I woke up this morning, and, like many of you (though I'm sure no-one here admits it), the first thing I do is check my email and check the mail. And there's a couple of trade rags I always look at coming out of the US. My counterpart at PJM, which operates the grid in the mid-Atlantic region of the US, was at a conference yesterday talking about how PJM was going to manage this rate of change in the energy market. He was saying the markets need to change because they're no longer fit-for-purpose for the changes that are going on in the industry.

I'm always reminded of the fact that, as much as we understand this is a primary issue for us, frankly, it's a primary issue everywhere. It's across the US, across Canada, across Europe. People are looking at this issue and saying, "Look, when I think about it, the markets we started about 20 years ago." Across the world they were started at a time where the prominent and the predominant mechanism to supply energy was large-scale generation, coal, gas, and in the US nuclear, hydro. That's simply not true anymore.

So it shouldn't surprise any of us that we ought to be thinking about these markets moving forward and how we operate the grid in a very different way. And you do wonder about that change. I asked my staff to pull up some facts on what's happening in Australia. I'm going to list some from 2008 to 2017 – to kind of keep in mind some of the basic facts. I always try to think "Okay, really, we keep saying it's changing; is it really changing?"

In 2008 we had – and I won't review all of these – but 27,000 megawatts of coal, we're now at 23,000. And gas, we were at 7000 megawatts, we're now up to 10,000. But the other point is, the amount of liquefied natural gas (LNG) has doubled the domestic gas use, so we spend more gas on LNG production than we do on domestic use. On wind, in 2008 we had 1100 megawatts; we're now up to 4000 and AEMO is predicting that by 2020 we're going to be up to 10,000 megawatts of wind. In solar we were at zero; we're now at 265 and we're predicting 11,000 over the next several years, and if you look at our queue for connections you would actually see that. Also, on small wind and also small solar, the Clean Energy Regulator said in 2008 we were at 14,000 installations of solar. In 2017, we're at 1.6 million. And in terms of batteries, in 2015 we had 500 batteries. In 2016, it's 6700 and it's growing.

Without question, you can't take a look at this system and say, "Oh, we can operate it the same way". At AEMO we agree with AusNet that the Finkel Review identifies a number of the changes that we need to make, and we really need to get on with it. What I'd like to do is talk about how we're processing this and thinking through the best way to go about it.

One of the areas that the Finkel Review identifies is better national planning. I always say that the energy system is really a system of systems. I came out of a conversation I had with Boeing in the heyday of the development of the smart grid in the US – everybody was getting into Smart Grid – and I started working with Boeing and they said, "Well, you know, we run aeroplanes. Aeroplanes are systems, the electric system is a system". I said, "Yeah, but the difference between your system and our system is our system doesn't land and so we have to figure out how to fix it as we go."

When we talk about planning in the electric system, we're talking about the fact that it's really not one system; it's actually six systems that we need to be thinking about, because they're interconnected systems.

There's the electric transmission. We're seeing an increasing integration of gas and electric, so we have to think about that.

Now to the distribution system. When we started developing integrated planning in this industry in the 1990s, 1980s, you know we did it at the utility level, and we always assumed that demand was largely inelastic, distribution systems are going to be one way, and you just needed to deliver to the substation and then the distribution system would sort of manage itself. Well, that's not true anymore. So, when we're talking about planning of networks, we've got to think about what's happening at the distribution level.

But, it really doesn't end there because we also have to think about the data systems. When people talk about the Internet of Things we have to think about how that's evolving.

We certainly need to think about building systems as buildings become smarter and how they're going to be working.

And then we need to think about the financial systems, because frankly these systems have to be investible and we need to understand how the financial community looks at things too.

So, all these systems actually have to work together. When we're thinking about developing plans for the national energy market, what's going to be very important?

One: there's a high degree of coordination, certainly with the network businesses, and a great deal of understanding of what's happening in technology and industry. Because you want to think about your planning for the future. And so, entities like ABB, GE, Siemens, also Tesla – all the new technologists – they're going to be very important because we're going to need to understand what they're thinking about.

The other piece, when we think about planning, is that you want to end up with a view of how these industries are going to evolve in the NEM (national energy market). How do we create stability and how do we basically advise on what I would call the "no regrets" types of investments to create a national network? What are these interconnections?

What should we be investing in today so that if there's 10,000 megawatts of wind, 20,000 megawatts of wind, 5000 megawatts of wind, 'x' amount of gas, so that we have the confidence and flexibility to handle all of that and so that we're driving value to consumers?

That process begins with both an understanding of need, a high degree of collaboration, an informed process and an outcome where, in my vision, we have the networks, along with AEMO putting together a plan that is truly in scale where everyone can understand where we're going. And these networks are not just again transmission; they include gas, they include distribution, so that the financial community and the technology community can say, "yes, that makes a lot of sense". That's one piece I think will be very helpful.

The second: planning operations markets as operations. Without question, the operations of these markets are very different than they were historically. And so, for AEMO our chief role is to operate a secure system. Well, that's very different today when we have distributed energy resources, we have a lot more renewables, we have the incumbency of batteries and we have the ability of the system to react much more quickly.

One of the things that AEMO is looking at is really focused on what makes a secure system and recognising that in some instances it's not about markets; it's just about standards. So, the things that are identified in the Finkel Report about system strength, inertia, frequency – we're living real-time. We certainly saw that last year in the system blackout.

But what's most important is to recognise that some of these areas of standards are very localised, and that we need to get smart about the fact that the markets can't solve everything. But we want to maintain a secure system, so trying to understand those differences and really operating in a millisecond framework is going to be something that we need to experience. To do that

I think it's very important that we do demonstrations. So, I did welcome the announcement of batteries because it's important that we all get experience on how these systems work. Any other demonstrations that we're working on with a lot of the network companies around how we integrate distributed energy resources better, how do we create these vertical systems where demand is much more elastic, are going to be important because we want to get them to scale.

But, again, because we're flying that aeroplane that doesn't land, it's so critical that we get experiences on a small scale before we take it large scale because we all want to know how it works and we want to do it in the most efficient way. So, working on these issues, learning how to innovate and then innovating with the market are going to be important, but doing it in a way that's safe and secure for the system.

The last piece are markets. I was a regulator and one of the things we cared about was consumers – that was sort of the primary part. And I haven't changed my feeling about that; the whole reason we have markets is to drive value to consumers. The whole reason we went to markets is that we decided that there are aspects of this industry that were no longer a regulated monopoly and we can provide a more efficient outcome through competition. That shouldn't change; that should continue to be the value. But it should be focused on the consumer.

I think if we were designing the markets today with elasticity in mind, we would be thinking about it from the consumer-out as opposed to the generator-in. But in terms of that though, and thinking about the markets going forward, I think it is important to go back to the fundamentals of what's changing.

When we first developed the markets in the 1990s, here and in the US and in Europe, the generators had different fuel types but they were largely homogenous products in the sense that they all provided capacity, they were despatchable, they all provided energy and they all provided system security.

If you gave them one price signal, when we talk about operating the market in a way that's both economic and secure, it became a question of: what's the next resource you should use to get to the next increment of marginal cost? Well, that's not true anymore.

We have resources that have zero marginal cost and they provide energy. We have resources that provide system strength. We have inertia. We have resources that don't provide those resources, those kind of capabilities. We need new investment.

So, to think about that, we have resources on both sides of the network. It's a very heterogeneous system, which means that when we send out the price signals – we want the system to be investible. But we need to make sure we're providing accurate value for the resources that we're getting, which means that we have to start rethinking how the market looks at things.

Things such as this are in discussion already – the five-minute market, demand response markets, what kind of price signal do you need for fixed investment? And things like paying for system and security, and really, when I think about it, is unbundling this homogenous price into price signals that make sense given the nature of the resources we have. It's identified in the Finkel Report as something that needs to be discussed and really something that's been in discussion with the AEMC (Australian Energy Market Commission), the AER (Australian Energy Regulator) and the AEMO.

When the market bodies got together and looked at this and said, "Yeah, we absolutely think these are the right areas. What we need to do is start thinking about the priorities and how do we get it done?"

I think that moving forward, for us in Australia – though this same issue is happening in the US – it's about understanding that we've got to unpack the energy price. Think about telecommunications: you used to just pay for a dial tone – that's all you got. Well, we don't just get dial tone anymore; we get a lot of other resources.

When you buy communication, you have different price signals that you expect to pay for and you pay for it in different ways. That's the way we have to think about energy: how we're going to unpack that energy price to send the right price signals to get the right investment. We have to give the right kind of value back to consumers. And then we also have to think about how we are going to get investments in.

What we think about in the markets and we've discussed in terms of how to go from ideation to actuality, there's several things that I'm very optimistic about. One is: one of the nice things about being a newcomer is you get to talk to a lot of people, and I would say 100 per cent of the folks that I have spoken to across the industry, across the sectors, all say the same thing; we ought to get on with it. There's no question that there's a path forward and we need to take it and we need to move quickly. And so, now we have this coalition of the willing and now really the challenge is how to harness that into actual plans and implement it in a short period of time, because we want to take advantage of this.

I will say two things that I've heard since I've been in Australia. The first is: "How are you finding Australia?" which I would say to everyone here: "Great, I love it."

Secondly is: "We have got to make these changes and we don't want to waste this crisis. We want to move this stuff forward."

The other thing that we're going to be doing – in addition to working with the participants and making sure that we come up with this plan that makes sense – is we've already begun working with the AEMC and the AER. I can tell you, and I won't speak for my colleagues, but I think we all agree on one thing – and that is we want to get on with it. We're excited for the COAG meeting, we're looking forward to working together, we've already started putting our staff together. We just want to get this done.

And the third piece is working with COAG, and our job – and when I say "our" here, it's not just AEMO, it's AEMO and the industry and the market bodies – is for those of us who are experts, who really care about these markets and really want to invest in them, we need to come up with an actionable plan with details. Then bring them back to the COAG so they have the confidence that what we're coming up with is something that people will invest in and stand up for. It's all around the same principle, which is driving value to consumers.

I am totally bullish on what we're doing. I think that we can get it done. And you know, the last piece – the thing that strikes me near and dear to what I care about since I've been in this industry for 30 years and I love it – is that we're fortunate in the OECD countries. Because while we worry about energy prices – and that is a critical issue here – we still have access to energy.

Around the world there are a lot of people – millions, billions of people who still don't have access. If we solve these issues in Australia, if we figure out how to use distributed resources better, if we figure out how to integrate these resources better, we're not just solving the issues here, we're solving them for the rest of the world. Because I think the system we have here is probably the closest system that we're going to see get developed in Africa, in Asia and elsewhere.

I think that our ability to grapple, and as a continent, work together and get this done, is probably the easiest path forward to get these issues solved. And I'll say that as an American, where the ability to get things done are much more challenging because it's bigger, more fragmented, and as anyone here knows, highly politicised. But I think the goal here – and the crisis gives it to us – is an opportunity. And at AEMO I can tell you we're excited – a bit exhausted – but we're excited and we're looking forward to working with all of you to get this all accomplished.

