CEDA's Top 10 Speeches **2018**

A collection of the most influential and interesting speeches from the CEDA platform in 2018

ceda
committee for economic development of australia

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About this publication

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About CEDA

CEDA – the Committee for Economic Development of Australia – is an independent, not-for-profit membership organisation. We identify policy issues that matter for Australia's future and pursue solutions that deliver better economic, social and environmental outcomes for Australia.

CEDA's cross-sector membership spans every state and territory and includes more than 780 of Australia's leading businesses, community organisations, government departments and academic institutions.

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committee for economic development of australia

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Introduction

In 2018 CEDA delivered once again an impressive program of events across Australia.

We presented over 300 events featuring more than 600 speakers, making the task of compiling our annual Top 10 speeches a tough one.

This past year we have heard from Australia's leaders in politics, business, academia and the community sector on their priorities for our nation. And of course we have presented CEDA's new research agenda.

In CEDA's research report, *Connecting people with progress: securing future economic development*, we identified areas where Australians' lives have been made better by economic growth and where progress has fallen short. We also outlined priorities for making people's lives better in the future through a 'policy stack' of five areas that CEDA believes are of critical importance.

The speeches contained in this year's collection provide a snapshot of the issues that have been at the forefront of policy debate and public discussion throughout the year.

Interestingly, most of the speeches have identified areas where Australia can and should lift its game; be it on climate policy, gender equality, taking advantage of opportunities on our doorstep or restoring the public's trust in political leadership and public institutions.

I want to take this opportunity to thank all of our speakers who have volunteered their time to participate in and contribute to CEDA's events. Without them and our many sponsors, our program of events wouldn't be possible.

No doubt 2019 will be another interesting year on the economic, politics and policy fronts and I look forward to CEDA participating in the important debates to come and presenting another series of high-quality events and speakers.

Melinda Cileno
Chief Executive, CEDA

> CEDA COPLAND LECTURE

> 20 MARCH 2018

> MELBOURNE

Business to people: A new era

Jean-Sébastien Jacques

Chief Executive, Rio Tinto

Delivering CEDA's Copland Lecture in Melbourne, Rio Tinto Chief Executive, Jean-Sébastien Jacques outlined how technological and social change are impacting the way business engages with the community, ushering in a new era of Business to People.

In this new era, business is being asked to lend its social and reputational capital in areas it has not done so before.

Acknowledging people around the world are anxious about technological change, Mr Jacques said change is encouraging pioneering know-how. In a world where change is inevitable, he urged business, government and the community to support and drive change.

Let me start by paying my respects to the Wurundjeri people of the Kulin Nation, the traditional owners of the land where we meet today. It is indeed a privilege to be invited to deliver this lecture in honour of Sir Douglas Copland, the first chairman of CEDA.

I hear this lecture is usually about economics or a CEO's thoughts on leadership. Don't get me wrong, these are all very important topics, but as some of you may know, I don't always follow tradition and so tonight I am going to touch on something different.

Now let me start by sharing a secret with you.

The performance expectations of a CEO are pretty well understood, not always followed I must say, but for sure, they are clear. It is about productivity, capital allocation, shareholder returns, ROCE, IRR, TSR, so on and so forth. But more and more it is also about Corporate Social Responsibility (CSR) or sustainable development.

Now don't get me wrong I love a good spreadsheet and like to follow the cash. I also love talking to the bookkeepers, who doesn't? But these days it is not how I spend most of my time. Three-quarters of my life as CEO sees me out with our colleagues, our customers, our government partners, our communities and our shareholders.

I also spend more and more time on things like explaining our commitment to climate change – an extremely important issue and one we take very seriously at Rio Tinto. Or answering questions on how much tax we are paying – let's be clear we pay our fair share. Or which industry associations we work with. We work with a few and we intend to keep doing so, why should we constrain debate?

These increasing asks signal a fundamental shift in the expectations placed on institutions. As I see it we have now entered a new era, the era of B2P, or Business to People. It is no longer good enough to be an excellent Business to Consumer (B2C) or Business to Business (B2B) company. These concepts are becoming out-of-date.

Businesses must connect with all kinds of people. Community members, government leaders and policy-makers, employees, civil society and so on. This is absolutely vital as we enter the purposeful age, an era where leadership and robust debate on a range of issues is expected now more than ever.

So, that's what I am going to talk about tonight, the B2P era, and what it means in a complex world. I've been coming to Australia for more than a decade, and I would say the public mood at the moment is similar to other parts of the world I visit. I hear the same kind of things in Europe, the US, Canada, Africa and so on.

What I hear are the same confidence issues around elites, around businesses and governments. There are concerns about climate change, the distribution of wealth and the potential impacts of disruptive technologies to name but a few. There is no doubt inequalities exist, and with this a strong sense of unfairness. This is true at both an individual and country level.

Take America's Made in America drive as a case in point. And when 50 per cent of young Australians believe that democracy is not the best model for government, it is easy to think we are in trouble. There seems to be a deeper question many people are now asking. What is the purpose and role of modern business, of modern government, of civil society and of individuals?

Now, I do believe Australia has much to be positive about with great prosperity, great talent, and fantastic opportunities before it in Asia. So, if this is true, what is driving this public anxiety? I think two points are worth thinking about.

The first is the pace of change these days. It touches all walks of life, social, economic and technology. Let me give you an example, in the US it took 76 years for the telephone to reach half the population. It took the smartphone 10 years to do the same.

Social scientists tell us that as change increases, many people feel uneasy. They look to the past or hold on to hope for a better future.

The second driver of anxiety, is social media. Now don't get me wrong. I am a big fan of social media, it connects people like never before, but it also creates new challenges, for business and governments in particular, which are used to established systems and controls.

Business, and others, need to recognise, as historian Niall Ferguson puts it that "networks are more powerful than hierarchies." And we need to get much better at using these networks. We need to loosen up, talk straight and direct, be less focused on always saying the correct thing and recognise the world is changing rapidly which means we need to adapt our style to stay relevant and current.

Let me cover three key areas of opportunity in the context of Business to People (B2P). First technology disruption. Second social disruption, and thirdly economic disruption.

Let me start with technology. I do not see technology disruption as a negative, although I fully understand the fear. And this anxiety is not just an Australian thing. In the US one third of Americans are happy about automation, and two thirds are worried.

Both Ernst & Young and Deloitte recently released reports stating that digital disruption is one of the top five risks in the mining industry. But where some see risks I also see opportunities.

Business and governments need to pioneer new technologies and innovation – if they don't they will die.

Technology and digital pioneering is really about people and it is up to each of us to manage the change required as sensitively as we can. In my view, this requires a new kind of networked partnership: B2P style. Let me give you an example that is close to home.

It might not be obvious right away, but the Pilbara in WA has become the Silicon Valley of mining, powered by Australian know-how and innovation. In our iron ore operations in the Pilbara we run the world's largest robot – our private railway – which will soon operate driverless trains.

Giant mining trucks now drive themselves. Twenty per cent of the truck fleet is autonomous. These trucks are monitored and controlled by operators sitting thousands of miles away in our NASA-like operations centre in Perth. Mentioning NASA, by the way, we have an ex-NASA data analytics specialist working for us, and she is working on some pretty cool stuff.

All this technology is pioneering, it is world-leading. In actual fact, it is way ahead of mainstream items such as driverless cars and driverless buses. Better still it is all pioneered in Australia.

So, for over a decade, given our tech leadership, we have been talking to our employees about how technology changes roles, creates new opportunities and also requires a re-set. Just because a truck no longer has a driver, doesn't mean we don't need engineers and maintenance workers. It is clear that this transition will see new jobs created, and in some cases, it will require a new set of specialised workers from other industries to support it.

The vision I see is this, the mining sector in all its forms, which currently employs almost 10 per cent of the Australian workforce, will become an even more high-wage and tech-savvy modern industry. In becoming so, we also need to recognise we may not have all the capabilities we require for the future, here in Australia right now. So, new partnerships between business and universities will be key as will making it easy for talented people to come to Australia.

In October last year Rio Tinto announced a new partnership with the WA Government and a local TAFE to pioneer a new program for the mining jobs of the future. We are designing this as an open source structure, so all companies and partners can join us and participate.

So, while Mining 4.0 may not fit some narratives, I am here to tell you it is alive and kicking. And of course, we are not the only ones in the industry leading on innovation, FMG, South 32 and BHP among others are doing their own work.

The financial services industry is on their own tech-express pathway. Eighty per cent of banking CEOs are concerned about the speed of technological change, more than any other industry sector. Fintech disruptors have been finding a way in to profitable elements of the value chain such as insurance and mobile banking and will drive the new financial services business model. But it is important to note that this will open up new opportunities for the incumbents as well as the disruptors.

So, the workforce is changing. It always has and always will, and companies and governments and educational institutions will need to support and drive this change to ensure the workforce of the future is ready.

Of course, social media has also dramatically altered the way we connect, share information and see the world. I see it as a fundamental tool of the new B2P leader. Communities through social media now have a voice – on Facebook, Twitter, WeChat – to communicate like never before.

The reality is that for business and government leaders, fact and fiction can now spread faster than ever before and we need to be prepared to respond fast. The person on the street can now reach the board table direct or even the office of the Prime Minister.

As chief executive of Rio my goal is to connect to our employees, B2P, to break through the hierarchy, encourage collaboration, and empower decision-making across the business. Social media is key to this plan.

Today we have over 50 per cent of our permanent employees, around the globe on our internal social media platform, called Yammer. It has doubled in terms of the number of users and engagement over the last year. It is a great way to share ideas, and data. But the organisation has to have an open culture for it to work. We are working on that.

As a business leader, it is important to note that some of what we see and hear on social channels, we may not like. Having people that can interpret, filter and respond to multiple competing perspectives and insights is more important than ever before. In Rio Tinto, we call these people our decoders. EQ as much as IQ will rule the B2P world.

So, it is clear we need a common way of telling our story, and not just about shareholder value. We must not only talk about what we do, but why we do it. Which brings me to purpose and the core theme of my next topic, social disruption or social pioneering.

A decade ago, a company would talk of its vision and mission now it talks of its purpose. Management books, including the *Harvard Business Review*, are full of discussions of purpose-led companies. And businesses are busy linking their work to symbolic causes – that might be planting a million trees or saving a million lives in Africa as GSK seeks to do.

Now, I know there may be some in this room cynical about big business playing this kind of role. No-one cheers on multinational companies. What is often overlooked, though, is the word multi. Multi does not mean mono, or only one culture. We want multi-cultures as this brings a diversity of perspectives and a connected workforce.

Our success as a company relies on a network of people using their talents, problem solving, sharing different approaches – this is why social media is important to us. I would argue that our success as a society requires the same.

Yes, we want one set of shared values, clear goals and ways of working, but we also want diversity of views, to allow the best talent and ideas to flourish. Let me give you an example, you can hear an Aussie voice in our mine in Mongolia or a Canadian voice in Africa, and for that matter a Mongolian voice on our Executive Committee.

In Australia, 24 per cent of our managerial workforce are women. Clearly, we need to do better. Our aim is to have 30 per cent of women in senior management by 2022. My view is that while targets and symbols are absolutely vital they need to be backed up by performance and delivery. We would like our actions to speak louder than our words.

A multinational can tackle global issues but also needs to address local issues as well. The good news is that most multinationals are well placed to do both. Sharing global learnings nationally is vital. Business is now expected to have clear positions on climate change, transparency, and reconciliation to name but a few. So, I see the renewed interest in purpose as key to addressing the social changes around us.

It is an opportunity for all of us to turn our social licence into a stronger social bond or contract. I believe this is a make or break for companies, and especially important for those of us in the extractives sectors. Indeed, I would like to suggest we ban the term extractive industry as it implies we take things out and do not give anything back. This is simply not true.

If I said Australia's resources sector was a primary industry, or a manufacturer, that might bring about warmer feelings. At Rio, we see ourselves as a materials company, pioneering progress. This is the essence of the purpose we shared within the company in early 2017.

This year, like many other companies, Rio Tinto will communicate more. Not through big TV adverts and billboards, but an approach using the technology of our time – the social network. We hope more Australians may see our purpose in action. Make up their own minds and see that we really do give back as much to Australia and our regions, as much as we extract. But, fundamentally as I said, we know we will be judged by our ability to live up to our commitments every day.

Beyond core purpose, business is being asked to lend its social and reputational capital in areas it has not done so before. Taking firmer views is part of a wider trend. In 2017 in the US, almost half of all shareholder resolutions put to Fortune 250 companies were about environment and social topics. Topics as diverse as: gender pay, alleged fake news by Google and Facebook, and disclosing business memberships.

While a CEO can't and should not speak on behalf of all their employees on all issues, I think it is important that business does take a stand. Let me give you an example.

In Australia we are taking a leadership role on the issue of family and domestic violence through our partnership with Male Champions for Change and our White Ribbon accreditation. This week, Rosie Batty is in the Pilbara talking with our colleagues and communities on these issues.

And we are not just making this effort an Australian one. We are looking to export our White Ribbon support to our businesses in Canada and the US, which will see us in the driving seat, with partners, as advocates for real change in this area.

It is a reminder that modern business is far more diverse, inclusive and social than a text book might suggest. Let me give you another example.

We pioneered land use agreements in the Pilbara. We are one the largest employers of Indigenous people. Are we perfect? Absolutely not. Should we do more? Yes.

And while jobs and economic opportunities are vital, reconciliation is also critical. We continue to support a national conversation, and partnership on, the constitutional recognition of Indigenous people.

The digital age also means that businesses need to be more transparent than ever before. The public appetite for information is high. Stakeholders demand the clear disclosure of information. Transparency is one example.

We are a recognised industry leader in tax reporting and shortly we will publish our membership principles for industry associations. We believe that partnership and engagement are key in tackling the challenge of climate change and at Rio Tinto we have to play our part.

There is no doubt the mining industry is a major emitter, but there is also no doubt that we are also a major contributor to economic and social development in the nations where we operate, including Australia. We supply the world with the vital metals and minerals it needs to grow and keep working.

For many years the industry has been reluctant to openly talk about this conundrum. Often, we take an apologetic or defensive stance on matters relating to the environment, but we know it is important now more than ever to a generation of young people and it is time we join the debate.

At Rio Tinto, in less than a decade we have reduced our greenhouse gas intensity by 26 per cent and cut our absolute emissions by 35 per cent. We have pledged our support for the Paris Climate Change Agreement.