> MID-YEAR ECONOMIC UPDATE

> 18 JULY 2017

> ADELAIDE

Mid-year economic update

Guy Debelle

Deputy Governor, Reserve Bank of Australia

The monthly announcement on interest rates from the RBA is a highly anticipated event. But what do the bank's governors consider when making interest rate decisions?

In his Mid-year Economic Update speech, RBA Deputy Governor Guy Debelle noted that the Australian economy doesn't operate in isolation from the rest of the world, and this is also true when it comes to monetary policy. He described the domestic and international factors that influence interest rates.

What I would like to do today is talk about some of the factors that the Reserve Bank Board takes into consideration in making its interest rate decision each month. While the factors are both domestic and global, I'd like to talk about some of the global influences on domestic monetary policy.

As you are well aware, the Australian economy doesn't operate in isolation from the rest of the world and that is clearly also true when it comes to monetary policy. So, while the goals of monetary policy are very much domestic, in terms of inflation and employment, the influences on the achievement of these goals are both domestic and global.

In talking about the global influences on setting monetary policy, I will make the probably obvious point – I hope it's obvious – that the policy rate here in Australia is at a historic low in no small part because policy rates elsewhere in the world are also around historic lows.

One of the things I want to ask today is: "Why are global policy rates as low as they are?" Part of the explanation is that to meet their policy goals, central banks in other advanced economies outside Australia have had expansionary setting since the start of the Global Financial Crisis in 2007.

Moreover, in the biggest advanced economies – the US, UK and the euro area – policymakers have provided further monetary policy stimulus through large asset purchase programs, that is mostly buying-up government debt, which has seen central bank balance sheets increase significantly in size.

But another part of the explanation is that the neutral level of the policy rate has declined in most countries, including here in Australia, and that was what attracted a fair bit of attention: the level of the policy rate where monetary policy is neither providing stimulus nor restraint is much lower than it used to be. So, central banks have had to set their policy rates even lower than that already lower neutral policy rate to provide the appropriate stimulus to their economies.

Let me just give you a bit of a look at what I'm going to talk about. I'll start by talking about four common global factors that have led to the expansionary monetary policy settings seen in most advanced economies for almost a decade and use that to talk about why policy rates are so low.

These four factors are present in Australia to varying degrees. I will then talk about the neutral policy rate and the fact that it's declined over the past decade, and then I'll finish with some comments on the influence of global financial factors on domestic monetary policy considerations here in Australia.

Let me talk first about those four global economic factors. They are:

- The subdued global recovery post-crisis, which is now 10 years old;
- The low level of investment around the world;
- Subdued wages growth despite low unemployment rates; and
- How all of that feeds into the low inflation that we see today.

The first and most obvious factor influencing monetary policy settings globally is the financial crisis and its aftermath. The large and rapid decline in policy rate settings occurred in most advanced economies in 2007 and 2008. So, in most other parts of the world, interest rates were reduced markedly almost 10 years ago now.

Over this period, many policy rates were reduced close to zero and subsequently in a number of cases even below zero. The collapse in global output and trade at the end of 2008 was sharp and significant. The severity of the episode was increased by the fact that it was synchronised across the global economy – all at the same time. In the last quarter of 2008, you saw basically every economy in the world contract – and in some cases by a very large amount.

But it's now 10 years since the onset of the crisis and nearly nine years since it was at its worst – in the last quarter of 2008, yet we still see policy rates at their post-crisis lows. The Fed in the US has raised its policy rate in recent times, that's true. But even then, it has only raised it four times and in quarter point increments – that's quarter of a percentage point increments, so that the policy rate in the US has only now just reached one per cent.

That said, in the US, broader measures of financial conditions suggest that their policy or financial conditions aren't tighter since the Fed started increasing its policy rate two years ago. That is, they've raised their policy rate but policy conditions haven't even tightened. Long-term government bond yields in the US and the US dollar exchange rate are both no higher than when the Fed first increased its policy rate. Corporate bond yields there remain near historic lows and US equity prices are considerably higher. So, the effects of the financial crisis on most parts of the advanced world have been very long-lasting. Global economic growth has mostly fallen a little short of expectations for all of the past decade. As a result, even with those expansionary monetary policy settings that we see, aggregate global growth has been only average over this time but not better than average, which would have been what we were after given how large the loss of output was back in 2008 and 2009.

As I'm sure you know, Australia didn't suffer from the same declining output that many other advanced economies underwent. The GDP in Australia is 27 per cent higher than it was in 2007. In the US, it's only 13 per cent higher and in the UK it's 10 per cent, and in the euro area they have only just got back to where they were in 2007 a couple of years ago.

So, we've had an okay amount of growth over the past decade, but in those other countries, if you look at what's happened over the past 10 years, growth has been very sub-par, particularly given how large that contraction was. And it's only quite recently that forecasts for the global economy have been revised higher for the first time in many years.

We've had nearly a decade where forecasters have put out an expectation that the global economy is going to pick up, and then it doesn't so they have to revise their forecasts lower. But, for the first time in a long time, over the last six to nine months, we've actually got people revising their forecast up, not down. And this is reflected in an upswing in industrial production and exports across a large chunk of the global economy, and a critical question right now is whether this upswing is going to be sustained.

We'll go back to these four factors – one of the reasons that global growth after the financial crisis has only been moderate is the second of these factors that I'd like to talk about, which is the low level of business investment over the past decade. So many of the preconditions that historically led to a pick-up in business investment have been in place. We've had low policy interest rates, there's been low borrowing costs for most businesses, there've been strong corporate debt markets, but we haven't had any material growth in investment. So, something has clearly been missing that has prevented those positive preconditions from generating an upswing in business investment.

One obvious candidate is uncertainty about future demand – uncertainty about how the global economy is going to go in the future. Or, as it is often referred to: animal spirits. So to some extent this lack of animal spirits has been self-fulfilling. If businesses are not confident about whether there'll be enough demand in the future to justify more investment, they hold off spending on investment and then low and behold: output isn't as strong as they thought it was. As the global economy has become more integrated there seems to be a more important common global element in animal spirits, and one driver of this may well be that we have a lot of multinational firms making investment decisions across a number of economies all at the same time.

In Australia, the investment dynamics have clearly been different. In marked contrast to the rest of the world, business investment in Australia over the past decade has been at historic highs rather than historic lows, largely as a result of investment in the resource sector. But now, as resource investment has fallen most of the way back to its pre-boom levels, we've now nearly unwound all of that large increase in resource investment that we've experienced over the past 10 years.

And investment outside the resources sector in Australia has remained at a low level as it has in other countries, so the reasons why investment has been low elsewhere in the world seems to very much apply to why investment outside the resources sector here in Australia has also been low. That said, it has actually grown modestly here over the last couple of years.

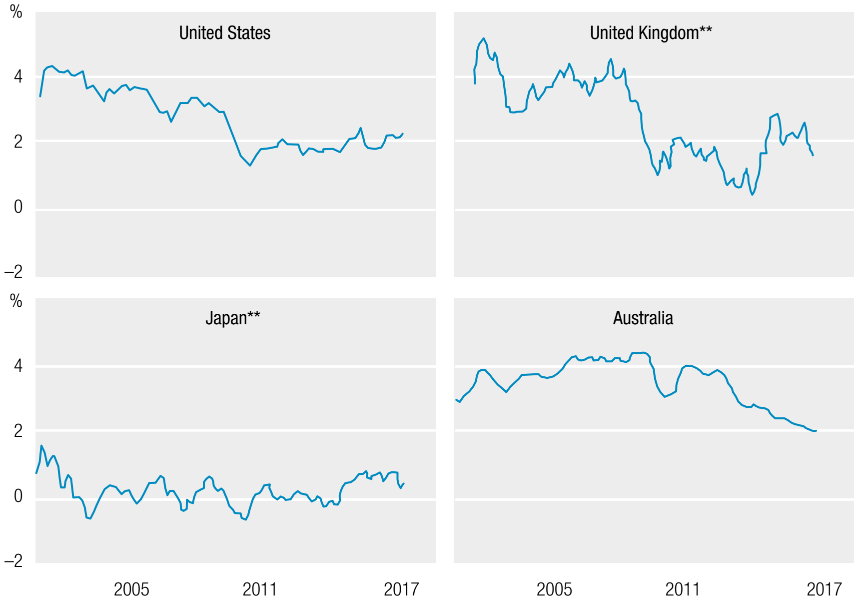
In recent months, there have been some positive signs on investment spending in a number of countries around the world. If this is sustained, then it's possible that the animal spirits switch from being self-fulfillingly negative to self-fulfillingly positive. As we see signs of investment picking up this year in some other countries, there is an increased chance that this will be reflected in Australia too and a gradual pick up in investment is something that is embodied in our current growth forecasts.

The third factor I'd like to talk about is low wages growth (figure 1). So, here's a picture of wages growth in the US, UK, Japan and Australia over the past 20 years or so. And you can see most obviously in Japan, it's just been low forever but outside of Japan, you can see in the US, the UK and here there's been a marked step-down in wages growth. And this is occurring despite very low unemployment rates in countries such as the US, Germany, Japan and the UK. The unemployment rates in those countries are at levels that have historically been associated with an acceleration in wages growth but we're not seeing it here, we're not seeing it yet – and the Governor talked about this in a speech late last year. Andy Haldane, at the Bank of England recently discussed some of the possible explanations for this stubbornly low wages growth and concluded that in the end we don't yet have a particularly good explanation for it. That said, one of the things I learnt when I was studying economics here was we do know that the labour supply curve ultimately does slope upwards. What I mean by that is that if the unemployment rate continues to decline in these countries we have to be getting closer to the point where wage pressures do start to materialise, but we aren't seeing it yet.

And wages growth in Australia, as this graph makes clear, is subdued as it is elsewhere in the world. One difference in Australia though, which is worth noting, is that productivity growth here has generally been higher than it has

FIGURE 1

WAGE GROWTH* – YEAR-ENDED



*Employment cost index for the US; average weekly earnings for the UK; average scheduled cash earnings for Japan; wage price index for Australia.

**Three-month moving average

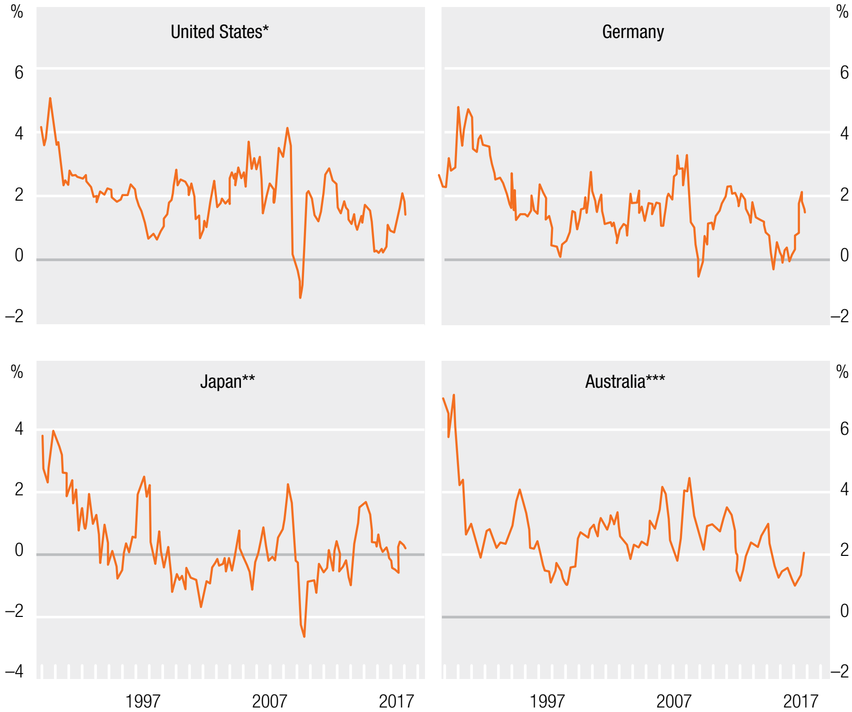
Sources: ABS: RBA: Thomson Reuters

been in these other countries in recent years. As a result, in Australia there has been no growth in unit labour costs, that's wages adjusted for productivity, for the past five years.

So, where the level of unit cost today in Australia is exactly the same as it was five years ago, that's not true elsewhere in the world where unit labour cost growth has been quite a bit higher because those other countries haven't actually experienced very good productivity growth at all.

The fourth and last common factor I want to talk about is the sustained low inflation that has been evident globally for the past decade. Low inflation is a direct consequence of the three previous factors I've just talked about but in addition to those influences there have been a continuation of the disinflationary pressure resulting from the integration of China into the global economy. There are some signs that that force at least is starting to wane with producer prices in China actually growing following many years of continual and often quite substantial declines.

FIGURE 2
INFLATION – YEAR-ENDED



* Price index for personal consumption expenditures
** Excluding effects of the April 2014 consumption tax increase
*** Excluding effects of the GST introduction

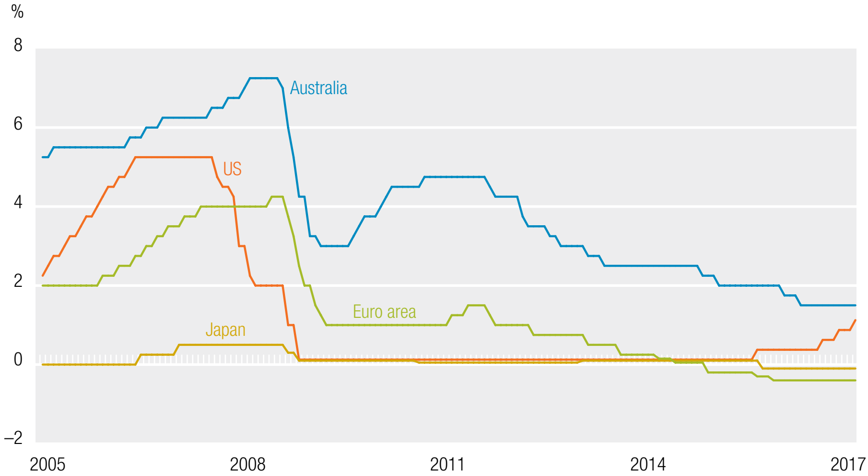
Sources: Bank of Japan; RBA; Thomson Reuters

Throughout the past decade though globally expectations about future inflation have remained broadly anchored which at times has helped us stave off a shift towards deflation (figure 2). While inflation is low here, with the exception of Japan, we haven't actually seen deflation in any of the major economies.

These four factors – the subdued global recovery, low investment, subdued wages growth despite low unemployment rates and low inflation – are the primary explanation for the very stimulatory policy settings we see globally (figure 3). So, what I've got here are the monetary policy interest rates in Australia, the euro area, the US and Japan. Japan, most of the time, is actually at zero or just below, which is why it's a bit hard to see there. And then the US, for most of the past decade up until quite recently it was at zero. And in the euro area it's actually below zero, which wasn't something you probably learnt when you were in your undergrad days, that interest rates could actually be below zero let alone policy interest rates. But low and behold we've had negative interest rates in Europe for a few years now, we've had them in

FIGURE 3

POLICY INTEREST RATES



Source: Central banks

Japan, and we've got them in other parts of the world as well. The fact that they are at such low levels in those major advanced economies has a material influence on why the policy interest rate in Australia is also at a historically low level.

Beyond these factors that I have just discussed, another significant factor contributing to the low level of policy rates globally is that the neutral policy rate in many countries has declined over the past decade. So, let me talk a little bit about that. The neutral interest rates provides a benchmark for assessing the current stance of monetary policy. If the real policy rate is above the neutral rate then monetary policy is exerting a contractionary influence on the economy. The neutral rate is often associated with the turn of the 20th century Swedish economist Wicksell and was picked up by Keynes. The previous Governor Glenn Stevens discussed the neutral rate in the Australian context just over a decade ago and, as you may have read in the paper, there was a discussion of the neutral rate at the most recent board meeting as detailed in the minutes that we put out earlier this week.

Now, despite all the kerfuffle around that, no significance should be read into the fact the neutral rate was discussed at this particular meeting. Most meetings the board spends some time discussing a policy-relevant issue in more detail. This time around it just happened to be the neutral rate. We work out what are those topics going to be sort of six, nine months in advance so there really was nothing special about why it was this month and not some other month.

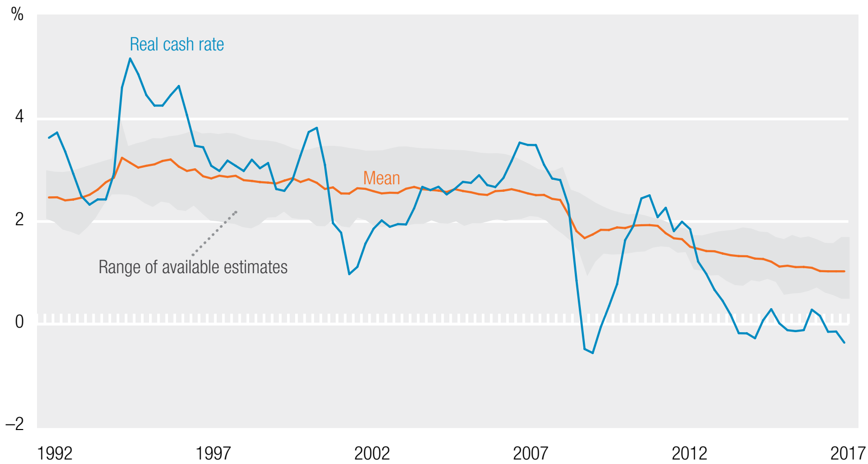
Anyway, that said, let me go on to talk a bit more about it. The neutral rate aligns the amount of saving and investment at a level that is consistent with the goals of monetary policy. That is full employment and stable inflation. It's where the policy rate would settle down in the medium term when everything in the economy is going along how we would like it to go. Accordingly, most explanations of the neutral interest rate start with factors that influence savings and investment. Developments that increase savings tend to lower the neutral interest rate; developments that increase investment will tend to raise it. There are three main factors that affect the neutral rate in Australia. One is the economy's potential growth rate, that's how fast the economy can grow without generating inflation pressure. Then the degree of risk aversion in the economy. And then, thirdly, global factors.

One of the main determinants of the neutral interest rate is the economy's potential growth rate. If we have a high potential growth rate because we have strong productivity growth or population growth, then that generates more demand, generates more investment and the prospect of higher real incomes reduces the incentives of households to save. That tends to push the neutral rate up if the economy's got a high potential growth rate.

The potential growth rate in the economy tends to evolve quite slowly, so we don't expect that to move the interest rate round all that much from quarter to quarter. But another influence on the neutral rate is the risk appetite of firms and households and the way risk has been priced into market interest rates, and that can move rapidly. When risk aversion rises, firms require more compensation to make longer-term investments with an uncertain return, households are going to be more likely to save more and those two factors both lower the neutral rate so that any given level of policy rate is less expansionary because of the increased risk aversion. If there is an increase in risk aversion it is also likely that there will be a widening in the spreads between the policy rate and market rate, so a widening in the spread between the cash rate here and say the mortgage rate in the economy or the rate that businesses borrow at. So a given market interest rate will correspond to a lower policy rate if spreads widen and that will further lower the neutral rate. And then finally in an open economy like Australia where capital can move freely across borders, global rates will also influence domestic interest rates. That means movements in the neutral rate in other countries are going to also affect the neutral rate here in Australia.

So how do we actually calculate this thing? Because it's not actually directly observable? There are a number of different ways of doing it from the behaviour of market rates and other economic variables, and so here's some estimates that we've come up with for the neutral rate (figure 4). The orange

FIGURE 4
NEUTRAL INTEREST RATE



Source: RBA

line in the middle is the average but then the shaded areas give you the sort of range that the estimates can move in let alone knowing whether that's actually what it is. There's a fair amount of uncertainty about this thing, it's not that precise.

But what all of the estimates show is that the neutral rate now is a fair bit lower than it was in 2007. How much lower depends on which estimate you want to use but whichever way you want to estimate it, it's a lot lower now than where it was in 2007. So, on this as well I've got the cash rate adjusted for inflation, so the real cash rate. When that blue line is above the orange line policy is contractionary, when it's below the orange line policy is expansionary. And if you look through that it pretty much lines up with what most people would have thought at the time.

So what that shows is that in the early 2000s, in 2008 and for the past five years or so.

The estimates for the neutral rate, if you look there, also suggest that from around about the mid-90s through until 2007 it was actually pretty stable and in Glenn Stevens's speech that I mentioned earlier he noted that the cash rate at the time he gave the speech, which was 2004, was probably somewhere around 2.5 to 3.5 per cent, which luckily it's not always the case that when you say something and you go back to estimate it 15 years later it actually turns out to be about right but in this case it actually is consistent with the estimates shown here.

The graph, as I said, shows a clear step-down in all the estimates of the policy, of the neutral rate of 2007–08 and that has probably drifted lower since. It suggests that the neutral rate today is currently around 150 basis points, that's one and a half percentage points lower than it was in 2007 and that can largely be accounted for by a slowdown in productivity growth and an increase in risk aversion. Our best estimate of potential growth rate for Australia has declined by around half a percentage point from the mid-90s. Potential growth in Australia is now maybe around half a percentage point lower than it was in the mid-90s which mostly reflects slower labour force growth.