This is why we support the initial approach set out in the National Energy Guarantee to ensure Australia's energy system achieves its Paris climate change commitments. It will put more rationality into the Australian energy market.

Back to Rio Tinto, today just under 70 per cent of the electricity we use is sourced from hydro, solar or wind. We are keen to explore the green mine of the future and I discussed this topic with the head of the World Bank, Dr Jim Kim, when I saw him recently in Washington DC.

We are also thinking more and more about metals recycling and the circular economy. Early days, but our position is clear – we want to be part of the solution and not the problem.

My one fear is that in the current climate of increased interrogation of business activities companies will be forced to focus on the micro, rather than issues that impact the many. It is important that business focuses on areas where we can have the most impact, the environment, wealth creation and inclusive growth.

Let me close my thoughts by exploring the latter two, wealth and growth, or economic disruption. There is no doubt global trade is under threat and this concerns me. As a trading nation Australia should be concerned by this as well. Decades of research and most of the lessons through history show that the most effective way to create prosperity is through open and fair trade.

TPP-11 is a very important step in the right direction and it is encouraging to hear others may join this as well. In the same way, a completed Regional Comprehensive Economic Partnership will complement this process. We believe bringing trade initiatives together, at the regional and global level supports both fair trade and domestic policies to drive local reforms and competitiveness.

Now I fully understand and accept that we live in a world where some may question the fair-trade model and its ability to make sure that wealth once created is fairly distributed. This is where inclusive growth comes into it. It is the role of government in partnership with society, to ensure that wealth once generated, by business, is fairly distributed.

I also fully accept that business needs to play its part to stimulate economic and social development. I use the word stimulate purposefully, as business cannot be the sole agent of economic and social development. Business will continue to create wealth, but it needs the right tax and policy settings to do so.

Now, I know big companies asking for corporate tax cuts is not popular, but a reduction in corporate tax rates will stimulate growth – no doubt about it – which means more jobs, more support for local businesses, and better livelihoods for all. OECD and Treasury research show company tax cuts benefits all income levels.

Australia has the second highest tax take as a share of GDP out of 35 countries in the OECD. And this was before the US, the UK and other countries cut their corporate tax rates. So, Australia's position is getting worse.

And as a nation that imports capital, high company taxes are not good for jobs, investment, or growth. The tax system needs to support the next generation of disruptors, businesses, and exporters to drive prosperity for all. So, the company tax cuts need to happen sooner rather than later.

It is clear in a B2P world partnerships must be tri-partite – business, government, society – and across national borders. So, let me summarise. I mentioned at the beginning the challenge of creating a sense of common purpose at a time of rapid change, and community anxiety.

I hope you leave this event convinced that in the new Business to People era, it is now more important than ever that all institutions, including business, connect B2P in radically different ways than ever before.

Speak directly in a language most people will understand. Show leadership. Do not be afraid to tackle the tough issues and detractors. Choose to do so through new ways of communicating: social media, networks, and people.

Critics of business are sometimes focused on notions of what they think business is about. Let's show their thinking is outdated by being open about what we do and why we do it. Having a clearly defined purpose, as well as living up to it, will define success now and in the future.

Our supporters, and the communities we live and work with are focused on our actions. It must be about performance not just symbols. We are part of the economic and social fabric of Australia's past, present and future.

We all have a key role in managing the change, to ensure disruption is a force for good and progress and I am optimistic it will be. I would argue that it is time to support business to create wealth and for business to step up its game as well.

As a 145-year-old materials company, one of Rio's most valuable assets is its pioneering spirit. We intend to keep this spirit, to think like a start-up and continue to make a material difference to our communities and our society.

Thank you.

> CEDA RESEARCH LAUNCH

> 20 APRIL 2018

> SYDNEY

What's the true story on inequality in Australia?

Jarrod Ball

Chief Economist, CEDA

CEDA released a research report, *How unequal? Insights on inequality*, in April that examined the distribution of benefits from Australia's prolonged period of economic growth, if inequality has increased, and policy interventions that could assist.

In a speech outlining the report's findings, CEDA Chief Economist Jarrod Ball explained the report showed that stagnant incomes, widening gaps in opportunity based on where people live and go to school and anxiety surrounding emerging technologies are contributing to concern about inequality.

Yet, despite this increasing community concern, measures of income inequality in Australia have not risen since the Global Financial Crisis.

It's great to be here discussing CEDA's new report on inequality.

Since the Global Financial Crisis, the debate on inequality has certainly intensified and in 2017 inequality became a major focus of political debate in Australia.

CEDA's concern about inequality centres on three impacts:

1. It drives a wedge between those seen to be benefitting from economic growth and those who are not, undermining social cohesion.
2. High and increasing inequality can contribute to adverse societal outcomes including increased crime and political instability.
3. Significant inequality in income and employment outcomes can weigh on capital formation, skills formation and productivity.

To start, we wanted to look at inequality from an ethics perspective. The focus on the key issue at hand – inequality of opportunity – is often lost in the debate on inequality. Not all inequality is unfair – that is to say not all outcomes that are unequal are unfair – but we should seek to ensure that each person is offered as equal a starting point as any other.

We know that for a productive, competitive economy, there will be some level of inequality, but the real question is, have we done enough to ensure equality of opportunity? And the answer to that is, in some areas, no. And there are new risks emerging.

I noted at the outset that since the Global Financial Crisis concerns around inequality appear to have grown – yet measures of income inequality in Australia have not risen since the GFC.

When looking at inequality, the most commonly cited measure is the Gini coefficient – it ranges from zero to one and the higher the coefficient the greater the income inequality. Based on ABS data this measure has fluctuated in Australia since the Global Financial Crisis but has not increased. It should be noted it did increase in the decade from the mid-1990s. The magnitudes might be different but the general trends for wealth and consumption inequality are broadly similar.

An interesting way to look behind this is to look more closely at how the distribution of income changed.

From the mid-1990s to mid-2000s, the proportion of households on lower incomes decreased, and the proportion on much higher incomes increased. This was a period of healthy income growth for most households, but especially so for higher income households. The highest quintile grew 45 per cent compared to 33 per cent at the lowest quintile.

When we look at the period after the Global Financial Crisis to now, we see the distribution of household income has been much more stable. In the eight years to 2015–16, income growth has stalled – average weekly household incomes grew by just $27 to $1009 per week.

Those who are concerned that Australia is becoming a less egalitarian society may be surprised that the picture here is not worse. I think we need to be mindful of a number of other important factors:

- It is natural to question the distribution of economic growth when wages growth is sluggish and income growth is stagnant.
- There is also clear evidence that the income share of the top one per cent of income earners is higher than it has been for some decades.
- Despite Australia's unbroken run of economic growth, 13 per cent of our population is living beneath the poverty line.

And of course, the different ways to assess and present information on inequality adds to the complexity. Just consider a few selected headlines from a google search on the topic of inequality in Australia.

"The ABS is wrong – inequality is getting worse"

The real story on inequality – an article which begins… lies, damn lies and inequality statistics.

Four things you need to know about inequality #1 – income inequality is low and decreasing in Australia.

To help increase clarity in the future, one of CEDA's recommendations in our report, is to add an authoritative voice to the debate.

We are calling for the Productivity Commission to undertake five-yearly reviews of inequality. Now this would be to monitor the overall levels of inequality and drill into some key areas where we do think more needs to be done.

There have also been suggestions by some that 'class' is taking greater hold in Australian society. That is to say that where you live, go to school and work and the education levels of your parents have a significant impact on your future prospects.

I want to present a few high-level findings on one of those issues – the role of location in equality.

In our report Patricia Faulkner outlines compelling evidence of the concentration of persistent disadvantage.

In New South Wales just 37 or six per cent of postcodes account for almost 50 per cent of the greatest disadvantage in that state for indicators such as unemployment, domestic violence, criminal convictions and disengaged young adults. Other states and territories have similar results. The persistence of this kind of concentrated geographical disadvantage is deeply concerning.

CEDA's report endorses place-based initiatives, collaboration across sectors, better integration of services and initiatives, greater transparency around spending and impact, and better access to and use of data on disadvantaged populations.

Based on the facts around absolute poverty and the adverse cycle of the geography of disadvantage, CEDA also adds its voice to the chorus of those calling for a lift in Newstart payments to a more adequate level.

The topic of intergenerational inequality has attracted attention and comment driven by concerns around future jobs and trends in intergenerational wealth including property assets.

Professor Peter Whiteford's analysis in our report suggests the full picture is mixed at this point. First, he highlights findings from the Luxembourg Income Study that show the incomes of young Australians grew faster than older households between 1985 and 2010.

Australia was the only country among the eight advanced economies analysed where this was the case. Professor Whiteford's own analysis of ABS data reinforces this finding. However, there is a different story when it comes to wealth.

In the last decade, the wealth of older age groups has increased more rapidly.

This has been driven by increasing superannuation wealth as retirement approaches and increasing property wealth.

Younger households have seen declining home ownership and higher overall indebtedness.

We have drawn attention again to CEDA's recommendations from late last year for all governments to address the affordability of housing for young Australians. This is an area we need to continue monitoring closely as new data provides a clearer picture.

There is little doubt that technology is reshaping our world with dramatic implications including less certainty about future careers and occupations. One area that CEDA's report sought to consider was the nature of work and the potential implications for lifetime inequality.

I am referring specifically to the impact of the gig economy – and a future where it seems increasingly likely that individuals will derive income from several channels or platforms at any point in time. The exponential growth of the gig economy is currently subject to considerable debate. Some estimates suggest contingent workers make up one per cent of the workforce and this is growing rapidly. These workers fall outside common employment arrangements like superannuation.

Given the potential for future economic insecurity and retirement income gaps, we have recommended that the government explore the adequacy of superannuation, pension and savings products for contingent workers.

Finally, I have already highlighted several ways in which vulnerability and disadvantage can trigger a cycle of lifetime vulnerability.

We need to carefully reflect on the role that technology might play in this context, specifically how data and technology might inadvertently reinforce vulnerability and disadvantage.

Automated decision-making is an area that requires careful examination in this regard. If we do not prepare fast enough to manage emerging risks around technology, it could compound issues for those already disadvantaged.

For this reason, we are recommending that Australian Governments and businesses should develop and adopt ethical principles and guidelines for the use of AI, data mining and autonomous systems. These should align with internationally accepted principles that are emerging.

Australia should also support emerging market mechanisms for peer review and independent scrutiny of algorithmic models.

The issues that I've covered present a slice of the report we are releasing today. They go to the heart of how we choose as a society to translate continuing economic growth into increased living standards across a range of dimensions. This will be a strong and continuing focus for CEDA this year and in the years ahead.

Our future research agenda will focus on those areas that could make the greatest difference to Australia's economic development and the prosperity of Australians.

> STATE OF THE NATION

> 25 JUNE 2018

> CANBERRA

Building resilience through a stronger economy

The Hon. Scott Morrison MP

(Then) Federal Treasurer

Just two months before becoming Prime Minister, the then Federal Treasurer, the Hon. Scott Morrison MP addressed CEDA's annual State of the Nation Conference on the event's theme, social and economic resilience.

Mr Morrison said resilience was evident in the continued growth of the Australian economy despite the end of the mining investment boom.

To ensure continued resilience Australia needed a stronger economy and a stronger economy was what Australia was getting through the Government's suite of economic policies, at the heart of which was tax relief programs.

Today we're talking about social and economic resilience. The essential services that Australians rely on, the quality of our schools and our hospitals, Medicare, the Pharmaceutical Benefits Scheme, our disability services, social safety net, infrastructure that is critical to bust congestion, boost the liveability of our cities and better connect our regions, all of it reliant on, paid for, guaranteed by one thing, a stronger economy.

This principle was central to the Budget I delivered in May. It's central to the way the Turnbull Government operates. It's an acknowledgement of the undeniable link between the strength of our economy and the ability of any government anywhere to deliver high quality and reliable services. It's also, of course, the theme of this year's event.

Without putting in place the right economic fundamentals, the task of building social resilience means you're playing uphill. You're playing into the wind. More than half the Commonwealth Budget is dedicated to building social resilience; in fact, far more than that. Record funding for our schools, record funding for our hospitals and our health services, a social welfare net to protect vulnerable Australians from being left behind.

If you take economic growth for granted, if you seek to undermine economic growth through reckless policy, or tax the economy within an inch of its life, you undermine your capacity to deliver the social safety net and supports that social resilience depends upon. Without a strong economy you can't afford the employment services like the Jobactive Program or the Youth Jobs PaTH program, which assist workers to transition, or in young people's case through the Path Program, to come out of unemployment and get their first job and stay in that job.

You can't afford to add life-saving drugs to the PBS, like Spinraza, or breakthrough medicines to treat breast cancer, as we listed in this year's Budget. You can't afford to increase the amount of in-home care places for aged care, to give older Australians flexibility and choices that they can make in their retirement, all provided for in this year's Budget. A stronger economy pays for all of this and more, and a stronger economy is exactly what we are seeing.

After a prolonged exit from the mining investment boom that dragged on our economy for some five years and more, Australia has climbed back to the top of the advanced economy global leaderboard. Economic growth is now running at 3.1 per cent through the year, a rate that puts us ahead of the major advanced economies of the world, and above the average growth rate of the OECD and faster than every G7 economy.

We have worked through what has been a very difficult period for our economy. It has adapted to life without that unprecedented stimulus of the mining investment boom. Around $80 billion of mining investment was stripped from our economy in the years following the peak of the boom in 2012. That was a far bigger shock than the GFC, far bigger. I don't wish to downplay the significance of the GFC. We all know its impact globally, but when it came to Australia, the most significant economic event that we have had to deal with as an economy has been the withdraw back from the mining investment boom. Eighty billion dollars of mining investment stripped out of our economy.

Yet, despite that, our economy continued to grow. That's what I call resilience. Our economy and our finances are now more resilient than they have been at any time since the GFC. Our economy is now more broad-based in its growth. In the latest national accounts, all major components of the economy were contributing to growth in that quarter.

Non-mining business investment continued its recent strength, growing by 10 per cent in the last 12 months; that's five-times the long run average, with eight consecutive quarters of growth. Now, that's the longest continuous growth we've seen in non-mining investment since the start of the mining investment boom.

The Budget is now forecast to return to balance in 2019–20, a year ahead of what we'd previously anticipated. We have turned the corner on net debt, and from this year are beginning to pay down that net debt. Now, you say to me, why are you talking about net debt? Well when you recall the Howard and Costello Government, and they paid off the debt, it was the net debt they paid off. That $96 billion we all remember, that was net debt.