The slowdown in potential growth has probably translated about one for one into a decline in the neutral rate though the decline has been gradual. The sharper decline that you can see in 2007–08 can easily be related to the sharp increase in risk aversion with the onset of the financial crisis and this increased risk aversion probably accounts for most of the large fall in estimated neutral rates in Australia and in other countries where it occurred at the time. This heightened risk aversion has been reflected in an increase in spreads between the cash rate, the policy rate and borrowing rates like the housing mortgage rate and business borrowing rates.

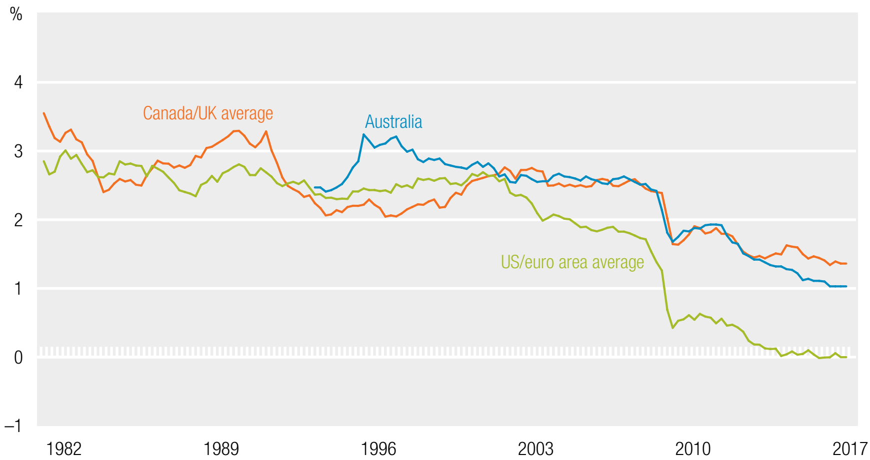
Although these effects are hard to quantify, the fact that those spreads are going up has almost certainly lowered the neutral interest rate.

To return to a global perspective, figure 5 compares the average estimate of the neutral interest rate for Australia to a range of international estimates. If I do it in a global context, what I've done here is shown some estimates. The estimates for Australia are estimates and those for Canada and the UK and the US and Europe, which are roughly the same in each case, are estimates from other institutions. So, you can see there that on average neutral interest rate estimates for Australia are similar to those in the UK and Canada but higher than those in the US and the euro area. As is the case for Australia, the estimates were fairly stable until around about the mid-2000s and have fallen since then. The decline in all cases was particularly sharp in 07–08 and again most likely reflects the increase in risk aversion at the start of the financial crisis.

And because determinacy of neutral rates tend to be highly correlated across the advanced economies, it's actually hard to distinguish between international influences and domestic influences on it but it's highly likely that the decline in neutral rates in other countries has contributed to a decline in Australia's neutral policy rate.

FIGURE 5

GLOBAL NEUTRAL INTEREST RATES



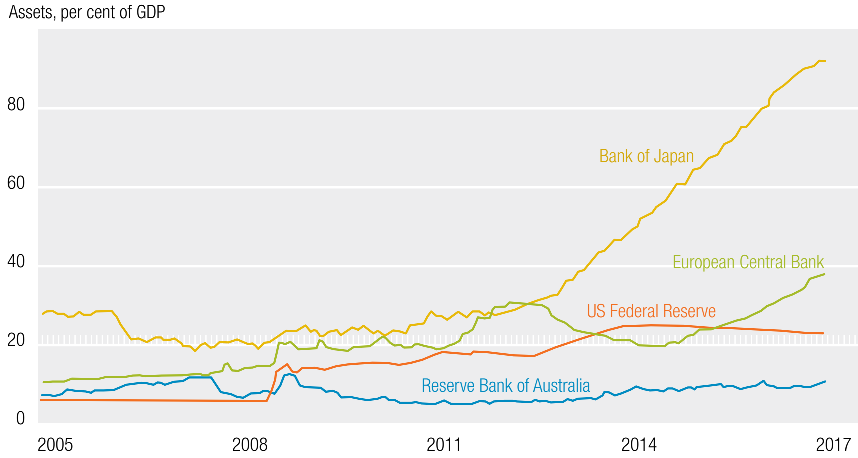
Source: Holston, Laubach and Williams (2016); Laubach and Williams (2015); Lubik and Matthes (2015); RBA

In short, the policy rate in Australia is low because the neutral rate is lower than it used to be as a result of both international and domestic developments. That means that the current setting of the cash rate, which is 1.5 per cent today, is not as expansionary as a cash rate of 1.5 per cent would have been in the 1990s or in the first half of the 2000s. Another way of putting that is so a cash rate of one and a half per cent sounds very low but if I go back to the previous graph (figure 4) you can see that the gap between the blue line and the orange line has been larger in the past than it is now. The policy settings are stimulatory now with a cash rate of one and a half per cent but not, you know, they're no more or less symmetrical than they have been in times in the past.

Looking ahead the neutral rate both here in Australia as well as in other advanced economies is likely to remain lower than it was in the past. It is mostly because potential growth rates look like they're going to be lower for a while. It is plausible that the degree of risk aversion which caused that to spike lower in 2007 might reverse in time which would see the neutral rate rise from its current low level but other developments may be more permanent. In addition to the neutral rate declining policy rates in other countries have been set even lower than that low neutral rate to provide the appropriate stimulus. On top of that in a number of the major economies policy is more expansionary than indicated by just the level of policy interest rate.

FIGURE 6

CENTRAL BANK BALANCE SHEETS



Sources: Central banks; RBA; Thomson Reuters

What I've got here (figure 6) is the size of central banks' balance sheet relative to the size of their economy. You can see the Bank of Japan's balance sheet is almost the same size as the whole of the Japanese economy. And you can see the rise in the size of the balance sheet in the euro area and in the US, but you can see here our balance sheet has remained roughly the same size as it has been for a long time. There's a little bit of a rise in 2008 but that was subsequently reversed fairly quickly.

Why have these balance sheets gone up? That's because those central banks have been purchasing assets mainly in the form of government debt, with the Bank of Japan being the biggest purchaser of government debt.

The fact that monetary policy settings are more expansionary in the rest of the world than in Australia, both through lower policy rates and balance sheet expansion, has been putting upward pressure on the Australian dollar. Capital is attracted here by the higher rates of return on offer and that's likely to cause the exchange rate to appreciate. So, when these guys ease monetary policy that makes their economies grow faster, hopefully, that's good for the Australian economy, an appreciating Australian dollar works against this. To put it in economic terms, they're offsetting income and substitution effects for the Australian economy.

Whether in net terms it's positive or negative for Australia is an empirical issue and generally the evidence suggests that widening differentials do lead to an appreciation of the Australian dollar so that does counteract the benefit to the

Australian economy of faster global growth. It's conceivable that unconventional monetary policy, which is what this is often described as, may have a larger financial impact than movements in interest rates. That is the effects of balance sheet expansions on the exchange rate may be larger while the effects in terms of higher output in terms of stimulating growth in these economies may be smaller. Again, it's an empirical issue.

Moreover, central bank asset purchases generate cross-border capital flows from investors seeking higher returns, some that we do see in a higher currency but some of those cross-border flows are not so obvious. Investors often tend to hedge their exchange rate exposures to protect their exchange rate movements. So as these investments increase there is more demand for such hedges which causes the cost of that hedging to rise. A direct measure of this is something called the cross-currency basis. But the most obvious example is out of Japan. There was a wide Yen basis, mostly because there's a lot of money coming out of Japan, some of it directly and buys Australian assets and pushes up the Australian dollar, but some of it, a large chunk of it is actually hedged so that they protect themselves from the exchange rate and you see that in a very wide Yen basis. It's actually to some extent a good thing that those funds are hedged because if they weren't we'd see even more of the effect of those capital flows in the exchange rate from Japanese investors in particular placing their funds in Australia and the Australian dollar would have appreciated by more.

That hedging has served as something of a shock absorber for those cross-border flows. But aside from those expansionary settings of monetary policy globally clearly have had a material influence on domestic monetary policy settings through the impact of capital flows on the exchange rate. And a French economist, Hélène Rey, has recently described this state of affairs as a monetary dilemma. Independent monetary policies, she says, are possible if and only if the capital account is managed. That is we can only run an independent monetary policy in Australia if we have some controls on the capital flow coming into the country. I don't think the situation is quite as stark as Hélène says. There is still a substantial degree of flexibility to set domestic monetary policy appropriate for domestic conditions. But I would certainly agree that the monetary policy decisions of other central banks are significant banks to take into account in our monetary policy deliberations here. Another way of putting it, is that we don't have the independence to set the neutral rate which is significantly influenced by global forces, but we do have the independence to set where we set our policy rate relative to the neutral rate.

Let me finish up and conclude. I've outlined today a number of the channels of influence that global developments have on domestic monetary policy settings. Some of these forces are transmitted through the real economy in terms of things like investment and wages but some through financial channels. The effects of these global influences on the Australian economy have been material. The global economic environment and global policy settings that have been in place for the past decade have contributed significantly to the monetary policy settings in Australia that we have today and will continue to do so for the foreseeable future.

Now currently financial markets don't expect any further lowering of policy rates in the major economies, nor any further expansion in policy settings. Hence the downward pressure on our domestic policy settings here from this source doesn't look like it's going to get any worse in the foreseeable future. But the four common factors, low investment, low inflation, wages and the recovery from the crisis that I highlighted in the first half of my speech, they're still present. There are some tentative signs that they are abating but the evidence is inconclusive as of today.

As I said earlier, the Fed has raised its policy rate very gradually over the past couple of years. And last week the Bank of Canada increased its policy rate to 0.75 per cent. Just as the policy rate in Australia didn't need to go down to the very low levels seen in other parts of the world, the fact that other central banks increase their policy rates doesn't automatically mean that the policy rate here needs to increase too. The policy rates in both the US and Canada still remain below that in Australia. Ultimately in Australia, as is the case elsewhere, policy rates are set at the level assessed to be appropriate to achieve the domestic policy objectives. While global influences, including monetary policy settings in other economies, have a significant impact on that assessment, they are in the end only one of a number of considerations to be taken into account.

I hope this gives you some idea of some of the global considerations that we have to take account of in setting the domestic monetary policy decision.

> PAPUA NEW GUINEA: WORKING WITH OUR NEAREST NEIGHBOUR

> 20 OCTOBER 2017

> BRISBANE

Papua New Guinea in the Asian century

His Excellency Bruce Davis

Australian High Commissioner to Papua New Guinea

Papua New Guinea and Australia share a close economic and strategic partnership. PNG is an important partner on security and international governance in the region and has long attracted Australian business. Now Asian economies are increasingly interested in doing business with PNG.

Addressing a CEDA event on working with Papua New Guinea, His Excellency Bruce Davis, outlined the many challenges and opportunities for our nearest neighbour and why Australia needs to work hard to maintain its historical place as PNG's partner of choice.

Thanks very much to CEDA for this opportunity to address this gathering. Can I particularly acknowledge our Papua New Guinean colleagues here today including Paul Nerau and John Kali. This is a timely opportunity to outline the strategic dimensions of Australia's contemporary engagement with our nearest neighbour.

There has been much discussion in recent years about the shift in the strategic and economic conditions of our region and much attention also on the increasing unpredictability and opportunity in this multipolar environment. Globalisation has, among other things, made our neighbours more economically independent. A massively expanding middle class in Asia is hungry for resources, goods, services and influence. Papua New Guinea has the potential to ride this wave.

In defining Australia's interest and developing our policies, we need a better understanding of a contemporary Papua New Guinea. It starts with location; Papua New Guinea's aspirations to be a bridge between the South Pacific and Asia have a compelling geographic basis. Situated partly in the South West Pacific, on the doorstep of South East Asia and with direct sea lines to the north, Papua New Guinea is close to both the ASEAN and North Asian markets.

PNG shares borders with two G20 neighbours, Australia and Indonesia, and is naturally looking to capitalise on the huge growth opportunities resulting from the booming economies to the west. As Asia's middle class continues to grow, Papua New Guinea could be well placed to supply the ever-expanding need for food, raw materials and natural resources.

Geology is also a critical factor. Over the next 10 years, some five major new resource projects have serious prospects to come online. The composition of expatriate workers in the country too will continue to change as more people come to take advantage of work opportunities. The largest expatriate group now is Filipino. The broader demographics will also change, with a youth bulge likely to push the population past 20 million by 2050.

Papua New Guinea's membership of APEC and observer status at the ASEAN Regional Forum remind us that PNG is engaged in the important economic and strategic architecture of the region.

Bilaterally, the trade and investment relationship is strong. Two-way trade between Australia and Papua New Guinea came to around $5.6 billion in 2016 with around two thirds of these goods exported from Papua New Guinea to Australia. Australian investment in Papua New Guinea exceeds $18 billion, largely in the financial services and oil and gas sectors. Some 5000 Australian companies are active in Papua New Guinea. To put the investment figures in perspective, this is more investment than we have in South Korea, Malaysia or India.

At any one time, around 10,000 Australians live and work in PNG, in all parts of the country. Recognising this, Australia this year opened a Consulate General in Lae. Very clearly, the heart of our partnership is, and will increasingly be, economic cooperation.

In this context too, geography is key. Papua New Guinea lies exactly between Australia's east coast and the export markets of Asia. Ninety per cent of ships carrying commodities exported from Australia's eastern seaboard to North Asian markets, pass through Papua New Guinean waters. More than 500 flights from Australia transit through or land in Papua New Guinean air space each month. And the distance between Australian territory in the Torres Strait and Papua New Guinean mainland is less than five kilometres.

Against this backdrop we have enduring security imperatives and some shared strategic interests which overlay the bilateral relationship. Papua New Guinea's challenges with border protection capabilities render both it and Australia vulnerable to irregular people movements, the spread of illegal goods and biosecurity issues. A long and largely unfortified land border in Indonesia presents ongoing challenges for both countries. Significant illegal, unreported and unregulated fishing occurs in Papua New Guinean territorial waters, often taking away much needed money from Papua New Guinea. In the east, Bougainville continues to rebuild after a prolonged conflict in which many thousands died while preparations are underway for a referendum on its future political status.

Annual high-level meetings, in particular the Bilateral Security Dialogue and Ministerial Forum provide opportunities for senior Australian and Papua New Guinean decision-makers to discuss pressing issues affecting the security and economic opportunities of both countries. Papua New Guinea is our largest defence cooperation program partner and policing support partner with many personnel working on capacity building, training and exchange programs.

Sound institutional partnerships have been built up and reflect the trust, shared regional perspectives and common interest of both nations. They reflect the critical importance of Papua New Guinea to Australia and are essential elements of the national security architecture. In considering security issues it's useful also to keep in mind the strategic triangle of Australia, Papua New Guinea and Indonesia. These relationships are critical. We have two countries of strategic significance on our doorstep and it's important for us to continue to engage cooperatively with both. We are already working together to intercept irregular people movements, smuggling, illegal fishing with joint patrols and intelligence sharing, our cooperation on the security and strategic issues is growing.

A theme I will touch on today is how Asian economies have come to view Papua New Guinea and how perspectives in Australia need to keep pace with new realities. Other economies in the region increasingly see the value of investing in Papua New Guinea and we must update our assumptions and perspectives if we are not to be left behind.

As Papua New Guinea works to overcome challenges developing its capability, Australia is strongly motivated to remain its partner of choice, adding value where we can to institutions and national assets. Happily, we do so from a position of experience and trust.

Our connection with Papua New Guinea spans many decades and generations, across different periods of history and geostrategic competition. The bonds between our people and institutions are strong and enduring. Milestones like this year's 75th anniversary of the Kokoda Campaign remind us that our connections in Papua New Guinea run very deep. But they also remind us that a Papua New Guinea of the Fuzzy Wuzzy Angels, of kiaps and colonial rule was very different from the PNG of today. While always maintaining respect for our shared history, we need continually to update our perspectives and focus on what's important for the future.

Modern Papua New Guinea, while still a developing nation with significant challenges, has regional leadership aspirations, steady foreign investment and the potential for increasing global reach. It has its own interests and ambitions in the region. It is rightly ambitious to assert its leadership in the South Pacific and flex its economic muscle in the markets of Asia.

Papua New Guinea welcomes the growing interest in its development by other regional players and is increasingly adept at leveraging competition. There is increasing interest in PNG's development from the region and beyond, including the North Asian, European and ASEAN economies and the multilateral development banks. Asian economies see Papua New Guinea as a likely energy security partner, particularly as a supplier of natural resources. This economic relationship has also seen an increase in international development assistance, especially through cooperation on large-scale infrastructure projects and concessional loans.

For a developing country with a large disperse population, increasingly impatient for services, assistance from a great variety of partners is appealing, as is the growing foreign investment in PNG's economic growth. In short, Australia is far from the only option and competition forces us to work hard to remain Papua New Guinea's partner of choice where this is mutually beneficial.

Reflecting both the country's stature in the region as well as the economic and strategic basis of our relationship, Australia is providing support for PNG's hosting of APEC 2018. Hosting APEC is an enormous undertaking, made even more so by Papua New Guinea's own significant capacity constraints and infrastructure challenges. It will however present an important opportunity for PNG to demonstrate its credentials as a significant player in the region.

Australia remains constructively engaged with Papua New Guinea's preparations in terms of enhancing security capabilities. We are also working alongside PNG as it develops its policy priorities for APEC, with a focus on the opportunities of the digital economy for economic growth.

APEC provides a great opportunity for us both to confirm our strong commitment to an open trading environment. For Papua New Guinea, hosting a successful APEC could considerably promote its emergence on the world stage as an attractive economy for investment.

As its economy continues to grow, we expect PNG's influence in the region will increase as well, for example, as an advocate on climate change and its impact on developing countries in the region. Despite this dynamism, we need to be realistic about the resilience of PNG's economy and its short- and long-term prospects.

Papua New Guinea will remain a commodity exporting economy for some time, vulnerable to the boom and bust cycle and with fledgling institutions of governance, regulation and oversight. While its potential for future growth is clear, there are significant challenges that need to be addressed if growth is to be sustained. Governance challenges will persist, likewise serious demographic pressures such as the youth bulge I've mentioned and high birth rate present any developing country with challenges, especially around service delivery. But international experience also shows that this demographic transition provides a window of opportunity for economic growth if well managed, through sensible policies such as access to basic quality health and education services.

And while growing levels of foreign investment also bring great opportunities, this too adds to pressure to get policy and governance settings right. Inadequate regulatory oversight, limited access to finance, gaps in infrastructure development and some uncertainty around aspects of land rights have historically influenced the nature of Papua New Guinea's investment. That said, many businesses are looking at Papua New Guinea as an attractive destination, bearing in mind that Papua New Guinea is often characterised as high-risk, high-reward.

The proliferation of large-scale and multi-year projects as well as the increasing market penetration by small- and medium-sized enterprises is testament to this. Indeed, the opportunities in infrastructure development projects, such as power generation, transport and telecommunications are considerable. They can consolidate economic growth by improving the operating environment, if of course, the right settings are in place.

So how does Australian assistance play into this agenda? In other forums, I've talked about the importance of reframing our bilateral relationship, which for too long was perceived through a prism of foreign aid as something of a problem for Australia to solve, essentially through a donor-recipient relationship. Of course development cooperation through institutional capacity building remains a critical part of our work, reflecting Australia's interests and priorities, but long gone are the days of direct budgetary assistance, which often served only to entrench structural problems rather than solve them.

Our development cooperation today is more targeted, more precise and more reflective of a genuine partnership. It is delivered in partnership with the Papua New Guinean Government and has at its core, the aim of improving the environment for investment and enabling sustainable economic growth and better social outcomes.

Development cooperation is an enabler of our broader relationship, not an end in itself. This is directly in Australia's as well as Papua New Guinea's interest. We seek to add value with our technical expertise and policy experience to address systemic issues and to improve accountability structures. We want to focus on adding value, not substituting for provision of services which should be delivered by the nation as its own sovereign responsibility to its people.

In the coming decades, as Papua New Guinea's population continues to grow and demand more services from government, infrastructure investments will certainly pay dividends. In particular, the increasing health costs of a growing population and the relative decline in the ability of the informal sector to support communities will impose a huge burden on governments in the long term. For example, in some parts of Papua New Guinea the rates of drug resistant tuberculosis are among the highest in the world. We understand that health security is critical for Papua New Guinea's economic growth and we are working with authorities to improve data collection, support responses to outbreaks and supply clinics with a focus on remote areas and also on women and children. All this is also very important for our own security, not least because of the proximity of our borders in the Torres Strait.

As we know, Papua New Guinea is straining under budgetary pressures, including revenue short-falls, low commodity prices, ballooning service delivery costs and public sector wages. We've already seen the Papua New Guinea Government tighten its belt most recently through the 2017 Supplementary Budget as it moves to address increasing demands on its limited resources.

Recognising the importance of enabling sustainable economic growth, we are working with the Papua New Guinea Government to improve economic governance and the regulatory environment and promote drivers of growth, especially in sectors such as agriculture and tourism. And where appropriate, helping to mobilise international finance to support key economic and social priorities, for example in transport infrastructure.

Papua New Guinea requires increasingly sophisticated structures and mechanisms to turn policy into practice and we are partnering to improve these implementation processes. A key focus of our work is institutional capacity building, particularly through enhanced transparency and accountability and a focus on future leadership, including through the Pacific Leadership and Governance Precinct and safeguards against mismanagement.

As well as issues of governance and regulation, Papua New Guinea faces well-known challenges of gender inequality, tribal violence and remoteness. The economic and social impacts of these issues are enormous, for example, in areas where tribal fighting takes place, normal economic and social activity can come to a standstill and people can effectively become displaced in their own communities. The pressure of population growth can lead to competition for access to land and resources with devastating consequences. Furthermore, the prevalence of modern weapons has raised the stakes and has the potential to lead to larger numbers of casualties.