When it comes to gross debt, two budgets ago I talked about the importance between good debt and bad debt. The only reason we're borrowing today has to do with funding important infrastructure programs, but also to ensure that we don't raid the Future Fund.

Now, those who make commentary on the gross debt should understand this. If you want the same trajectory as you have on net debt, which pays down by $30 billion over the next four years, and down by $230 billion and more, to less than four per cent of GDP over the next 10, then you have to raid the Future Fund.

Next time you hear people saying, "Oh, gross debt should be doing this or that." They have one option to them; raid the Future Fund. Now, if you raid the Future Fund, what you do is you remove the Future Fund's ability to do its job, which is to cover off the unfunded superannuation liabilities over the next 10, 20, 30 years. The advice is very clear. If you touch that Future Fund in the next 10 years, you will basically extinguish it before you extinguish the liabilities. So, it's very important, very important that you maintain the discipline to not go and raid that cookie jar over there in the Future Fund.

Net debt's coming down. That's what determined our net interest payments. That's what impacts on the Budget in terms of those payments that we need to make, and they will come down similarly as we see the net debt recede as a result of returning the Budget to balance. And an improved fiscal position, obviously, ensures that our financial resilience, as a Government, as an economy, is enhanced.

We've addressed the build-up and the risks in the housing market through carefully calibrated macroprudential policies and other initiatives I announced in last year's budget. That's been taking the heat out and ensuring house price movements are on a more sustainable footing. That's being done without impacting on restoring markets in some of the weaker capitals when it comes to house price growth elsewhere around the country.

The problem of taking a sledgehammer of tax to the housing market is that it indiscriminately hits everything everywhere. But the approach we've taken with the more calibrated approach has had great success and has been recognised as such.

Our businesses have been liberated to grow their operations, invest in their future, and hire more Australians, energised by our legislated tax cuts for small and medium-sized businesses, with a turnover of up to $50 million. The instant asset right off continues, the cutting of red tape for around 2.7 million small businesses; in particular, simplifying the GST compliance from three pages to just three questions.

The doors to the world have been opened for our exporters with new trade deals, including the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership. The reason we don't say that too often is it's easier to say TPP-11.

That demonstrated I think, above all, our resilience as a Government when it came to fighting for export trade access for Australians. That was an extraordinary achievement by the Prime Minister, backed in by his ability where few other world leaders have been able to achieve this, if any, of being able to ensure, particularly in relation to aluminium and steel tariffs, that the Prime Minister was able to maintain the strength of Australia's position with the US.

And, of course, the resilience we're seeing in our jobs market, record jobs growth. Seventy-five per cent of those jobs were full-time, not casual jobs, not part-time jobs. Seventy-five per cent were full time, and the trends on casualisation have been largely unaltered. Over a million jobs created since we first came to government. My point is this; I said a stronger economy is what you need, and a stronger economy is what we're getting. Our plan for a stronger economy is working, and that's why we need to stick to the plan.

The plan not only involves encouraging and fostering growth through the suite of our positive economic policies, but it means removing the impediments to growth, the inhibitors that hold our economy back, and can hold our economy back. Looking forward to see what those impediments will be.

Now, in our view, and I think it's a widely shared view, one of the greatest of those impediments, if not the greatest, is the growth in uncompetitive taxes. Our taxes are too high, and tax revenues are now increasing once again, as a share of our economy.

Now, there must be a limit, a control on just how much tax you are prepared to have your economy bear. That is why we imposed the tax speed limit in this year's Budget, expressed as a share of GDP, set at 23.9 per cent. That was based on the post-GST pre-mining boom period.

If you're not prepared to control your taxes, it actually tells you you're not prepared to control your spending, and that's, of course, why Labour have abandoned their view on the tax speed limit. They used to say 23.7 (per cent), in fact. They said that was our test for a government, and now they don't want to have the discussion at all.

It's incredibly important that if you wish to control expenditure into the future, you can't give yourself the leave pass that every time you can't control your expenditure you just jack taxes up. You can't do that. You can't do that if you run a business, so it's important that if you want to protect and have resilience in your finances into the future, you can't allow any government to have the leave pass of just being able to jack up taxes whenever they feel like, without good cause.

A good cause is not, we can't control our spending. So, as Treasurer with the Finance Minister and others, this is an important discipline on government, as much as anything else that we're prepared to actually put ourselves under that sort of control. If you're not prepared to put yourselves under that control, well, I think it says a lot about where you rate financial management, as a key indicator of the plan that you pursue as a Government.

Our tax system must also reward effort. It must support working Australians who are trying to get ahead. It must not penalise those who want to do better, get a pay rise, work more hours, take on extra shifts, either because they wish to or they need to. By asking them to pay ever-increasing rates of tax at the same time, that's not as good a deal for them. The more effort they put in incrementally, the more tax they have to pay by facing higher marginal rates. That's why, with being in the position where we have been in over the last six months, to fashion a personal tax plan that dealt with these issues.

We are making some significant progress. Last week, successful passing of our personal income tax plan is a significant win for all working Australians. We've ensured that all Australians paying tax will be better off as they go into this next decade. They'll enter a decade of paying less tax, and they will be rewarded for their hard work, both now and into the future. It's lower, and it's fair, and it's simpler, and it's legislated, an all-inclusive plan. A responsible plan, starting with tax relief for lower- and middle-income earners, dealing with bracket creep, making the system simpler, now that's a plan saving average wage earners thousands of dollars in coming years.

By completely abolishing the 37 cent tax bracket – now, remind me of when was the last time we've actually abolished a whole tax bracket in this country. We talk a lot about reform. It's been a long time and we were able to pass that through the parliament. Ninety-four per cent of Australians will not face a marginal tax rate of higher than 32.5 cents in the dollar. Every extra dollar they earn, every extra hour they get, every extra shift they do, they won't have to pay that higher marginal tax rate.

Now all that is made possible by a stronger economy and keeping our economy strong. If you're earning just over $75,000, that's less than the average full-time wage in this country, you will face a higher marginal tax rate under the alternative that was put forward last week than what you will under our plan. Because Labor last week said they wanted to cut $144 billion worth of tax relief for Australians in half. They will pay that 37 cents.

If you're earning about $75,000 today, you will pay 37 cents in the future under the alternative plan. If you're earning $85,000 today, if you're earning $90,000 today, if you're earning $95,000 today, you will pay that higher 37 cents under the alternative plan in this country, cutting $70 billion of tax relief for Australians over the next decade.

They will be in the position of going into the next election, telling nine million Australians and their families that they are taking away $70 billion of tax relief for them. That's in addition, by the way, to the $200 billion in new and higher taxes they have already announced and flagged that they are proposing to put on the Australian economy.

Now, this week our focus shifts back once again to legislating the full implementation of our Enterprise Tax Plan, extending the legislated tax cuts for businesses up to $50 million in turnover currently to all businesses, benefiting the nine out of 10 Australian workers who work in the private sector. You want to boost economic growth; well, let businesses invest more of the earnings that they are able to achieve back into their business, buying new machinery, hiring more Australians, taking on new markets and new opportunities, and paying their workers more.

The counter factual to corporate tax relief, making our company taxes more competitive, it just doesn't bear up. How on earth does a business invest more, employ more, do more, if they have to pay more to the Government? Whatever you think about anything else that just doesn't add up.

If you force them to pay more to the government that clearly, can't make them more competitive. The evidence backs this up. Treasury's economy-wide modelling suggests taking our company tax rates from 30 to 25 per cent would generate a sustained permanent increase in the level of GDP of around about one per cent, just over.

The IMF has published modelling that estimated if the US, Germany, and France cut corporate taxes, real GDP in each economy would increase by almost four per cent after 10 years, with other changes. Businesses would invest more. Profits would be shifted into economies that were reducing their tax rates, the IMF claimed. While profound on the upside, the downside painted by the IMF was a stark warning to countries that failed to make business taxes more competitive. They would face a reduction in GDP by around one per cent. That's just by doing nothing.

If we do this, our economy will be bigger. If we don't do it, then growth will suffer. That's the choice that is before the parliament this week, and growth is not an end in itself. Economic growth guarantees the essential services that all Australians rely on, so it is an important decision for our parliament this week.

It is a test of whether this parliament believes that a stronger economy is what Australians need to guarantee their jobs, to provide a future for them and their families. For the businesses that employ them, to make sure that they can guarantee on the services that they rely on into the future that only a stronger economy can sustain.

Our uncompetitive high company tax rate is increasingly holding us back from realising stronger economic growth and jobs. The OECD have said corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth, investment in capital and productivity improvements. Around three million Australian businesses are paying more competitive tax rates, courtesy of our legislated tax cuts, businesses that employ around one in two Australians; just over, in fact.

What we're seeking to do is extend those tax arrangements, those more competitive taxes, to a further 6000 businesses; so, from over three million to a further 6000 companies that have a turnover in excess of $50 million. Now, that might not sound like a lot of businesses, at 6000, but we know that those businesses make up an extraordinarily large part of our economy. They employ around four million Australians, working in businesses that are still stuck at those uncompetitive rates at 30 per cent.

Now, these are workers behind the till of a supermarket. They're flight attendants guiding you to your seat. They're the truck driver you pass on the freeway. They're labourers working on the infrastructure projects and the buildings that we have cranes littering our skylines presently, and making our cities more liveable, ultimately.

Now, why should their prospects, why should those employees be working for companies that pay higher rates of tax when other employees are working for companies that are paying lower rates of tax? How are they different to the seven million other Australians working in those smaller to medium size businesses?

These businesses at more than $50 million are not multinational juggernauts. Back in May, after the Budget, I went up to Rockhampton, and I met Gary and Julie Coxon. They run a family mechanical services business in central Queensland. From next week they will receive their first tax cut, as part of our legislated Enterprise Tax Plan. They have a turnover of just under $50 million. The question is how long will they be able to qualify for that because they're not doing too bad. Here's a great mechanical services business in central regional Queensland expanding.

It's a great story because within just 12 months, if they keep on that path that they're currently on, their family business will tick over that $50 million mark, and they'll go back to paying 30 cents in the dollar; not just the bit over $50 million, but from dollar one. They're not bankers in suits. They're not Facebook or Amazon executives. They run a successful radiator business in a blue shed on the outskirts of Rockhampton. They employ 35 workers, and they rip the front off mining trucks and replace the radiators with a modular variety.

The tax relief they're about to receive, which they say will go towards more jobs and higher wages for their workers, that will soon be gone. Even worse, our opponents, the alternative, have already committed to reversing our legislated tax cuts to business, reversing $60 billion away from small- and medium-size businesses like Coxon's Radiator Services today. Their policy is any business with a turnover of above $2 million will go back to paying the 30 cents in the dollar.

Now, we do not believe that's an incentive to create jobs or lift wages. In addition to their own modelling of our Enterprise Tax Plan, Treasury have engaged external advisors, KPMG, and Independent Economics to provide analysis on the effects of a tax reform plan. Both showed significant increases in investment, some 1.6 to 2.7 per cent, and wage growth of between 0.4 and 1.4 per cent.

There's also a case made by Professor of Economics, Richard Holden who cites an empirical study by three German economists, published in the flagship *American Economic Review* that reviewed 18,000 tax changes across 10,000 jurisdictions between 1993 and 2012. It's a pretty comprehensive study.

It showed company tax cuts provided a benefit to businesses and workers in relatively equal measure. Professor Holden noted that the cutting of Australia's company tax rate from 30 per cent to 25 per cent is not just good for business and workers. He says it also helps redress economic inequality. The benefits to workers, he said, tend to flow disproportionately to women, young people, and the less skilled.

Of course, it isn't just the larger companies and their workers that stand to benefit from the more competitive tax rates; it's the army of small businesses that occupy an important place in our supply chain; it's the classic analogy of the rising tide lifts all boats. The suppliers, the contractors, the producers, they all stand to gain because they're part of the business ecosystem.

Take a company like Qantas. We're talking about a supply chain of 13,000 businesses, boutique wineries, bakers, designers, dairies, freight companies. It's a microcosm of the economy, Qantas' supply chain, all serving the interests of one company, at the end of the day, serving their customers.

If we require uncompetitive tax rates of that company, then it's obviously going to flow through into the rest of the economy as a disadvantage. Trade between big businesses and small businesses in 2015–16, according to the Business Council, was a colossal $555 billion; that's 555 billion reasons why Australian businesses should all have competitive tax rates, not just some.

Now, aside from the benefits to the economy and Australian workers, there are clear risks involved in keeping our businesses anchored to what is now one of the highest tax rates in the OECD, and it's this; other nations will just simply cut our lunch. When Australia cut its rate to 30 per cent in 2001, there were 19 OECD countries with a higher company tax rate than us. Now, there are only two. When France's legislated company tax cut takes effect, Australia will be the second highest amongst advanced economies, just ahead of Portugal.

Now, Portugal have Ronaldo and are going great guns in the World Cup, but when you look at the OECD economic leader board, you won't find Portugal. This will leave Australian business at a significant disadvantage compared to our competitors, who are benefiting from a 19 per cent tax rate in the UK, a 17 per cent rate in Singapore, and on average, a combined federal and state rate of around 25 per cent in the US.

We are running at a disadvantage to those companies. Our global peers have long grasped the notion of competitive corporate rates. In fact, when I first announced this plan in the 2016 Budget, both France and the United States hadn't even started going down this path. At that time, we had the opportunity to strike some distance, and now we're having to play catch up; that's the lost opportunity of the last few years.

Bill Shorten talks a lot about the big end of town. He's often saying how terrible they are, and all the rest of it but you know who the biggest supporter of the bigger end of town is, it's actually Bill Shorten. The only problem, it's not in our town, and it's not in our country. He's the supporter of the big end of town in Paris, in London, in Tokyo, in New York, in Singapore, in all of these places because he wants their firms to operate on a more competitive tax rate than businesses here in Australia.

At the end of the day, this issue of business taxes being more competitive is about that, competitiveness, ensuring that our businesses are competitive, and ensuring that our businesses, regardless of their size, are able to go out there and win for Australia.

It is galling, and I won't labour it this morning because this is a nonpartisan forum. But you all do know because they've all turned up at your forums and they've all said, from our opponents, how much they've said reducing company tax rates is important. It's quite a roll.

The (Shadow) Finance Minister, Jim Chalmers, the Shadow Treasurer, Chris Bowen … Bill Shorten himself has said it on numerous occasions, both as the Minister for Financial Services and in other capacities, he said, as we know, "Any student of Australian business and economic history since the mid-1980s knows that part of Australia's success was derived through the reduction in the company tax rate."

Wayne Swan thought it was a great idea, standing next to Kevin Rudd. Julia Gillard thought it was a good idea. Now, all of them couldn't agree on anything, but they agreed on one thing, that company taxes should be lower. What does it say, that if you're prepared to say that then but not act on it now? What does it say on the other side of an election how they'd run the show?

We believe business tax in this country should be lower and more competitive across the board, but it also should be paid. As a Government, we have taken a leadership role around the world in combating multinational tax avoidance. Seven billion dollars a year now of sales is now back in the tax net in Australia that would not have happened otherwise. This is in addition to the $5 billion raised through our various other tax integrity measures since 2016; the Multinational Anti-Avoidance legislation, the diverted profits tax.

Companies avoiding tax by shifting it overseas will pay a 40 per cent penalty rate. We've seen tax being paid by some of the large tech multinationals around doubling since we've been able to bring in these new measures.

We were opposed in these things, but we press on. One of the areas where we've been particularly successful is improving the integrity of the GST base. Now, next year alone states and territories will receive around about $1.9 billion in higher GST revenues, right across the board, because of the integrity measures we've put in when it comes to GST; the most controversial of which lately has been that there will be no tax holiday on GST for overseas firms selling in Australia goods of less than $1000. Now, that levels the playing field. It makes sure that all goods and services are subject to the same taxes.

When the GST was first introduced, the volume of those sales was almost inconsequential. It barely existed, but today it's become a big deal. So, we've taken the decision, again opposed and opposed and opposed, but we've been able to persist and make sure that these things have been achieved. In coming weeks I'll be releasing a further paper on digital taxation in the new economy, which we'll be discussing again when I go to the G20 next month to discuss these issues.

The goal is simple. When our tax systems globally were set up, they were set up for the old economy. All the economies are trying to do now, and this is why we have to work in partnership with the other countries around the world, is to have a tax system that works in the new economy so we can draw the reasonable revenue that is necessary to support the essential services that all economies are seeking to deliver for their citizens. We will discuss those issues at the next G20 meeting, once again, as we try and eek our way forward.

It is important that we try and move together because if we move together, it provides less opportunities for companies to find other ways around the system. We are working very hard on building that consensus. Multinational tax avoidance is a multi-jurisdictional challenge, and that's the way we've been working at it.

We've been having great success working with our peers, country by country, reporting all of these things are now happening. They weren't happening three years ago. They are all happening now, and these companies are increasingly engaging with the Taxation Office, with the Treasury and others, and realigning their corporate structures and the way they do things to ensure that tax that should be paid in Australia is being paid in Australia. The whistle's been blown on this, and it's been blown by our Government, and we've been getting on and doing it.

Yes, we believe that company taxes should be more competitive, but we believe they should be paid. In the same way, the personal taxes should be lower, simpler, and fairer, but they should be paid, and they should be paid by everyone who has that liability. So, integrity of your tax base, where we've done an enormous amount of work, is necessary to give Australians confidence that, as you're seeking to run a tax system along the lines that I've displayed and demonstrated this morning, it's also one they can have confidence in. You need to continue to work on that.

Just wrapping up, we're talking about social resilience, we're talking about economic resilience, but you can't have the social resilience without the economic resilience.

That's why our Government is focused on a stronger economy. We are delivering a stronger economy, and we have a plan to deliver one, and it is working, and that's why we need to stick to it. Tax relief to encourage and reward hard working Australians, backing business to invest and create more jobs, guaranteeing essential services that Australians rely on, keeping Australians safe and ensuring that the Government lives within its means; that's our plan. That's the plan we're sticking to. That's the plan that's working.

It's enabling more and more Australians to plan for their future with confidence in what is a very uncertain world. Yes, the global economy has been on the up. It has been improving, but we're all very aware of the risks that are out there. That's why it's important we stick to the plan, to ensure that we can continue to have the resilience that delivers not only the prosperity that Australians work hard for but the society that we are celebrated for all around the world.

Thank you very much for your attention.

> STATE OF THE NATION

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> CANBERRA

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Growth and fairness can go together

The Hon. Bill Shorten

Federal Leader of the Opposition

In his address to CEDA's State of the Nation conference, Federal Opposition Leader the Hon. Bill Shorten took up the theme of CEDA's research, *Community pulse 2018: the economic disconnect*, released the previous day, showing many Australians feel they have not gained from the nation's record run of economic growth.

Mr Shorten outlined the Opposition's economic proposition aimed at reconnecting the link between profits, productivity and pay. He said Australia could have both a strong economy and a society that looks after people through a program of inclusive prosperity.

Good morning everybody. I'd like to acknowledge the traditional owners of the land and I pay my respects to their elders both past and present.

I don't know how many of you are students of history and meteorology at the same time but on fresh mornings like this I think of King O'Malley. He wanted the nation's capital to have cold winters because as he said many times, "cold climates have produced the greatest geniuses". So, I guess that's why you always give the Opposition Leader the chilly breakfast slot.

CEDA has a richly deserved reputation for digging deeper than the headlines and perhaps getting to grips with the substance and I think your report this year (*Community pulse 2018: the economic disconnect*) is a standout. And this morning I want to join in the same direction as the report, perhaps take a little bit of time to go past the politics, talk about the real policy choices that are facing our nation, talk about jobs and wages. I'm going to talk about taxes and budget repair and on the investments we need to sustain the prosperity and the future of our country.

I don't think that the headlines you read tell the full story of our economy, not by a long shot. It's one of the reasons why I hold regular town hall meetings – this is nothing new. Going out and talking to people, it's not a radical idea. Perhaps it is less usual than it should be in current politics though. It's important to get away from the noise of the parliament and hear directly from our fellow Australians about how they're going.

I have to say in that context I was terribly interested to see the research published by CEDA yesterday. You got it right, CEDA just nailed it. They were talking about the economic disconnect between Australia's long run of growth and people's sentiment that they're not sharing equally in the promises, in the benefits. That their living standards have not improved. I'm not sure economic disconnect is the most Shakespearean of terms to capture the sentiment but I think it is pretty brutal in its direct nature.

I notice that you've chosen resilience as a theme (for this conference). We are a resilient people, we Australians. But I meet, and I'm sure you do, many of our fellow Australians, and perhaps even some of you here, who feel like the economy and politics is not serving their interests, the interests of their family, their communities. Many of our fellow Australians think that the deck is stacked, that the deal is in – it's all a done deal.

I think it would be wrong of the current government in power to dismiss the very real challenges that people face in their daily lives and simply calling it a matter of envy. Since when in our democracy to complain about inequality is envy, that somehow saying that our standard of living hasn't advanced, it's just jealousy. As leaders and policy-makers we need to recognise that rising inequality, stagnating or falling living standards are genuine threats to the fair go. And genuine threats to our national economic success and to the prospects of future economic reform.

The importance of tackling inequality, of growing the economy by including more people in its opportunities – this is not some fringe view, this is the economic mainstream 21st century. From the IMF to the OECD, our own Reserve Bank Governor. It's why people recognise the importance of inclusive prosperity because when we invest in childcare, the early years, when we invest in schools, when we invest in TAFE, when we invest in universities, employers and business get the benefit of a more skilled, better educated, more empowered workforce.

When we properly fund healthcare and hospitals businesses and employers get the benefit of a more healthy, more productive workforce. When we build new infrastructure – roads and rail and ports and airports, and a better NBN – we create new local jobs and businesses collect the productivity dividend. And when we deliver a genuine improvement in living standards, tax cuts for working-class and middle-class people, reducing out of pocket costs for healthcare and capping private health insurance premium increases, when we can get the energy bills down and when we can get wages up, this drives stronger consumption, more demand. It builds a healthier economy, it creates confidence.

Simply put Labor's economic proposition is that Australia thrives when working-class and middle-class Australians get a fair go, when they have growing living standards. It's why I've never bought into the false dichotomy, the false choice, between growth on one hand and fairness on the other, as if they're strangers in two different rooms never to meet.

To me it is not an either/or proposition of an economy that creates work for people or a society that looks after them. We need both and each depends upon the other. It is what Australia is about – common effort for shared reward.

And lifting living standards starts with a pay rise for working Australians. Our nation is enduring the longest period of wage stagnation on record and when the costs of essentials keep rising, historically low wages growth makes it even more difficult to balance the family budget for most Australians. That's the economic disconnect. The fact that for all of the hard work which people feel that they're putting in they feel like they're falling behind.

Now, the Reserve Bank Governor is hardly a Corbyn/Sanders Occupy Wall Street figure. But I thought he put it pretty well last week when he said, "slow wages growth is diminishing our sense of shared prosperity". He went on to say low wages growth also means extremely high levels of household debt in Australia and that these will stay higher for longer. It really makes sense and I'm sure that perhaps even describes some of the circumstances of the people in this room.

People that took out a mortgage or a personal loan on the expectation that wages growth would have a three in front of it, instead of a two, haven't made much of a hole in their principal in the last few years. This of course affects their spending and the economy.

I believe that getting wages moving, wages growing, is a first order priority for the nation and for the government. I think it's the right and fair thing to do for people and it's essential to growing our economy and growing the confidence of people.

Yet whenever we ask my opposite number about wages growth he loftily says, the laws of supply and demand have not been suspended and that if you get unemployment down people's pay will simply go up. But this wilfully ignores what's really happening behind the headlines of unemployment. I speak of course of underemployment. Underemployment – the number of Australians who regularly record they would like to work more hours but can't find them. It's creeping back up towards the peak it achieved in the early part of 2017.

And let's be clear, this isn't about people choosing to work part time because they're juggling caring responsibilities or studying. There are over a million of our fellow Australians who monthly record they can't find as many hours to work as they would like.

Underemployment traps our fellow Australians into insecure work. It also affects every worker in the economy because it depresses wages outcomes. As Greg Jericho the columnist put it, there is a lot of spare extra capacity in the labour market, people who would take more hours over a pay rise. So, if we have this persistent problem of underemployment, if it stays at this level, modest gradual improvement in the overall unemployment rate doesn't help workers catch up with years of flat wages.

And of course, there's also more than just underemployment standing between Australian workers and the pay rise they deserve. We have a damaging overreliance in this country on skilled visas. Now, perhaps during the mining boom this was understandable, but there's no excuse in Australia for a skills shortage to last one day longer than it takes to train an Australian.

It's why properly funding public TAFE and apprenticeships are core economic business for Labor. And we need to fix the flaws in the system which will allow some employers to use visa workers as a way of driving down overall wages and conditions. And when these guest workers are exploited that reflects on all of us. The good employers who try to do the right thing by their workforce are put at a disadvantage, and local people miss out on the jobs they should be doing, or they're forced to work for less.

The absence of a wages policy and wages outcome is influenced not just by underemployment or overreliance on skills visas, but the state of our industrial relations system.

I spent a decade and a half negotiating agreements between employers and employees. No matter how contested the proposition or how high the stakes were there was always a reservoir of goodwill you could draw upon.

You'd work through the 10 per cent which you disagreed on between employer and employee, because you knew you had the foundation of 90 per cent of agreement – the understanding that the company and the worker shared a common interest, their goals were aligned. And a more productive workplace always meant a more profitable enterprise which distributed these profits to better paid employees.

But in too many places now the connection is broken. Wage negotiations are simply seen as a cost issue to drive wages down. The spirit of shared endeavour and the search for productivity is lost in too many cases.

These days too many businesses are encouraged by the system and the lawyers to view their workforce purely as a cost to be minimised through the use of skills visas, through the use of off-shoring, through cuts to penalty rates and entitlements, through the aggressive use of labour hire to replace permanent jobs with labour hire workers on lower wages and conditions.

And of course, now we see something I didn't think to see when I first started in the enterprise bargaining process in the early 1990s, we are just seeing the termination of wage agreements altogether. What I mean by that is I was brought up in a system where bargaining between employees and employers was to create productive workplaces, profitable workplaces, and better share of the income derived at that workplace for the workers. That was the system which I was brought up to believe in. But now we have a system which rewards companies for terminating their agreements, giving ultimatums to their employees – you can have the award or a wage cut – because generally the agreements have advanced so far ahead of the award that the threat of a wage cut was more attractive than the threat of going back to the award.

And this isn't an exaggeration. In 2015 the Fair Work Commission terminated 12 Horizon agreements covering 6000 workers. This case lead to a trigger and a significant increase in the number of terminations and an increased use of the threat of termination as the nuclear option in negotiations.

Many of you have negotiated for a living. You understand that when you have a negotiation with another party you must always look at the alternative, what's the best alternative to not getting the agreement? What now happens with the use of the current workplace laws is some employers now have a better alternative negotiating with their workers to just reduce the pay and conditions through the system itself.

Enterprise bargaining has meant, used to mean, a boost to pay and productivity in concert. But now let's have a look at what's happened in the last two or three years under the Coalition Government. Until the most recent quarter there has been no improvement in productivity in two years.

Last year was the worst year of private sector wage increases and enterprise agreements for 25 years. And the September quarter of that year produced the lowest number of approved EBAs since 1995. How can it be the case that when we're looking for better more productive workplace relations we seem to have wound back the clock to before enterprise bargaining?

And all I ever hear the Government say about unions is how bad they are. You don't need to be a former union rep though, or even a union member, to be affected by this problem. The flow-on consequences of a bargaining system that's not delivering for the workforce is right across industry. It affects the whole of our economy by undermining confidence, by dampening consumption. I think that this nation is long overdue to rebuild the link between profits, productivity and pay. For the sake of family budgets and for the sake of our national ethos, the national fair go.

I think a final fundamental point about Australia needing a lift in wages growth is in the Budget papers. In the first Turnbull/Morrison Budget they forecast wages growth of 2.5 per cent for 2016–17. They got 1.9 per cent. This year so far, we're stuck at 2.1 per cent, yet last week the Liberals and their allies, the One Nation political party, put $144 billion on the national credit card based on the assumption that wages growth would suddenly roar back to 3.5 per cent.

So, the strength of this point is simply this: this Government is writing promises on the national credit card that cannot be sustained in the future based on the overly optimistic forecasters of national revenue. And what if these forecasts that they say, which have proven to be wrong already, are wrong in the future. How does the nation afford to give away this money out of the nation's ATM without causing significant and deep cuts to fundamental essential services?