Many Papua New Guineans consider themselves members of their tribes or clans first and citizens of their country second. Wantok bonds are so strong, in fact, they also serve as an extremely important social safety net for the majority of people, with some Papua New Guineans historically having little interaction or even expectations of the organs of the state or the formal economy. This has led to a very resilient population, but the strain from the growing population is showing and communities are becoming less able to support themselves in traditional ways. A major challenge in coming years will be to reverse this trend.

Papua New Guinea has the advantage of relative political stability compared to other countries at a similar stage of development. The recent elections, while clearly beset by a number of significant challenges including the well documented concerns around the electoral roll, did lead to the formation of a government with a strong majority. However, the disappointing fact is that the elections returned no women to parliament and this is telling in terms of gender inequality.

In recognition of ongoing need, Australia will look to continue its partnership with Papua New Guinea in electoral support. We're very encouraged by Prime Minister O'Neill's recent statements, committing to develop concrete plans to improve women's participation in politics, including by considering possible quotas in parliament or temporary special measures. The issue of gender inequality and especially violence against women and girls demands assiduous action. For our part, we focus on improving access to education, health services, employment and business opportunities, not just because it is right, but because it represents an investment in the productive and secure future of the nation.

To conclude, Papua New Guinea faces many challenges, some of which I've touched on today. Papua New Guinea is also a place of dynamism, enterprise and culture, whose next generation of entrepreneurs, leaders and scholars, will make an indelible mark on our region. Its proximity and connectedness to Australia, over many generations ensures it will remain among our most important international relationships. Its geostrategic location will likely underpin an increasing role for Papua New Guinea in the region. Others see this.

I encourage all organisations with a connection to Papua New Guinea to consider how they plan to make the most of their own engagement. Universities, churches, civil society groups, corporations, sporting associations and, in some cases, state and local governments should be thinking strategically and investing with the long term in mind. After all, we know that at the heart of all strong relationships are shared interests and we must never stop paying attention to this. Thank you very much.

> ANNUAL DINNER ADDRESS

> 14 NOVEMBER 2017

> SYDNEY

The three great transformations

The Hon. Paul Keating

Former Prime Minister of Australia

Former Prime Minister, the Hon. Paul Keating took to the CEDA stage for the first time in more than 20 years to deliver an address to CEDA's Annual Dinner. In his address at the sold-out event, Mr Keating recounted "fights worth having" in delivering the Hawke and Keating Government economic reforms of the 1980s and 90s that saw the Australian economy opened to global competition.

Mr Keating named these economic reforms, the rise of China and technological change as the three major economic transformations of our times. He urged Australia to resist nostalgia for past reforms and instead harness imagination and boldness to rise to challenges wrought by rapid technological advances.

Thank you indeed. It's so nice to be here. I spoke here last 23 years ago, so I am a bit of a fair-weather friend, you could say. But I mean well. Let me acknowledge my friendship with your chairman, Paul McClintock, and his contribution to public life, including now as chairman of CEDA, your new CEO Melinda (Cilento), (Professor the Hon.) Stephen Martin who crash tackled me to get me here, and who I was very gratified to see tonight honoured by such an acknowledgement by the board of CEDA[1]. The (NSW) Leader of the Opposition, Luke Foley, I understand is also here tonight, among many distinguished guests.

I want to begin with a little retrospective. And when one thinks about speaking to an audience, an informed one as this is, how do we integrate a milieu of things, try and discern things that we can notice and talk about? So, I thought I might address what I think are the three great economic transformations that have taken place in our more recent lifetimes; the ones that most closely concern us.

One is our own transformation; the one that we undertook through the 1980s and the 1990s. Another is China's transformation. And the third is the transformation wrought by technology – the dazzlingly rapid change in the global economy and in our lives, being brought about by information, by cheap, fast, ubiquitous communication, and of course, by the connectivity of the internet.

Three transformations that have changed our world, and are changing it now, and will continue to change it in coming decades. I think they're the three biggest economic developments of my lifetime and the lifetime of most of us here tonight. Unlike many transformations, these have not only been long lasting and consequential but, fortunately for us, they've been mostly favourable. But favourable as they are, they pose also big challenges for us. Challenges to which we are responding, I think, only hesitatingly, encumbered as we are by the baggage we bring from a world rapidly disappearing behind us.

The first transformation is not important to the rest of the world, but it was very important to us. It was the transformation that has prepared us to more readily respond to the other two. This is the transformation we have made of ourselves, of the Australian economy. Just six weeks ago, Australia began its 27th year of uninterrupted economic expansion. No other advanced economy in the world has matched that record. In 1991, I said we were about to snap the inflation stick that had obstructed Australia for the previous quarter century. And I said then that we would have a long economic upswing, with low inflation and high productivity. I could see it in all the changes, the productivity would evidence itself and, as we broke the back of inflation, the wage system was much easier to run.

We had created the conditions by dramatically floating the currency, deregulating finance, dismantling tariffs, and selling off government businesses. We introduced capital gains taxes and fringe benefits taxes, and used those revenues to sharply lower the top personal income tax rate. It was 60 (per cent) when I became Treasurer, it was 47 (per cent) when I left, and it's 45 now. And the company tax rate, which was 47 per cent when I became Treasurer and when I left, it was 33 (per cent) with a system of full dividend imputation. I then announced that we would transition away from our century-long system of centralised wage adjustments, towards a system built around enterprise bargaining. And we completed that transition in the following three years after I became Prime Minister.

So, I confidently predicted at the time, the durability of the upswing – the enhancement of Australian prosperity, which began way back then in the third quarter of 1991 – and that has pleased me no end. I can tell you; the only reward in a public life, is public progress. You walk out there – there they are with their 4G phones; they're moving up from the Commodore to the Audi. That's the thing that matters. It's not the white government cars, or the Orders of Australia. I knocked the AC back, as a matter of fact, to get things in perspective. So, I thought that, from the third quarter of 1991, these changes – and seeing them really succeed lifts your heart; to see the place lift.

When the gadget works, everyone profits. Between 1960 and 1991, the Australian economy had six recessions. We were a very recession-prone place. But since then, 26 years of uninterrupted growth. Among advanced economies, we have been uniquely prosperous. It's a pretty big statement to be able to make.

In those 26 years, our output of goods and services has much more than doubled, comfortably exceeding the growth of the United Kingdom or the United States or Canada or Germany or Japan. Labour productivity has increased by around 66 per cent. Real income per head has increased by roughly the same – by two thirds. On one measure, average wages have increased – after inflation – by around 70 per cent. Show me any country where real wages have risen by around 70 per cent and I'll show you a prosperous one.

The volume of our capital stock has more than doubled. We've built over four million new homes. Australia is a much bigger place, a more productive one, a better equipped place and it's also a far wealthier place. The net wealth of Australian households has increased more than seven-fold in those 26 years – a remarkable statistic if ever there were one.

In 1991, we had $118 billion in superannuation assets. Today, we have over $2.3 trillion – a 20-fold increase. And these assets aren't owned only by people already well off. The best part about this is we've had all that growth, all that prosperity, but importantly, without destroying the underlying values on which Australia has been built.

Our income distribution after tax and government transfers – it's not as flat as Western Europe, but it's much flatter than the comparables like the United States or the United Kingdom. This is, I think, a really important point. Even the lowest fifth of Australian households by income have seen a nearly two-thirds increase in real income in the last 20 years. And the top fifth have done much better, but not outrageously better. We built a good social safety net and rigorously means tested it so we could afford meaningful benefits. We switched to enterprise bargaining but importantly, we kept the base and safety net of minimum award rates in our award system – minimum rates of pay in our Award system.

Above all, the long run of economic success has meant we have high work-force participation, and relatively low unemployment. But it hasn't been without its problems. I am concerned that our income distribution is becoming more unequal, and our wealth distribution much more so, too. But what a contrast in attitude, nevertheless, between then and now. In 1991, we had more than two decades of economic *un*success. These two decades had been followed by what many people found to be a bewildering struggle over economic reform and change. That struggle went on all through the 80s and most of the 90s. And then, 26 years of prosperity.

It's not only been a remarkably prosperous time, but also a culturally enriching one for us. Our population has become much more diverse. Nearly one-third of Australians today were born somewhere else. The share of children who finish school at Year 12 is more than twice as high today as in 1983. In fact, when I finished as Prime Minister, it was three times as high. So too the share that are now able to go on to university or apprenticeships, or other forms of training, is much higher. In fact, we trebled university places. We've become an even more services economy than we ever were, and we have become much more oriented to Asia.

And this introduces the second great transformation which concerns us tonight. In 1991, just over half of our goods exports went to Asia. And when I pointed this out at the time, we ourselves were astounded at how big that share had become. Today, more than three-quarters of our goods go to Asia. The share of exports in our GDP has increased from one-sixth to one-fifth, which is a big shift. Service exports have increased six-fold particularly with an Asia focus – for instance, international students studying in Australia now account for spending of just over $20 billion; a five-fold increase in just 17 years. And two-thirds of students are from Asia.

Tourism exports have increased more than five-fold, compared to 1991. Again, the most rapidly rising tourist numbers are from Asia. We've turned to Asia to an even greater extent than I was expecting in 1991. And of course, we've turned especially to China. Our goods exports to China now account for one-third of our total exports of all goods, compared to less than one-thirteenth in 1991. You don't need to get your threes mixed up here to work out how profound that shift is. Students from China now account for over a quarter of the total of international students in Australia. Tourists from China now account for more revenue in Australia than tourists from any other country.

Just a decade ago, the stock of China's direct investment in Australia was derisory – around half a billion dollars. US direct investment, by contrast, was 174 times bigger than Chinese investment, back then – just a decade ago. But by last year, the stock of Chinese direct investment in Australia had grown to $42 billion, an 80-fold increase and getting on for about a quarter of the stock of US investment. So, you can see this big shift happening in the Chinese – in the money coming from China, and in seeing their savings shifted to countries like Australia. China has become more important to us, as it has become more important to the world. It is the centre of the second great economic transformation that is changing our lives and our children's lives.

But our own transformation actually coincided with China's. When Bob Hawke and I – and the great reforming cabinet – took office in 1983, Deng Xiaoping had already been reforming China's economy for five years. While we opened up the Australian economy to the world with the floating of the exchange rate, freeing finance and breaking down the tariff wall, he was opening China to the world at the same time. He was inviting foreign businesses to manufacture there. He was telling the Chinese state enterprises to invest and to export. He was encouraging the Chinese to set up their own businesses, and to become as rich as they were able. He began building the heavy industries to support China as the export powerhouse it has become.