And of course, the Government has said that they will give $10 a week to people under $90,000 – $10 a week. But if you're not getting your wages to move this whole value of this tax cut becomes even less in benefit. So, our wages policy, because Labor believes that a government or an opposition should have a wages policy, is to take clear and positive steps. A plan to get enterprise bargaining off life support, a plan to reverse the arbitrary unilateral cuts to Sunday public holiday penalty rates – the second round which will take effect this weekend – a plan to crack down on the misuse of labour hire and other forms of exploitation which drive down pay.

And of course, being the only political party with a wages policy, it wouldn't be a complete wages policy unless there was a plan to tackle one of the most stubbornly unfair examples of inequality in Australia – the gender pay gap.

At our current rate of improvement on the gender pay gap it will take 150 years for Australian women to earn the same as Australian men. My youngest daughter is eight. I don't want her granddaughters' generation to be the first women guaranteed equal pay.

We need to do more to boost the pay of women who work in feminised industries – jobs that are vital to our future, of our economy, our society; like healthcare, like the NDIS, like aged care. And we need to do a lot more to provide a level playing field for women in the workplace. A Labor Government will make this a priority within our wages policy.

At the National Press Club at the beginning of this year, the end of January, I promised that Labor would demonstrate the courage of what needed to be done, even if it was a politically difficult course. Last week was one of those moments.

We were happy to vote for stage one of the Government's tax plan, and we have a better policy, but we didn't want to stand in the way of the $10. It's why in my Budget reply I pledged a bigger, better and fairer tax cut for the 10 million people earning up to $125,000.

Under our affordable plan someone on $65,000 will get $928 back each year, almost double what the Government is offering. When you walk out of this venue today and you see the security personnel, and when the waiters who serve you or clean up your plates understand that what we represent to them is double the tax refund that the Government wants to give them.

Let me use another illustration. If you're on $65,000 a year under the first three years of a Labor Government, not in seven years' time under this Government, you will get a $2780 tax refund. A family with one partner on $90,000 and the other on $55,000 will be $5565 better off under Labor in our first three years. That's about $1900 each year; $1900 isn't a king's ransom, but it's not bad, and it certainly helps you make ends meet more easily than the current offering from the Government.

The other thing about our tax refunds are that they are targeted to the people who need it most. The people who put the money back into the economy, who boost consumption and growth.

I'm sure you would probably agree that if you live on $60- and $70,000 a year as much as you want to save money most of your income will go in expenditure. And if we give these millions of our fellow Australians a decent tax cut every year for the next three years and beyond, that money will go into the Australian economy, it will circulate, and that will build confidence. When people have money to spend that is a rising tide that lifts all boats.

But I said that we were willing to make tough decisions. So, when it came to stages two and three – which by the way won't come into effect until 2022–23, and indeed 2024–25 for this stage three – how on earth could any responsible opposition support an irresponsible plan for an irresponsible government?

This notion that unless you vote for prospective tax cuts more than two electoral cycles away somehow you are practicing class warfare is ridiculous. If we went out and spoke to most Australians and said, "do you really think that you're going to see a tax cut in seven years' time?" When we don't know how we're going to pay for it, when we don't think that the authors of that decision will even be here in the positions they're in – do you think most people would believe it?

What we won't do is sell people a false bill of goods for some prospective date down the track when there is no buffer for economic uncertainty. That does not mean we shouldn't be doing tax reform in two and three terms' time. But successive parliaments should debate these issues and have a much better sense of what can actually be delivered.

I have to say that for a start on these future projections this Government can't even get its own wages projections right over two years. Can any of you here say with absolute confidence what the global circumstances will be in seven years' time? Can you say with any confidence who the President of the United States will be? I'm not sure everyone would've picked the last outcome.

But the point about it is we live in a volatile global environment. Trade conflict, uncertainty in the US bond market, there is growing global debt, there are shifting debt dynamics in Europe. There is the potential for interest rate rises. Global debt is increasing. It is like a sleeping dragon which is dulled by the insulin of low interest rates. But what happens if in the next seven years there is a change? Our own national debt has doubled, more than doubled, in the last five years. It is half a trillion dollars. That's $21,000 nominally for every man, woman and child, with an annual interest payment of $18 billion. That is our national debt.

We do not know what is coming next in terms of the next few years, but surely prudential governments don't just try and stimulate confidence in the economy, don't just make promises which can be paid for, but they also build policy buffers that safeguard our nation to protect us from external pressures. They don't bet the house on the basis of continued good times for the next seven and 10 years.

Stage three of this much vaunted but I think mythical tax cut, this radical scheme to collapse the tax scale so a cleaner in the office building working tonight here earning $50,000 pays the same tax rate as an executive on $200,000, will cost the budget $33 billion over just five years. That's about six and a half billion dollars a year. That's roughly what our government spends on public education throughout Australia.

Eighty cents in every one of those $33 billion will be going to the top 20 per cent of income earners. Many of these people are not living pay cheque to pay cheque, they're not the ones who will spend nearly every dollar they get, which will help boost growth.

This support for people on the highest incomes is not part of a broader agenda for genuine tax reform and budget repair. There's no plan to shut down unaffordable, unsustainable taxation loopholes – to limit deductions and reform other concessions like negative gearing and income splitting. Instead the Government simply say about their tax promises for the future "don't worry it's in the Budget". Well it's not in the Budget.

How do you take $143 billion in promised personal income tax scale changes and another $80 billion in promised corporate tax reductions and not pay a price for it? You simply can't take quarter of a trillion dollars out of the nation's ATM in the next seven and 10 years without explaining what you do. And there's only three ways to pay for these promises which this Government is hoaxing us on – one: increase other taxes; two: cut services; or three: pay a bigger interest bill on the national debt which means you've got to go back to options one and two anyway.

Have you heard any Government politician explain how they're going to pay for this money? If you take it out of the nation's ATM what gives? And they're doing it on the basis of economic uncertainty. Now we actually think you do need to invest in the future of this country, but we think that you use scarce taxpayer money to invest for the future.

For five years now, Australia has been told that the nation cannot properly afford to fund TAFE or apprenticeships. For five years now, Australia has been told that we can't afford to invest in schools or ensure that working-class kids can go to university through uncapping places.

We've been told for five years that we cannot afford to unfreeze Medicare, that we cannot do anything about increasing the patient rebate or to help people with their out of pocket medical costs. We've been told that the Government couldn't afford to spend a couple of hundred million dollars to save the car manufacturing industry. We've been told that they can't afford to pay pensioners or government payment recipients from September 2016 an extra $7 a week to help with their energy bills. We've been told things are so tough we can't even take the GST off tampons.

We've been told that we can't afford to do anything for the 100,000-plus people waiting for aged care packages, many of whom have been diagnosed as living with dementia. We've been told that we can't afford to fund successful Indigenous housing programs in remote communities creating jobs and apprenticeships for Aboriginal Australians. We've been told that we couldn't even afford a first-rate technology for the NBN. We can't even afford to pay for the ABC cost increases anymore.

But we actually do know the truth after these five years. The Government can afford to invest in these services, they can afford to invest in the future of our nation's infrastructure, in the productive capacity of our people, in our safety net of the fair go all round – they just choose not to. The money's there ladies and gentlemen. It must be, because after all the Government can afford to give quarter of a trillion dollars away, most of which will go to the top end. This Government, this meaningless Government – and that's a harsh word, but it is fundamentally a meaningless Government.

When they talk about health you know they do so, so as they can stop being attacked for health cuts. They talk about health because they feel they have to. You know that when they talk about schools funding you can just tell they're looking for a band-aid big enough to hide the cuts. You know their heart's not in it. But get them on to tax cuts, get it into industrial relations and union bashing – little bit of personal character assessment on the opposition, they fire right up. Where is that passion on the other things? It is quite funny some days. But literally the full extent in all seriousness of their strategy, their economic strategy is tax scale reductions for the top end, on the hope that will trickle down to everyone else. But they have the money to do all those other things that I've spoken about and help reduce the national debt.

I fundamentally disagree with the priorities of this Government. I do welcome actually the philosophical differences. I actually do believe that my opposite number believes in taking the burden off the top end. I think he genuinely believes that, and it is a clash of values. In an adversarial democracy like ours we should produce a clash of ideas, a clash of substance.

There are very clear choices for the Australian people. Now no one goes into politics hoping for a long spell in opposition, but my team and I have made good use of this time. We've spent the last five years developing our social and economic program for the nation. We think it's in contrast to this pretty meaningless government indifferent to the big challenges Australia is facing. They aren't interested in peoples' daily lives. I believe Australia can do better and I'm determined for Labor to be better.

CEDA speaks about an economic disconnect – you're right, there is. And this economic disconnect leads to perhaps the real challenge; a sense that the fair go all round isn't the fair go all round. It contaminates our view of politics, our sense of cynicism and apathy and disinterest in politics. And when to see this nation debating the priorities this is the challenge.

We do offer a real policy choice. We have a demonstrably superior first round of tax refunds for working- and middle-class people. We will fund schools and hospitals better. We get excited about funding schools and TAFE and university and the early years. We are very committed to making our healthcare system affordable, reducing out of pocket costs. We are focused on a national energy policy – not rather just dealing with a civil war in our own party on: is climate change real?

And we have a strategy to pay down our national debt faster. We have a plan to boost wages. We want to make sure your kids get a quality education, we want to make sure that universities are funded to offer an extra 200,000 places in the next 10 years. We are going to fund the upfront fees for 100,000 TAFE courses in our first three years. We will reverse the cuts to hospitals, we will take up the 50 per cent share of hospital funding with the states.

We want people to be able to afford the treatment when they need it. We don't want them to have to travel hours and wait years to get attention. We will back business and manufacturers with accelerated depreciation for investment on new equipment over $20,000. We will increase whatever your depreciation schedule is by 20 per cent day one you invest in new technology, new productivity-building technology.

We will provide access to finance for our tourism industry, for our advanced manufacturing industry. We will put a floor underneath which renewable policy, and renewable energy can be invested in and force downward pressure on prices.

We'll get the NBN working for people and business, we'll make NBN Co accountable. We'll make sure that older Australians get the care and dignity they deserve in retirement. We will tackle the scourge of dementia and we will help families helping a loved one living with dementia get a better deal. We will win the battle of ideas.

The next election is close, either side could win it. We've made the choice not to be a small target opposition. We will run on a clear set of values and ideas, and they're based not on an envy of wealth but a desire that if we can support working people, the small businesses, the farmers and the pensioners, get a fair go. That is a rising tide which lifts the fair go all round within Australia.

We think that the best economic plan for Australia is to include all Australians in the economic plan. Get the safety net right, get the wages policy right, get the productivity humming. Work with people, not dividing people.

Thank you very much, we'll cure the disconnect.

> ASIAN ENGAGEMENT: THE INDO PACIFC

> 4 SEPTEMBER 2018

> PERTH

City competitiveness and the Indo-Pacific opportunity

Peter Chamley

Australasia Chair, Arup

With three of the world's largest economies and 50 per cent of the world's population located in the Indo-Pacific region, opportunities abound for Australia in trade, tourism and education. But is Australia and our cities ready to take advantage of opportunities on our doorstep?

Arup Australasia Chair, Peter Chamley described the characteristics of successful, competitive cities like Dubai and Singapore. Their success can be found in adaptability, liveability, long-term planning and the capacity to attract and retain young talent. He said there is much for Australian cities to learn from these examples.

It's a pleasure to be here in Perth. It's a pleasure to be back working in Australia. I first worked in Australia 30-odd years ago, but it's a real pleasure to be back.

What I wanted to do was to cover three or four topics today under this heading of city competitiveness and the Indo Pacific as an opportunity. I want to talk a bit about city competitiveness – are cities competitive? And I certainly think that they are. (I will give) a couple of examples of cities that I believe have been pretty successful and have been – I guess you could argue, perhaps a bit aggressive about being successful – and what factors led to them being successful.

What are the factors that competitive cities should be dealing with? How can they be successful? A bit about infrastructure. My background is infrastructure. I'm a kind of a railways and underground guy, so I have to chuck in a bit about infrastructure and how we can find ways to deliver and particularly around how we can capture the land value. And then finally I'll talk about the Indo Pacific and Asia as an opportunity, both inbound into Western Australia and outbound – Western Australia out into the wider region.

So, are cities competitive? Well, you betcha they're competitive. And I think nothing spells out the competitive nature of cities more than sporting competition between cities. Nothing is any bigger than Liverpool versus Man United or the Yankees versus Red Sox. Nothing says more about city pride and bragging rights than sporting leadership. So, Man United versus Liverpool is a way bigger game than Man United versus Man City. And Yankees versus Red Sox is on a different scale to Yankees versus Mets in New York. City pride counts for an awful lot and we express some of that through sporting prowess.

Another area that we're competitive as cities is in what we think of our city and how liveable it is. So the *West Australian* a couple of weeks ago reported, *The Economist's* Liveability Index shows Perth has slipped a few places. What it didn't say though, was that Perth's score hadn't gone down but Sydney's had gone up. Perth has been overtaken by others who are improving faster than Perth is. The message perhaps should have been Perth continues to improve, the downside is everybody else is improving faster, but the civic pride thing is, we've just been beaten by Sydney. So, civic pride in competitiveness of cities is a big deal.

So, what are the factors that express city competitiveness? It's that wider competition for international investment. It's the race for talent – and I'm going to talk a bit more about talent because for me, the future success of cities is really about talent, finding it, keeping it, developing it. Quality of life, talent looks for quality of life and if you can't provide quality of life, you aren't going to attract the talent. Affordability of course is important.

A big ticket thing, for visitor attractions is 'stay another day'. Why would I want to stay another day? What can you do to attract me to stay another day? And of course, at the end of the day it's the Yankees beat the Red Sox and you've got bragging rights; city competitiveness, to a large degree, is all about bragging rights.

I'm from the UK. Through the industrial revolution, the way that cities expressed their power and their strength was through civic buildings. You look at the north of England – cities like Manchester, Liverpool, Leeds – the magnificent town halls were all about bragging rights and showing off that we're bigger and better than our neighbours down the street.

I want to give you two examples of cities that I believe have been pretty competitive and successful. You would all recognise Dubai. You might question Dubai and its human rights records, their approach to citizenship, the treatment of foreign workers – definitely you can question all that – but what you can't question is how successful Dubai has been in developing business and transforming itself from a resource-based industry – wholly resource based until the oil started to run out, and they've reinvented themselves.

Thirty years ago, would anybody here have thought about vacationing in Dubai? Not a chance. Now? Dubai is the dream holiday destination. So, what has Dubai done to be that successful? How has it transformed itself?

It's been through the Global Financial Crisis, it's run out of oil, oil prices tanked, but, in those 10 years since, the population has more than doubled. For me, the message that I see there is global branding; the brand: image, image, image. They have really put a huge amount of effort into delivering the brand. Iconic imaging: Burj Khalifa, the Burj al Arab, the Palm, you see those pictures and you go "Dubai."

Marketing and events culture: there is always something going on in Dubai. There is always something to attract people to Dubai and with that, they add on. You've been to your conference, right, you now need to spend a week here doing all the touristy stuff. Sponsorship, and sporting sponsorship particularly, you can't move for Emirates' name plastered across some sporting event.

And what you don't necessarily see is very, very strong encouragement for regional businesses. There are a lot of international companies, global brands whose Middle East headquarters are in Dubai. And they're continuously diversifying and they're always adding another tourist event, another tourist thing. Fifteen years ago, you could spend a couple of days dune bashing out in the desert and that was about it. You might go and find a beach to lie on. Now you could easily spend a couple of weeks in Dubai; the shopping experience, the eating experience, the beaches, the dune bashing, the indoor ski slope.

They've put a huge amount of effort into rebranding, repurposing, developing a new business – both business and tourism – on the back of relatively little natural resource, other than their location and connectivity. Now the great advertising thing is every time one of the 88 million people who fly on Emirates into and out of Dubai, as they're coming in to land you get the Dubai advert. It comes up on your screen; the Palm Jumeirah and Dubai image, image, image. So 88 million people a year get blasted with the iconic imagery. This is part of the reason for their success.

The other city which I think has been equally successful, but I think for a whole pile of different reasons, is Singapore. Again, I think there's a bunch of lessons to be learnt here. So why do I think Singapore has been successful? Well, no natural resources, perhaps other than people, but it's in a strategic location, that has really helped. But other places are in strategic locations and they've not been as successful. I think the key things have been that strong encouragement of foreign trade and particularly foreign investment and the encouragement from businesses, particularly the multi-nationals, to put their headquarters, their South East Asian headquarters, in Singapore, making it easy to do business, encouraging business, making it a safe place.

For me, as an infrastructure guy, another big factor is that they have invested in infrastructure in a big, big way. It's very much not the "if you build it, they will come". It's very much the other way around, "if we don't build it, they won't come". So, I think Singapore's view has been, we have to invest in infrastructure to keep ourselves ahead of everybody else to make sure that we are the most attractive place to come and do business.

And then on top of that, there's the hospitality, the quality of hotels, and of course they've just bolted on casinos that, all the data I've seen is (indicating) they're making significant income through the casinos. And the population, despite no natural resources or anything, over the last 12 years that I've got data for, the population's gone up by 30 per cent. Why?

I just want to consider the infrastructure piece as a measure of their investment and their long-term planning. Between 2013 and 2018 on the MRT map you can see much that's in construction; Thompson line, east-west line, several new lines are in construction and there's more there than there was in 2013 and even more in the plan for 2030. And you know, this is Singapore, they're going to deliver that, they're not going to have political arguments and changes of government and flip flopping, you know that's going to get built and that was the plan from 2010. They had a 20-year plan of what they were going to deliver for Singapore.

That leads me into a little aside on land value and infrastructure development. I think this is something for me that is quite important, and as this conversation is about the Indo Pacific region, there are lots of cities that are developing, there are lots of cities who've got a very big infrastructure deficit. We'll talk about Jakarta; huge city, mega city but struggling for infrastructure, struggling for transport in particular. One of the areas that we have been looking quite strongly at, and I think is a message that we're seeing spread through many cities that are looking at infrastructure and particularly transport development, is how can we capture the value that we create, not just the value of the thing that we're building?

The examples of London don't necessarily apply well elsewhere, but it's still a good example. A recent report by Transport for London from the UK, eight projects that are on the books for London – they're not all going to get built, but a proportion will (be built) – their assessment is that if you just look at land value, not at economic activity or GDP or anything like that, those projects cost £36 billion. That will probably never get spent but they would cost £36 billion. The increase in land and property value is more than double that. So, the question is, how can we capture that value? And I think the view that we are now taking, and others are now taking, is the people who benefit ought to at least contribute. So if you are benefitting by your land value going up, then you should contribute to the cost of the thing that is going to give you benefits.

There are many ways in which infrastructure benefits both society and land owners and infrastructure users. Society benefits by increased economic activity, increased taxation, the city's more successful, more people are working, etc. The users of infrastructure benefit because life becomes a bit easier. You can travel more easily, infrastructure operators get the farebox income or their franchise costs, but (for) the land owners the biggest benefit is often in the increase in land value, including to house prices. And there's lots of data from many places showing that if you're within 400 metres of a railway station your house is worth 10 per cent more than one a kilometre away. There's lots of information that says that. Commercial values are even higher. So, within 400–500 metres of a railway station, commercial properties are worth 15–16 per cent more than elsewhere.

How can we capture that and how can we make use of that? Crossrail 2, the next project in London, is looking at how the metro project can be used to release land for housing and also applying some additional taxation, property taxes, so those taxpayers who benefit through their property or land value increasing will contribute in some way. There's a whole plethora of tools that people are developing, and we are working in a number of locations around the world, in looking at how we can capture land value in a wider way than just the traditional value capture of building something on top of the station, that's just one component.

It could be everything from an economic zone, it could be an increase in rateable value or rates that are applied to a zone around the development, as has happened with Crossrail 1 in London, a business-wide rate. It could be LA. The people of LA voted for an increase in sales tax, 0.25 per cent, on top of sales tax to fund infrastructure development, so the people who will benefit from infrastructure have voted for more taxation.

There's a whole toolbox of ways in which we can capture land value, other than by just what's the value of the thing that we build on top of the station and that was applied to Crossrail. I've got to say this because this was a project I worked on, I spent a lot of time on Crossrail. Crossrail was pretty innovative in the ways that it funded itself, both with core funding from treasury and the city, but a business rate increase was applied to supplement large businesses across London because they were going to benefit.

And then there was additional funding that came from a number of sources, so those – particularly the very large developers who were particularly going to benefit – Canary Wharf contributed a station, they built the station, Berkeley Homes who developed on the back of it a very large housing development, they part funded the station that was right next to their development. So specific bits of funding from particular investors; Heathrow Airport contributed because they were going to benefit from the Crossrail directly serving London airports.

Land value, I think, is particularly important in how we look at infrastructure development within emerging cities, particularly those cities where there is a paucity of transport and particularly rail transport. That's my little piece about paying for it.

What makes a competitive – and I've added liveable – city because I think it's most important that while cities are competitive, to be competitive I think they have to be also liveable, they have to be great places to come and live and spend your lives. And I think a number of trends that are impacting on cities and how cities deal with them are relevant for their success. I'm not going to go through them all, but a couple of things that I think are particularly important are this gap between infrastructure needs and infrastructure provision and re-urbanisation; a lot of people now want to be in the central urban environment, not way out in the Boondocks. So those are a range of factors that are impacting cities and how cities react to that and deal with it will be a measure of their success. Singapore has done pretty well at that.

So better cities manage this range of factors better. Are they producing well managed urban growth? Are they dealing with connectivity with other cities? Can you connect well? Are you providing some identity and a sense of belonging that make people want to stay in the city? How cities cope with that, I think, is fundamental to how successful they're going to be. And then there's a whole set of principles that great cities might be able to demonstrate, so it's the quality of the urban environment, the character, is it a great place to be? Has it got a bit of vibe? Has it got a buzz? What social values are there? What amenities? Transport, ease of access, ease of walking – one of the great things we're now finding is that walkable cities have a greater value than cities where walking is very difficult. And you might say in an urban environment where summer temperatures are really high people aren't interested in walking, but I think if you look at places like Singapore you'll see there is a very big walking community.

Thinking quickly about some of the things that are impacting the development of cities, demography is particularly important. The changing family structure, young working couples are looking for a very different working and living environment. They want access to restaurants, retail, culture, education, all within a very small area. They don't want to be travelling, they want everything such as vibrant street life and they want it where they're living and working, they don't want to be travelling huge distances. And in fact, if you look at driving statistics, here we're talking about cities in general, if you look at the proportion of young people who are choosing not to drive, it is increasing significantly. There's a large proportion of our younger population who are not interested in driving. Why would I drive? If I'm driving I can't be using my smartphone and why would I want to own and pay tax and insure a car when I can just get an Uber?

Now, that then drives how they want to live and work and this creates a need for a compact city, densification is what they're looking for. I think it's applicable to many large cities – people want to live and to be in lively and vibrant places, both at work and after work; restaurants, culture, etc. This drives an intensification of urban centres and that's what we're seeing in many centres – walkability, vibrancy, culture on the doorstep. And compact; we want to be in and living within kind of five kilometres of where everything's happening and that's a big change for cities.

On top of that is the war for talent. Every city is in a war to attract and retain the best talent because the best talent is mobile and a city is marked by the quality of its talent. And I think women are key to this, more women are in the working environment and the city and area in which they want to be, they need to feel that it is a safe and vibrant city.

To Asia. The centre of gravity of world wealth used to be somewhere around the Middle East, near India, it moved west to across Europe, to North America, but since the 1950s and 60s it's been moving back east, back to where it came from, or should I say back to where it belongs.

So that's a big shift, we all know that. We all know that China is developing Belt and Road, that is – for many countries in South East Asia and India and Pakistan – a major opportunity to engage with that Belt and Road and maybe that's a message or challenge to Western Australia, how can you engage with Belt and Road? Because you've seen on all the plans, it stops when it gets to Jakarta, it doesn't go any further and I think partly Australia has not been encouraging that, but maybe that is something that Australia and Western Australia should be doing; looking harder at Belt and Road and how can we engage with it.

So, for me the Asia opportunity is around time zone; you're all in the same time zone, make use of it. Western Australia is very close. You've got a mega city on the doorstep in Indonesia and Jakarta. By 2030 the Indonesian economy will be three-times that of Australia. You're a big neighbour, you should be taking advantage of that. There's a huge deficit of infrastructure in that region, particularly Indonesia and remembering 50 per cent of the world's middle class lives in the Asia Pacific region, so 50 per cent of the world's middle class are on your doorstep.

I think there's inbound and outbound opportunities. The outbound opportunity I feel for Western Australia in particular is engaging with South East Asia, engaging with Indonesia in particular – there's a huge infrastructure deficit. Surely Australia's engineering capability can be brought to bear to help deliver that infrastructure for, particularly South East Asia and Indonesia in particular.

The tech skills that have been developed here in Western Australia through the resource companies, we should be developing that and applying that to the region.

On inbound opportunities, I just wanted to talk about China and as a representative of South East Asia and India. China's middle class, which – in looking at data for this talk – I was quite staggered; 225 million households are middle class. That will increase by 50 million households by 2020, 80 per cent of them own property, 10 per cent of them have a bit of disposable income now, by 2030 there'll be 35 per cent of them have got disposable income and what does that mean? What do they want to do? What does the middle class want to do apart from drinking a nice Australian red wine? It's travel.

And it might surprise you to learn that Chinese international tourists spend more money than any other nation; 135 million Chinese international tourists last year spent $358 billion. Now, of those 135 million, only 57,000 came to WA; 0.08 per cent of them, whereas 10-times as many went to Victoria and 1.29 million to Australia as a whole. In WA, you only got four per cent of Chinese tourism into Australia. They flew over WA to get to Melbourne. Surely, we should be doing something about that. And the opportunity is enormous, the proportion of the middle class is increasing, they will have more to spend, they will want to travel and be tourists. Come on, take advantage of that.

The inbound opportunity that I can see is tourism, but it needs more direct flights. I know we're working on more direct flights. Then education – the big opportunity really is in all that talent that is looking for western education, western university opportunities here in Australia, fantastic universities, should be attracting all of that talent from South East Asia.

To conclude, cities are competitive. The new competition is for young talent, keeping it and developing it. Cities need to adapt to a talent that is looking for something very different to baby boomers. Cities do need to adapt.

Land value can be the mechanism for funding all this infrastructure. Outbound, encourage WA to engage with Indonesia in particular. And WA needs to engage and to look hard at the inbound, how can we take advantage of all that energy that's coming from South East Asia, it should come to WA.

That's it, thank you.

> FUTURE OF WORK

> 31 OCTOBER 2018

> BRISBANE

A workforce fit for the future?

Karen Chester

Deputy Chair, Productivity Commission

Predictions about the future of work; ranging from dystopian jobless woe to hardly a need to work at all have created much discussion and some anxiety among Australian workers.

Drawing on the Productivity Commission's *Rising inequality?* and *Shifting the dial* reports, the Commission's Deputy Chair, Karen Chester, said the soothsayers have so far got it wrong. While technology remains the friend rather than foe of the worker, an education system built around the idea of training once for a lifelong career is outdated. Ms Chester pinpointed changes required to ensure that Australians have work and our future workforce is fit for purpose.

Jobs matter. For almost all of us they are a source of income, but they are also a source of self-esteem, social interaction, a feeling of purpose and even of community. So, it's not surprising that we pay attention when we are told that soon there won't be enough jobs to go around.

But history is littered with soothsayers opining on the future of work, foretelling either a dystopia of jobless woe or a utopia of little need to work at all. And the only universal truth seems to be that they are all wrong, both happily and unhappily so. No matter how transformative the technology, no technology has eliminated the opportunity or need for people to work. Be it the telephone, electricity, indoor plumbing, refrigeration, personal computer or today's digital technologies.

We all know that the late 1980s saw workplace use of computers take off, with even more rapid growth in the 1990s as the price of the humble computer plummeted. And we know that algorithms and robots have allowed the automation of many of the tasks done in offices and factories.

But if this technology was making existing jobs redundant without new ones being created we would expect to see a persistent upward trend in the unemployment rate. And we don't. Indeed, the amount of work available to Australians on a per-capita basis has actually increased in recent decades with average hours worked per person about 14 per cent higher now than they were in the early 1980s.

For the narrative about robots taking all the jobs is distracting from the main event. Because the nature of work has changed. And with it the need for workers to approach their fitness for future work in a very different way. More akin to F45 classes throughout their working lives; no longer training once in early adulthood for the marathon of one job in a working life.