While our economic output has more than doubled in the last 26 years – which by any OECD standard is a pretty good result – China's has increased by more than eight-fold over the same period; not only remarkable, but really without precedent in economic history. Our per capita GDP has increased 150 per cent – one and a half times – theirs by 700 per cent.

Purchasing power parity weighted GDP per capita in China is now double India's and is a third higher than Indonesia's. The wages of factory workers in China are now higher than many economies in South America. On IMF purchasing power parity measures, China surpassed the United States as the world's biggest economy in 2014. Even on current exchange rates, it has long surpassed Japan and Germany, to become the second biggest economy in the world. China is more than 10 times our size in output, nearly 50 times our size in population, and our productivity level is, let's say, about four times theirs.

But all that said, there were similarities between the way we went about opening our economy to the world – deregulating, and looking for trade and investment – as there was with the Chinese. Both transformations required clarity and urgency in political leadership against fierce opposition. And significantly, both sets of change were politically driven. In both cases, the leaders needed to bust the old arrangements, and release the creativity and the aspirations of their people. Both sets of leaders took big risks.

Over the years, I've had discussions with the former Premier, Zhu Rongji, who I saw only about six weeks ago; former President Jiang Zemin; and more recently, President Xi Jinping. And I've always seen, in any one of these people, a keen interest in the lessons Australia is able to offer in economic change. They love our Medicare system. They love occupational superannuation. They love a lot about us. So, the transformation of the Australian economy, and of China's economy, and China's role in the world, have had a vast impact on us, on all of us here tonight.

But the technological transformation now underway may well prove more consequential for us than either of those great changes. When the long running Australian economic expansion began in 1991, we were still getting used to the novelty of having computers on our desks. We went to bookshops and record stores. We read newspapers that were actually printed on paper. We spoke a lot on the telephone, but thought twice about calling overseas. We still sent letters. We examined printed catalogues and read printed advertisements. We already had the IBM personal computer and its competitors. We already had Microsoft with Word and Excel. But it would be another three years before Amazon got going, and another seven years before anyone had heard of Google.

We were just beginning to use the internet for emails. We carried big clumsy mobile phones, and thought they were amazing. I actually had the first one in a Commonwealth car. We had barely begun to realise the possibilities of the internet. Now, digital technologies are changing every aspect of our lives. They have changed the global economy, and our own. They're changing the way we relate to people, and the way we communicate. They're changing our culture, as that changes. They're offering us new economic opportunities, and new impediments and threats.

We are now moving into a way more lateral, interconnected, collaborative world – one that does not respond or interact with a managerial hierarchy as formerly, in all previous industrial organisations. In short, we are in a new world. A world we have to comprehend and absorb. So, let me sketch out where I think we are, in the afterglow of Labor's and Australia's great reform period.

I'm always gratified by the frequency with which the 1980s and early 90s in Australia are hailed as the golden age of economic reform. As Oscar Wilde once said, "Anyone who doesn't like flattery has never been flattered." Even when the applause comes from groups and interests who were opposed to what Bob Hawke, my colleagues and I were doing to remove the shackles on the Australian economy at the time.

So, I say this. Nostalgia for the reform politics of the 80s and 90s is not going to advantage us or advance us mightily. It was not, as is often suggested, a period of consensus between the parties on what needed to be done. Today, the Business Council of Australia tells us we need to go back to the Keating reform era. When we were actually *in* the Keating reform era, the Business Council, of course, was of no help. They opposed any notion of a tax on consumption, the taxation of capital profits and fringe benefits, and therefore they opposed the means necessary to fund lower personal income tax rates and company tax rates, and to put into place this world-ranking system of dividend imputation. They also opposed our enterprise bargaining reforms, as did the Opposition.

And I can tell you the then Liberal and later Howard Opposition did not wave things through as conservative apologists suggest these days. If you were writing for the newspapers in John Howard's day you had to say – or just after Howard's day you had to say – "The great reform periods of the 80s and 90s, and the Howard Government". You'd say "Well hang on, what were Howard's great reforms, apart from the GST? Where were the structural changes?" But these references are there, because it means they keep the Tories happy.

But let me tell you this – this is the truth – they voted against means testing pensions. In fact, Bob Hawke and I fought the 1984 election on putting an assets test on the pension. Could you imagine today having an income test but then saying “No, look I think you should have an assets test on the pension?” The Opposition voted against these sets of measures. They voted against the enterprise bargaining, the superannuation guarantee and the broad elements of the landmark 1985 reform tax package.

They opposed – and this is very important – they opposed each and every pay increase under the Accord. It was the Accord processes, the consensual arrangements, that broke the back of Australian inflation. The Liberals opposed every increase. My colleagues and I had to fight for every one of those reforms, invariably against the Opposition, mostly against the business lobbies, and occasionally with our own caucus. They were fights worth having.

When I superintended the last national macro and micro reform program, it was all about opening our protected, sclerotic economy to global forces – peeling back the onion. It was about getting blood to the muscle of the economy. And through the big tariff reduction program, trying to ensure that our investible capital found its way into the optimal places in the then more open economy, and not finding its way into areas protected by quotas and tariffs and distorted by these sorts of measures. Essentially, those reforms revolutionised the traded sector of the economy, making them ultra-competitive and open to productivity gains.

But I had great difficulty with the non-traded economy; the part which, in very broad measure, belongs to the authorities of the states in areas like transport, health and education. To encourage the states to do something about these lethargic instrumentalities, I established a formal competition policy, in which I had a range of payments available to the states for pro-competitive things I was encouraging them to undertake – a program most states took up with some enthusiasm. So, in the broad sweep of just on a decade and a half of almost daily reform decisions – there’s thousands of decisions that affect the broad parameter of this kind of opening – the focus was all about opening the place up while generating real competitive forces in a country comfortably used to monopolisation and protection. The whole culture of monopolies and protection had engrained itself in all fields of our commerce.

Now that agenda has been accomplished. Those changes have been made. These things have been done. The exchange rate can only be floated once. The financial system can only be liberated once. The tariffs can only be abolished once. The privatisation of big government assets like the Commonwealth Bank, CSL, Qantas and Telstra can only happen once.

There's just no point or profit in returning to those particular wells. But today, the economy is still crying out for liberating forces in the nature of those we employed in that tumultuous period. As a consequence, these days, people talk incessantly about reform and the need of reform.

As I remarked in the 1980s, so ubiquitous was the reform debate then, even the pet shop galahs knew about microeconomic change. I'm sure the galahs were having a real discussion about the benefits of particular micro reform measures. Yet you hear these days reform expressed by organisations like the Business Council as simply being about a reduction in the corporate tax rate, or hopping into low-paid workers by knocking off their penalty rates. The limitedness of it is remarkable. The laziness and backwardness of it profound.

If you had any foresight or understanding of the forces now available to promote the kinds of changes we employed in the opening of the economy 30-odd years ago, they're staring you in the face. Globalisation and galloping international digitisation. These dual forces are all about competition: competition and complementarity in the provision of goods and services through globalisation. We sell the Chinese iron ore. They sell us back developed products. And with digitisation, competition in all fields of products and services, with the accelerating ubiquity of the global digital economy, with telecommunications and the smart phone facilitating much of it.

Digitally-enabled business models are reshaping entire industries, which the technology facilitates to scale faster at lower prices. And in reshaping those industries – bringing down monopolies, smashing market barriers, while lifting the utilisation of otherwise static or underperforming assets. You can see simple examples of that with Airbnb, where properties are being used now where they were once closed and never used. Or Uber, where people are using their motor cars, where formerly they were not. This is just the tip of a big iceberg. We can see the first big phase of this shift with consumers responding directly to the smorgasbord of things on offer at their fingertips. As we can see, information lowers prices.

The wider phase, the grander phase, where even larger gains are to be had is in the heavily government influenced areas of health, aged care, education and human services. Can you imagine what is available to us in terms of productivity and improvement with the digitisation of these huge areas of the economy? With the use of big data, it is possible to make the delivery of these services smarter, less costly, more tactile and more friendly to the consumer. Informed by mass data and automation, simplification at work will be facilitated by machine learning and computational language processing. This same artificial intelligence should be applied in the efficiency of health delivery, education, our road and transport systems, and the general operability of our cities.

Now these are the reform horizons we should be concentrating on now, and not the dross handed down from the Business Council or the *Financial Review.* With the Holy Grail simply – you cut the company tax rate and the Holy Grail arrives. This is the hollow promise. Or whinging from the ACCIs of this world about penalty rates when the reality of static wages growth stares us in the face. Wages growth has been declining for a number of years now, and ACCI is out there – ACCI is actually a national menace, a national menace – is out there whinging about penalty rates of pay.

Changes on a canvas of this kind are not going to drop from any department. You won't find these falling from a Treasury printer. Because of their essence, they require imagination. Imagination. And imagination, believe me, was a principal tool that was employed in underwriting the 80s and 90s changes. If you can't imagine it, you're as sure as hell never going to see it.

As I said earlier, in those days – in these days in fact – people talk about reform as though you could dial it up, if only you could remember the number or the prefix. Of course, before the 80s – and this is a fact – before the 80s, Australia never had reform. There never was reform. It couldn't even conceive of what a reform program would have looked like, much less articulate one.

Australia was a locked up and locked down little insulated economy long presided over by that vacuous dandy, the great god Ming. In the long Menzies torpor and with his modest successes, we gently slipped into an industrial backwater. Ever so quietly, mind you. No fuss whatsoever. We just slid quietly into there. The kind of slipping we are seeing now – quietly also – gently doing nothing other than genteel subsidence. And there's another thing conservative Australia never had any respect for, or understanding of, and that is inclusive growth.

The rarely if ever mentioned second strut of the 1980s and 1990s reforms was, as I mentioned earlier, the concomitant commitment by the Government to equity and inclusion. In the cooperative framework which the Accord process engendered – wage restraint over a decade of time, a commitment, the unions adopting the Reserve Bank's inflation target for God's sake – this engendered large slabs of the garnered productivity, which was then allocated to new community standards, in such things as Medicare, universal superannuation, a world-leading system of minimum award rates of pay, and strong real wages growth.

The 26 years of our current expansion were designed so *all* Australians had a share in the national action. Now, I don't particularly want to make overt political comments in this address, but you are a captive audience. So, it's perhaps apposite to point out that the Opposition led by John Howard, opposed each and every one of the new community standards we sought to entrench.

He fought Medicare to a standstill. Like he did superannuation. Like he did minimum award rates of pay, with his miserable *WorkChoices* program. Like he did each and every national wage adjustment over 15 years under the Accord. And while it mattered, like he opposed the capital gains tax and the fringe benefits tax, which as I said earlier, we needed to fund the big personal and company tax cuts, that changed the competitive landscape. This was the reality of the thing. Not this current nonsense – how it was all sort of a consensus between parties.

The Hawke/Keating changes, while market oriented, differentiated themselves from neoliberalism and plain reactionism of the Howards of this world by the commitment to inclusion. The Government at the time was committed to market reforms, and it had them uppermost in its mind. But the economic and social imperatives of inclusion and justice had equal standing and precedence.