Over the last 100 years technology has transformed the type of work that is done. And in doing so has mostly been the loyal friend of the worker rather than the foe. Because the jobs that have disappeared have often been unpleasant, physically tiring, downright dangerous or just tedious – think toll-booth operator. While the new jobs that are being created are more likely to be creative or caring – think designers, advertisers, nurses and child carers.

Since the 1980s there has been a fall in the proportion of jobs that are routine from 50 per cent of our jobs to 37 per cent while non-routine jobs have increased from 42 per cent to 53 per cent. So, who is doing the work? That has also changed. Since the 1980s the workforce participation rate for females has increased a hell of a lot by some 15 percentage points to now be just over 60 per cent. The participation rate for females 25 to 34-years-old today is now approaching that for males of the same age. And with marriage, and even children, placing much less of a brake on economic participation of women. These changes are both a good thing for the economy and for women.

At the same time there's also been an increase in the prevalence of part-time jobs by some 25 percentage points since the late 1960s to now account for nearly one-third of our total employment (around 35 per cent) in Australia. And more workers today have multiple jobs (around seven per cent of workers), doubling in the last 15 years.

But despite what some have suggested there is no evidence that more workers are being forced to work in short-duration jobs; indeed, the opposite is true. The proportion of workers in very long-duration jobs, those more than 10 years, has increased from just under 20 per cent in 1982 to around 27 per cent in 2016. Which is perhaps unsurprising as well when you also take into account the participation rate of older Australians (65 plus in age) has risen steeply having nearly doubled in the past 30 years to now represent 12 per cent of our workforce. Also a good thing with our ageing population.

But perhaps of much greater significance, when workers do change jobs today, more are changing occupations (some 40 per cent), and industries (some 50 per cent). And it was this modern-day workforce reality that informed much of our thinking and work on what is needed from our tertiary education system and I'll come back to that a little later.

And it also informed our thinking in proposing policy changes in our current Superannuation Inquiry to make sure that people moving between jobs don't leave behind an expensive trail of unintended multiple accounts. Where because of this new workforce reality, some one in three superannuation member accounts today – that's 10 million accounts – are unintended multiples unnecessarily eroding super balances by some $2.6 billion each and every year.

For today we are no longer in a world of one job for a working lifetime. Nor a world of one occupation for a working life time. Nor a world of one industry sector for a working lifetime. The only certain thing is it's going to be a longer working lifetime. Average years in the workforce has inexorably risen over successive generations. But years spent out of the workforce have exponentially increased from 13 years for a 15-year-old born in the early 1900s to 33 years for today's 15-year-old. And this is thanks to longevity, which has allowed both more time in work and a lot more time in retirement, which is a good thing.

Another myth in need of busting is that the workforce is becoming increasingly casualised. In fact, the percentage of casual workers has not changed significantly since 2001. It has actually fallen a few percentage points from 20 per cent of employed persons in 2001. And when people move out of casual jobs around 30 per cent move to a non-casual job in any given year. And the measures of satisfaction for casual workers are higher for total pay and job flexibility but lower for job security and hours worked.

And the gig economy, whilst still in its infancy, has not translated yet to any increase in the percentage of independent contractors. But still the policy and legal ground is shifting, sometimes in unexpected directions. The gig economy has intensified the debate about the distinction between an employee with all of her regulated rights, and a contractor whose rights are limited.

In Australia the Fair Work Commission has recently determined that Uber drivers are contractors, not employees. But it's perhaps premature to assume that has settled the vexed legal issue of where, on the boundary of employment types, gig economy workers in general will appear. Legal cases in the UK that apply the same common law principles as in Australia are finding increasingly that people can't be assumed to be contractors by virtue of employment via a flexible digital platform.

In the same vain the recent *Workpac v Skene* decision suggests that the heart of determining whether someone is a casual employee is not how a job is labelled but how it is organised.

The spirit-level challenge for government is to respond to these shifts in a way that on one hand ensures protections for workers, while on the other hand not doing so at the expense of opportunities for flexible forms of employment needed by both workers and business. And here it's especially critical to think of Australians who are trying to cling to economic participation in some way, shape or form.

We know that for people moving into work today that have been unemployed or out of the workforce 12 months, almost half have taken casual jobs. For economic participation remains the keys to the kingdom of economic mobility. And thus the policy failsafe for delivering economic growth with equity.

So, how have these workforce changes translated through to households across the distribution? How have the benefits of our unrivalled 27-year run of economic growth been shared, and how do the hard numbers fit with CEDA's recent finding that 44 per cent of people feel that they have not personally benefited from Australia's unicorn period of economic growth?

Our recent self-initiated report *Rising inequality?* sought to inform a debate well underway with a comprehensive analysis of income, consumption and wealth inequality in Australia. It's not a simple story ill-suited to a single grab or a selective citation. Although inevitably some people chose to do so. But with a more subtle reading three key take-outs emerge.

The first is that income inequality has only modestly increased in Australia with the benefits of our 27-year run of growth being pretty well shared. And here it's clear that perceptions do not match reality. For over the last three decades Australia has seen strong income growth across the entire distribution. In contrast US income growth has been miserly except at the very top.

All of this is not to say that in Australia over the last three decades income growth has been strong for all groups all the time. And more recently (since the GFC) income and wages growth has been generally low and especially so for young people. And it appears that many Australians are conflating this recent low income growth with widening income inequality.

The second key take-out is the role of equalising forces. First and foremost our progressive tax and transfer system is an awesome equalising force. But we also found another important equalising force in the form of economic life-course mobility. And we were surprised by the extent to which most Australians move up and down the income distribution throughout their lives. But it's important here to emphasise the word most. For mobility falls away at both the top and the bottom of our distribution.

And this brings us to the third key take-out from the inequality report. That in Australia there is a bedrock of entrenched disadvantage. And it is here that the real, not perceived inequality problem resides. And in plain sight.

Some two million Australians remain in relative income poverty despite our 27-year run of economic growth. But not the same two million Australians through that period. And this is the critical distinction. Importantly for most of those two million Australians their poverty spells are short lived. But for some within this group mobility remains out of their reach; for those 600,000 Australians who have been in relative income poverty for at least the last five years. This is the bedrock of entrenched disadvantage; the inequality that perhaps matters most.

So, what does all of this mean for public policy? How do we continue to generate economic growth with benefits widely shared?

Turning first to our cohort of 600,000 for whom we need to better understand the underlying drivers. Think mental health, indigeneity, chronic disease, intergenerational stories of poor economic participation for parents, and poor educational outcomes for their children.

Clearly the policy interventions needed for this bedrock go beyond our current policy playlist. Even alongside economic growth. A bedrock patently in need of hand-made policies. And perhaps a comprehensive deep dive needed to inform the shape and form of these hand-made policies to chisel down this bedrock.

Now, returning to the other question posed, how do we continue to generate the type of economic growth that over the last three decades has made most Australians better off?

This was a question the Commission sought to ask and answer last year in our inaugural 5-Yearly Productivity Review *Shifting the Dial*. A policy roadmap for Australian governments on what's needed to deliver on growth with equity. And here we intuitively focused on economic participation.

So, one of the five big questions we asked, is our education, skills and training system fit for purpose for workers of today and tomorrow? In a world that has moved on from the old model of getting trained at an early age for the marathon of a job for life. To a world where workers need regular F45 classes. Today's world where workers need lifelong learning and skill acquisition to keep up with changing workforce demands and equip them as they move between both occupations and industries.

In *Shifting the Dial* we did identify three fundamental fractures in our current education and training system.

First, deteriorating results in subjects that matter for future work. Think maths and reading, the twin cognitive enablers at school.

Second, the VET system is a mess, struggling to deliver relevant competency-based qualifications. Employers today are more satisfied with non-accredited training courses (90 per cent) than VET (76 per cent).

Third, universities do need to improve student employment outcomes, delivering qualifications relevant to labour market needs. For as many as 26 per cent of students today are not completing their undergraduate studies in less than nine years. And undergraduate underemployment has more than doubled in the last decade to reach now just over 20 per cent.

Currently the tertiary education system is set up against becoming a chef at age 40 or a dementia care worker at age 50. Retraining is inconvenient and expensive. And the approach of education institutions remains outdated and outmoded. Still emphasising a one-career-for-life approach which is no longer the modern-day reality for most workers from the metrics cited earlier.

Taken collectively this unfortunate troika does erode our capacity to deal with future labour market changes in an efficient and equitable way. So, we proposed some changes. I'll just note a few here.

For schools, eliminating teaching out-of-field in secondary schools.

For work skills, government to develop perhaps two things. First, tools for proficiency-based assessment for skills rather than just simply competency-based assessment. And second, a framework to facilitate independent accreditation of skills obtained agnostic of learning method.

And for universities, perhaps aligning their financial incentives more closely with student outcomes to give universities perhaps some skin in the game and encourage them to tailor the education they provide to workforce needs.

And here we've recently self-initiated another project examining the education and employment outcomes for the substantial cohort of 'additional' university students. The additional being the product of a world of uncapped demand and whether in that uncapped world universities have delivered for those students especially the student for whom the better path to employment may not always reside in expensive sandstone learning.

A final piece of the lifelong learning policy puzzle came rather unexpectedly out of the Commission's Inquiry in 2016 on Intellectual Property Arrangements. Where we found that Australia's copyright rules are too prescriptive and do not readily accommodate new and legitimate uses of copyright material in education.

Now more than ever workers need flexible access to ongoing learning – think of the transitioning worker in regional Australia. Yet Australia's current system of copyright usage heavily constrains universities, TAFEs and even schools from offering MOOCs.

So, on a final note when next you hear the foretelling of a dystopia or utopia of the future of work, perhaps turn first to the workforce changes that are taking place today and the policy responses for the now. For so much of the Commission's endeavour over the last five years has dealt in some way, shape or form, with the now of work and thus the future of work. And our policy prescriptions have been aimed at sharing the benefits of jobs, productivity and higher wages across all Australians. Avoiding a world of technology-driven haves and have-nots. And heralding a world where economic participation and the keys to the kingdom of economic mobility are shared by more. And with that reducing inequality. Because that's what matters most for the future of work.

Thank you.

> CEDA RESEARCH LAUNCH

> 12 NOVEMBER 2018

> SYDNEY

Connecting people with progress

Melinda Cilento

Chief Executive, CEDA

In November, CEDA released its research report, *Connecting people with progress: securing future economic development*. This foundation report will guide CEDA's research and policy agenda over coming years.

In launching the report, CEDA Chief Executive Melinda Cilento explained the research identifies where Australia has delivered progress, where progress has fallen short and reform priorities for the future. She introduced CEDA's new policy stack of five areas: population; technology and data; workplace, workforce and collaboration; critical services; and institutions that CEDA believes are of critical importance to our future.

It is absolutely fantastic to be here with all of you today to talk about CEDA's latest economic research. We have, of course, launched the report today and I think it's a really important piece of work for CEDA. *Connecting People with progress* is a pivotal document aimed at recalibrating the priorities for economic development, to secure future progress that is tangible and relatable to the Australian community. It's a piece of work that's going to guide CEDA's research and focus our policy efforts for coming years.

When you have a look at the report what you'll see is that we've had contributions from well over a dozen stakeholders and member organisations expressing their insights and thoughts on things that are important to Australia's future progress.

I mention that because I think the fact that we've had so many members and stakeholders prepared to contribute to this work shows that people are really interested in progressing a new reform agenda for Australia's future and that they're interested in contributing to that.

What I wanted to talk to you about today is why CEDA has undertaken this work and why now, what we found, and the policy stack that CEDA believes is critical for future economic success.

So, firstly, why have we done this work and why now? Well, Australia has enjoyed 27 years of uninterrupted economic growth; a world record. Looking at the headline numbers we've been incredibly successful. However, there is a palpable disconnect between the narrative around the need for economic growth and development for Australia's ongoing prosperity and the expectations of the community.

CEDA's *Community pulse 2018* research released earlier this year in June, was a nation-wide poll asking people how they felt about Australia's economic progress and the issues that mattered most to them. This poll showed that despite our economic success as a nation only a small percentage of Australians believe that they have personally gained a lot from Australia's record run of economic growth.

This disconnect is concerning and it matters. It matters because if people feel that they have not benefitted from sustained growth they will see little reason to support future growth and economic development.

For CEDA those survey results must mark a low point in terms of the community's disconnect from growth. We must find ways to rebuild community trust that policy and growth are being pursued in their best interests. The question, of course, is how to do so?

Therefore, in undertaking this research CEDA wanted to reflect on three important issues: What has our record run of economic growth delivered? In other words, what have we done well? Where have we fallen short; and how should we refocus policy discussion and reform so that it relates to the community – policy that matters to people's lives.

So, let's start with progress delivered. Australia has realised incredible gains through the expansion of the economy, trade, technology and investment. Let me quickly roll through some of the headlines that you may be familiar with: Our economy has tripled in per capita terms since 1960. The average disposable income of Australians has increased two and a half times since 1960. Over the last three decades average incomes have grown by just under two per cent per year across all income groups; substantially faster than in other advanced economies.

Life expectancy has increased by 10 years for women and 12 years for men since 1960. Today 85 per cent of secondary school students complete Year 12 compared to 23 per cent 50 years ago. And a greater proportion of Australians are in jobs than in previous decades. In other words, we have achieved increased economic security for most Australians; more people in jobs, we're living longer and we're better educated. And a standout feature of Australia's economic success has been our incredible resilience to economic shocks.

Australia has seen its way through the Asian Financial Crisis, the tech-boom bust of the early 2000s, the Global Financial Crisis, and more recently the collapsing of commodity prices.

How? Well, a flexible exchange rate, capacity for fiscal and monetary policy, proactive economic management and reform and a touch of luck have all played their part. We should not underestimate just how important this resilience and the avoidance of recessions has been in preserving and enhancing the livelihoods of many, many Australians.

Australia has achieved all of this through its own unique brand of economic development. It is a brand of economic development characterised by strong immigration and multiculturalism underpinned by a social compact to share prosperity and an embracing of openness that has positioned Australia to benefit from globalisation and growth in Asia through both trade and investment.