We can see, in America today, what the loss of these balances means, watching the extremes of income and wealth rip at the fabric of American society. And we can see, now time has passed, how superior – and I emphasise, how superior – Australia's model under Labor has been to that of the United States, or for that matter, most comparable industrial countries.

This question of inclusive growth remains large, and will loom larger, because of the continuing impacts of globalisation and technological disruption. Large percentages of the population have been able to enjoy the benefit of trade and open competition, while others have suffered the brunt of concomitant adjustments. Now, in this country, we try to put our arm around people and ease those adjustments, but this has never been true of countries like the US. This effect, these trends, are likely to amplify themselves as the network economy moves large chunks of commerce into automation, under the stratagem of artificial intelligence.

The productivity surges with losses in employment have to mean that management of the economy has to focus heavily on inclusion. Large bodies of people simply can't be left out, or left behind. In the 1980s and 90s, we established these principles and they have served Australia so very well. So, we do know what to do, and we know that the outcomes will be superior.

But this also tells us that in the cascading digital age, where self-learning algorithms and computational processing eke away at today's jobs before it is clear where tomorrow's jobs are coming from, comprehensive and inclusionary programs must become central to our economic progress and, with that, our social bindings.

We are in a somewhat early stage of this remarkable change, but 2016 was probably the tip over year, when developments in artificial intelligence made clear that this was a primary and new technological path. We are in a new world now. A world which requires new world thinking and awareness that other states – and I don't mean here simply the United States, but states like China – will set the pace in these competitions; a competition that – because of the connectivity of all of us to the rest of us – we're now all in.

So, while we were able to do capital so well in the 1980s and 90s, the challenge for Australia now is in human capital, as the knowledge economy, the network economy tears away at exponential speed. All of our lives we have witnessed change, more or less on a linear basis over time. If you take your own life and think of the changes over the years, you can see how you've moved – in incomes, in accommodation, in property, and all sorts of other things, it's been more or less linear. Discernible and linear.

These technologies dramatically change those trajectories. From now on, the changes will be so rapid, so exponential, we'll have difficulty even in our mind's eye of comprehending their scale of application, let alone planning for them. They'll be so fast. All the more reason our imagination must be leaping and not at all being relaxed and comfortable.

So, we have a lot of challenges, and we're going to need enlightened and resolute political leadership to deal with them. So far, we've avoided the political rebellions against trade and immigration of the kind evident in the UK Brexit vote and the election of Donald Trump as President.

We have the advantage of being increasingly integrated into an economic community which is the fastest growing in the world, and which has China at its centre. We actually fit well. We have the advantage of those 26 years of uninterrupted expansion, which have given us more confidence in accepting change, in meeting and dealing with our problems. We have the advantage of a diverse population – one of the most diverse in the world – and one without any serious ethnic or cultural tensions.

We have an immense demographic advantage. On UN projections, Australia's workforce will, in coming decades, increase more than six times faster than the United Kingdom workforce, five times faster than the Canadian workforce and nearly three times faster than the US workforce. These are very important indices.

With sensible policies, Australia's economy can expand more rapidly. And as living standards increase faster than most other advanced economies, including the United States. But perhaps let me finish tonight with a comment not on what we need to do here, but also on our external challenge.

The issue that most concerns me now is how the United States and China manage their relationship over the next couple of decades. For Australia, there is no bigger threat than a breakdown of cooperation between the United States and China. A breakdown of cooperation between these two great states changes our world forever. We must do all we can to resist such an impasse. America will still remain our security alliance partner, the world's predominant military power, and a great democracy to which we are philosophically akin.

But we are increasingly part of a regional economy based on China. We have an overwhelming interest in seeing these two huge economies, these two powerful states, co-exist as harmoniously and as fruitfully as possible. Last week's meeting between US President Trump and Chinese President Xi Jinping was encouraging in these respects.

We should have no interest whatsoever in publicly or privately encouraging either America or China down the paths of crude economic nationalism. A mercantilist path where investment in each other's economy is resisted or where trade is thought of as wins and losses, where agreed global rules can be suspended, is of no use to us.

I've spoken elsewhere of my very firm view that America must accept, for all of its power and all it has done, that it cannot remain strategically preponderant in the Western Pacific. There are increasing signs that the inevitable strategic competition between these two nations risks spilling into trade, investment and technological competition, as well as issues of global economic governance.

I've said before, but it's worth repeating, that the Clinton presidency and the Bush presidency that followed denied America the opportunities offered by the US victory in the Cold War. I wanted them to use that opportunity to reshape the world by allowing the great populous states of China, India and Indonesia a place at the great strategic table. I wanted the US to make room for China and for India, and to come to proper terms with Russia. The fact was, and remains, there was no coherent American strategic plan for the post-Cold War world, and America is now paying a huge price for this, as China rises rapidly and so confidently in the east.

It is clear that the United States can be the framer and the guarantor of the Atlantic, as it was in World War I and after, in World War II, but not now the Pacific, as China will never allow itself to be a strategic client of the United States, as Japan has allowed itself for 70 years. Yet the US can be, and actually should be, the balancing and conciliating power in the Asia Pacific. We need the United States here. But the notion of the alternative, "the pivot", that the Chinese state is going to be superintended by the US military, is simply incredible.

So, I've tried to cover tonight where we've come from in the 1980s and 1990s and the attempts we had at opening the economy up to competition in those years. When you look at it now, in policy terms we were really using crowbars to break open the hard shell of Australia and let the competitive forces in. We've succeeded in that. The economy is much more flexible and much richer.

We've gone on to be really the predominant economic growth state of the western world in the years since. But the competition we were seeking then is now coming to us not by the use of the crowbars breaking down tariff walls, breaking financial regulation, taking the exchange rate off the cabinet table. These things are not necessary in the new milieu, in the ambience, of the great technological revolution that takes us over.

But we've got to be alert to the fact that it's moving at an exponential rate, and that reform in Australia must be, in some substantial measure, connected to how we engage with the rest of the world. For the first time in human history, every one of us in this room is connected to everyone else in the world who has a computer or who has an email address. This changes the whole framework. Before this, the world was run in regions and in places. It was never run as a totality.

And so therefore, reform in Australia can't be these simple notions. I said, I don't like the Business Council's prescriptions, of course I don't like the *dullness* of it – if we cut the company tax rate all will be fine. It's nonsense. Pure nonsense.

So, the opportunities are there for us. They really are. But you've got to see them, and you've got to take them on. I've tried to cover a fair bit of ground. We have big challenges and big opportunities. We've come a long way. The important point is that the pace is quickening, and rapidly. There is no rule book or plan for the next phase. Absolutely no rule book. But imagination and boldness have to be the essential elements of our next major advance.

CEDA has been an important contributor in this respect, in the national economic debate, now for a very long time. The range of its interests and the breadth of its membership equips it to make an enhanced contribution as these challenges come in on us. And they will.

I was very pleased to accept tonight's invitation. Thank you so much.

Endnote

1 Professor the Hon. Stephen Martin was made an honourary life member of CEDA.

Acknowledgements

CEDA would like to thank the contribution of the following CEDA members who have sponsored CEDA events in 2017.

Each year CEDA delivers more than 300 events across Australia with leading thinkers from business, politics, government and academia. These events provide an opportunity for attendees to be informed and to discuss the critical policy issues facing Australia.

Without the additional support of sponsors CEDA could not deliver this ambitious events program.

.au Domain

ABB Australia

Adelaide Airport

ACIL Allen

Advisian

AECOM

AIMWA-UWA Business School

Allens

ANZ Banking Group

Arc Infrastructure

Arup

AusNet Services

Aurizon

BHP

Bond University

Box Hill Institute

Brookfield Rail

Bupa

Cardno

CBRE

Chamonix

City of Casey

City of Perth

Clayton Utz

Coal Services

Colin Biggers & Paisley

Commonwealth Bank of Australia

ConocoPhillips

Construction Skills Queensland

CPL

CSIRO

Curtin University

Defence Housing Australia

Deloitte

DXC Technology

Edith Cowan University

Energy Queensland

ExxonMobil

EY

First State Super

Fincantieri

Flinders University

Folk

GHD

Gilbert+Tobin

GPT Group

Griffith University

GTA Consultants

Health Partners

HESTA

IBM

James Cook University

KPMG

La Trobe University

Lutheran Services

Macquarie University

Maddocks McCullough Robertson Lawyers

McConnell Dowell

McKinsey & Company

McKinsey

Melbourne Water Corporation

Microsoft

Milwaukee Tools Australia

Minter Ellison

Murdoch University

Nous Group

NSW Department of Premier and Cabinet

People's Choice Credit Union

Perth Airport

Philips

Plenary Group

Port Authority of NSW

PwC Australia

Queensland Airports Limited

RAC of WA

Rio Tinto

SA Department of Environment, Water and Natural Resources

SA Department of State Development

SA Power Networks

Scope Global

SEEK

Serco

Siemens

Star Entertainment Group

Stellar Asia Pacific

Stockland

Sydney Airport

Tafe SA

Telstra

Telstra Health

The University of Adelaide

The University of Sydney Business School

Transurban

Toowoomba Regional Council

Uber

Unisuper

University of Canberra

University of Melbourne

University of Newcastle

University of South Australia

University of Southern Queensland

University of Sunshine Coast

University of Western Australia

University of Wollongong

VicHealth

Victorian Department of Economic Development, Jobs, Transport and Resources

Victorian Government

WA Department of Local Government, Sport and Cultural Industries

WA Super

Western Sydney University

Westpac

Woodside

WSP Australia

CEDA Board of Directors

CEDA Board of Governors

CEDA's Board of Governors is an advisory body comprised of eminent Australians

National
Level 13, 440 Collins Street
Melbourne VIC 3000
GPO Box 2117
Melbourne VIC 3001
Telephone 03 9662 3544
Email info@ceda.com.au

New South Wales and the ACT
Level 14
The John Hunter Building
9 Hunter Street
Sydney NSW 2000
GPO Box 2100
Sydney NSW 2001
Telephone 02 9299 7022
Email info@ceda.com.au

Queensland
Level 17, 300 Adelaide Street
Brisbane QLD 4000
GPO Box 2900
Brisbane QLD 4001
Telephone 07 3229 9955
Email info@ceda.com.au

South Australia and the Northern Territory
Level 5
2 Ebenezer Place
Adelaide SA 5000
Telephone 08 8211 7222
Email info@ceda.com.au

Victoria and Tasmania
Level 13
440 Collins Street
Melbourne VIC 3000
GPO Box 2117
Melbourne VIC 3001
Telephone 03 9662 3544
Email info@ceda.com.au

Western Australia
Level 5
105 St Georges Terrace
Perth WA 6000
PO Box 5631
St Georges Tce
Perth WA 6831
Telephone 08 9226 4799
Email info@ceda.com.au

ceda
committee for economic development of australia