Now, despite this progress we also know that there are areas where growth quite simply has not delivered. While measured inequality at the aggregate level has not increased in the last decade too many Australians remain disconnected from opportunity and prosperity; like the 700,000 Australians who find themselves in persistent and recurrent poverty. Like too many Aboriginal and Torres Strait Islander people and communities who are not being afforded the same economic and social opportunities as others in our society, and the 585,000-odd young Australians not in school or fully engaged in study or employment.

We do need to do a better job of connecting women to prosperity. Women are underrepresented in senior roles, they get paid less, on average, they have less superannuation, on average, and they still do most of the housework. And while strong immigration and population growth have underpinned our success we fail to predict or address growing pains in our capital cities – housing affordability, congestion and access to public transport are all areas of concern.

Our environmental performance has been described as Australia's Achilles heel. Australia's biodiversity is under threat, and we still do not have a credible, consistent and efficient policy for reducing emissions; all the more surprising given that both major political parties went to the 2007 federal election supporting an emissions trading policy – a decade of lost opportunity on that front.

We face emerging limits to the progress that has been achieved. Australia's productivity growth is not at the levels that underpinned solid income growth in the past, and quite frankly we know that in the future we're going to have to do more with less.

That all-important resilience to economic shocks that I just mentioned has eroded. Government and household budgets look more vulnerable in the event of an external shock, we have less wriggle room and we need to build our resilience in other ways, and we face new challenges including how to make the most of the next wave of great structural change, what we might like to think of as virtual globalisation.

This takes me now to CEDA's reform priorities for the future. Now, what you might expect me to do at this point is to outline a headline-grabbing list of must-have reforms. There are some that I could advocate without too much hesitation; implement the NEG, for instance. But as we at CEDA thought about the key challenges and opportunities for Australia's future progress and how to connect the community to that progress in tangible ways, we didn't think that the answer lay in a reform to-do list.

We concluded that what mattered more to securing Australia's future in a rapidly changing and uncertain world was to identify those policy areas fundamental to capturing future opportunities and retaining our social compact and making sure that we have the processes and capabilities to deliver effective and timely policy and to continually evolve policies in the public interest.

So, what CEDA has identified is a policy stack, a stack of five areas: population; technology and data; workplace, workforce and collaboration; critical services; and institutions that are of critical importance to our future. And they're important because they cover the areas that matter to future economic and social success and they interact with one another so that if we focus on them together we will increase the chances of delivering sustained economic growth and improved living standards in the areas that matter to the community the most.

In pursuing reform across this stack policies will need to be adaptive and policy-makers agile and effective in tapping into expertise wherever it resides.

This last point is important. I believe it will require policy-makers to adopt different approaches to engagement, to collaboration and policy design. It requires a new operating model to deliver better outcomes.

In each of these five areas we have sought to highlight both the direction as well as specific areas of focus that we will seek to pursue through our research and advocacy.

Let me say a little bit on each of these five areas. First up, institutions. This is an obvious one. Trust in our institutions, be it government or business, has absolutely taken a hammering in recent years. If that trust is not restored it will be very difficult to make reform credible. We expect institutions to be accountable and to have the community's best interests at heart. But what does that mean in practice now?

It means institutions, government, community, business, educational, working to understand community expectations. It means institutions responding to those expectations, explaining their purpose and intent and being clear about the incomes they are striving for. And it means institutions being accountable, showing the community how they are performing. So, greater transparency and openness are going to be critical.

But there's more to it from CEDA's perspective. If we agree with the US tech entrepreneur, Nick Hanauer, that prosperity should be defined as the accumulation of solutions to human problems then we need not only greater transparency but also new ways of working together. In the face of complex, indeed wicked problems we have to renew and refresh our institutions so that they can work well together; sharing ideas, sharing and connecting data and co-designing solutions, new ways of working, and a new operating model.

Now, to critical services such as healthcare, aged care and essential services; these are vital to people's everyday lives and make a substantial contribution to the economy themselves. We know this, and if there was any doubt that these are the top issues of concern for people our *Community pulse* research confirmed it emphatically.

The key challenge that was called out in that survey is how to meet community expectations that continue to focus on the public provision of these critical services. The equation of rising costs, increasing expectations around service quality, ageing populations, and constraints on the public purse, can only be resolved through new approaches, new sources of supply and new models of service provision in many sectors.

That, in turn, will require better access to and use of data, a sharper focus on outcomes, and greater transparency and collaboration, and all of this will require community trust and confidence in those institutions and in those processes; trust and confidence that good outcomes will be delivered.

Now, to population. This is an issue that, of course, has garnered a lot more attention of late. The composition, growth and distribution of our population is critical for economic development. However, serious public debate about population policy in Australia has been episodic. There are genuine community concerns about how population growth is being managed that need to be addressed.

Australia is one of the most successful multicultural countries in the world. Strong population and immigration growth has been a key feature of Australia's brand of economic development. But immigration policy has become a de facto population policy and population growth has outpaced official projections with resulting growing pains emerging in cities.

To put this into perspective, the 2002 *Intergenerational report* predicted that Australia's population would hit 25 million in 2030. Well, we got there a decade early. A more strategic approach to immigration and therefore, population policy, is required.

For existing residents and citizens and for new migrants the issues that impact the quality of life are the same: the ability to find a job, an affordable place to live, the ability to get to work easily and affordably, access to good schools, affordable healthcare, to be able to live in a safe and cohesive community, and to have access to environmental amenity. These issues, and the ability to deliver against them, should guide a strategic approach to immigration, to population and to settlement.

Australia hasn't had a population policy or strategy since World War II. Now it looks like we may have many. There's a long list of elements that each of these strategies must include if they are to be effective, and of course, strategies across the jurisdictions must work together. This will be an important test for one of Australia's most important institutions, our federated system of government. The issue of population should be a cornerstone of a revamped COAG agenda.

Now, let me turn to workforce and workplace. Of course, in so many ways it is in workplaces around Australia where we will succeed or fail in connecting people to future opportunities and progress. The issues are easy to list but harder to deliver on. What are the big challenges and what's our area of focus?

Firstly, there are too many people not getting the education they need. The disadvantages associated with this are building on one another and we now have clearly identified groups who are consistently disconnected from prosperity. Government policies, on the whole, are not making inroads. It's time to focus on what the Productivity Commission calls hand-made solutions because this is where the better outcomes are being achieved.

Secondly, our education systems have to evolve to enable lifelong learning. Now, I know this is a catch-all, often overused term. But let me be clear; a frontloaded, once in a lifetime education to support a once in a lifetime career is not the way of the future.

Concerningly, issues like access to new skills and training throughout working life and the ability to move between jobs and sectors were not issues that people flagged in our *Community pulse* survey as being important to them; in fact, quite the contrary. Now, maybe that's because the systems are working well; I'm not sure.

Finally, the vexed issue of workplace relations. For far too long we've failed to have a joined-up conversation in Australia on this topic. Too often the debate is a polarising one about system change, more regulation, less regulation and nothing in between.

The Workplace Relations legislative framework is an important part of this jigsaw but let's not neglect the much broader set of factors that contribute to productivity and collaboration in workplaces including education, managerial skills, competence, organisational culture, structure and communication. There is far too little discussion of the quality of regulation, of the quality of management, of the quality of the relationship between employers and employees, or how we can better enable innovation in the workplace.

I'm proud to say that in this section of our report there are external contributions from people representing business, workers and the education sector. I think this shows you that there is an interest in and a commitment to a more joined-up conversation in this country. I think CEDA has the power to broaden this even further and to keep a constructive conversation going in the future.

Finally, technology and data. Of course, this underpins all of the issues that I've touched on already. Technology and data are central to efforts to raise productivity; we know this. And we know that Australians were rapid adopters of information and communication technologies in the 1990s, but we've slowed down, and we need to recapture that enthusiasm.

Technology has a role to play in addressing the key challenges in areas like critical services and in areas such as energy, health and transport, but the solutions will not be straightforward, and they will always require a focus on public interest and on communicating this public interest well.

The My Health Record's experience I think is a case in point where it appears that too little attention has focused on communicating the significant public benefits associated with better linkage and use of health data.

While the future may be difficult to predict we cannot afford to passively accept or to react to technological trends. This would risk Australia having a workforce underprepared for change, a regulatory framework that stifles innovation and competition or fails to adequately protect human rights, and a tax system that no longer collects adequate revenue. Most importantly reactive default 'yes' or default 'no' approaches to policy or ad hoc policy interventions will undermine community trust in the genuine power of technology to drive improved standards of living.

Government has an important stewardship role to play and it must do this in a way that puts people and public interest at the centre of policy and technology. One great example of this is the commitment to legislate a national Consumer Data Right. This is a transformational reform because it will enable consumers to guide the use of data in a way that should promote competition and deliver benefits directly to them. It empowers consumers; it empowers consumers to use data about them for their benefit.

Getting the balance right including a focus on proactive engagement first and regulating second will be tricky but vital for encouraging beneficial new technologies and engendering community trust. Governments will need to find ways to get up close to emerging technologies, to understand their implications and to develop good policy and regulation. Building internal capabilities and broad and trusted external relationships will be critical; again, the new operating model. Ensuring that those at the forefront of technology understand the community issues and expectations guiding government will also be very important.

So, against this backdrop what role can CEDA play? Most importantly, we believe that our cross-sectoral membership base, a membership base that includes business, government, academia and the not-for-profit sector will enable CEDA to bring unique insights to the policy issues that we have highlighted. And in case you missed it on the way through we think greater collaboration must be a feature of Australia's brand of future economic development.

Already we're starting to dig into a few of these topics as part of our 2019 Research Agenda and over time our expectation is that CEDA's research and advocacy on key issues within each of these topics will evolve as the critical issues themselves emerge. However, along with a greater focus on this policy stack CEDA believes that Australia needs to significantly change how it thinks about reform.

In the 1980s Australia required major economic reform; there were big ticket items: freeing Australia from the shackles of trade protection; floating the dollar; and reforms in domestic markets. In fact, these are the reforms that have underpinned the economic success that we have enjoyed for 27 years. But they were reforms that could largely be done once.

The next generation of reform will need to be different. Policy frameworks must be more nimble and responsive. Policy and regulation are struggling to keep up with both the community's expectations and the pace of change. That needs to change. To use a technology analogy that's probably already out of date we need a 'plug and play' policy approach.

I know Uber has been used as an example many times over but it is a prime example of policy being unable to keep up. The Uber model is a pretty simple one. It shouldn't take government two years to deal with the regulatory requirements around a market disruptor. The community certainly didn't wait to embrace ride-sharing.

Five years since its official launch almost one in five Australians are using Uber and recent growth has been exponential, more than tripling in just the last two years. However, there are other examples. It shouldn't take a Royal Commission to see changes in areas that the community has been raising concerns about for some time.

Essentially, we need to change the policy building blocks so that Australia has the right foundations to develop new policy solutions that can be easily plugged in and updated to secure economic development as circumstances change, and they will do so more rapidly in the future.

How we talk about change also needs to evolve. In the past major change has come about because of a burning platform or a significant threat. I hope that we might drive change now by engaging with the community and painting an aspirational picture of the future, a future that people want to be a part of. This will set our community up for future and enduring success.

There will no doubt be many challenges and challenges about how we tackle policy and emerging opportunities. But we've faced fundamental reform challenges in the past and we've succeeded.

We've stared-down inflation persistently running at double digits, not to mention double-digit unemployment after recessions. The challenges this time are different but fundamentally they require the same kind of courage and creativity.

What we have sought to show with this research is that Australia's track record supports an optimistic take on our ability to deliver another generation of opportunity and progress. This is the approach that CEDA is taking and I look forward to using this report as the starting point for our future discussions and collaboration to build that optimistic future.

Thank you very much.

> CEDA ANNUAL DINNER

> 20 NOVEMBER 2018

> MELBOURNE

Trust and prosperity

Philip Lowe

Governor, Reserve Bank of Australia

At a time when community trust in institutions is being tested, Reserve Bank Governor Philip Lowe used his address to CEDA's Annual Dinner to make the case that trust is an essential building block of economic prosperity.

The Governor's address focused on trust in finance, trust that living standards will improve over time and trust in public institutions. He identified work needed to restore trust in our financial institutions, discussed how raising productivity and ensuring a strong economy can improve people's trust that their living standards will increase over time, and outlined how the central bank works to maintain the community's trust.

It's a great pleasure for me to be able to be here tonight, speaking at CEDA's Annual Dinner. It's become a tradition at these dinners for the Governor of the RBA to talk about how we secure Australia's continued economic prosperity and tonight I would like to continue that tradition.

My focus is going to be on the importance of trust as an essential building block in economic prosperity. This focus is a bit different from the normal turf of economists: things like productivity, investment and capital accumulation. Of course, we do need to keep a close eye on those things, but in doing so, we should not lose sight of the fact that our economy, and indeed our society, works best when there are high levels of trust. And those in whom trust is being placed need to do their very best to be worthy of that trust.

There's an element of trust in all economic transactions. Without it, commerce simply can't flourish. But the nature of trust in our society is changing and unfortunately, we can all think of recent examples where trust in our institutions and organisations has been severely tarnished.

At the same time, changes in technology mean that we're increasingly trusting the wisdom of the crowd on our preferred online platforms, rather than our traditional institutions. As some have argued, trust is now more likely to be distributed rather than to flow vertically from our trusted institutions. This is a very significant change. But regardless of how trust is earned and retained in our modern economy, we all have a very strong interest in living in a high-trust society, and I'd like to use this theme of trust to talk about three broad issues this evening.

The first is the role of trust in finance. The second is the importance of the community having trust that living standards will improve over time. And the third is trust in institutions. Here, naturally enough, I'll focus on the central bank and the importance of accountability and transparency, and in this context, I'll end up with a few words about current monetary policy.

As you all know, finance is mainly about trust. When a deposit is placed in a bank, we trust it's going to be repaid. We also trust financial institutions to invest our hard-earned savings for us, and we trust them to provide us with financial advice that's in our best interest. Without that trust, the financial system cannot operate properly, and the economy cannot prosper. As the first line of the Banking and Finance Oath says: "trust is the foundation of my profession". I encourage everybody here in the finance sector to read that oath regularly and to more than read it, to actually live by the principles in that oath.

Australia's banks have a very strong record of being worthy of the trust that's placed in them to repay deposits. The last bank failure in Australia that resulted in a loss to depositors was almost 90 years ago, back in 1931, and on that occasion, it was a very small bank and depositors lost only a fraction of their deposits. This is a positive record that's shared by very few other countries. This strength was again apparent during the financial crisis a decade ago and it served Australia very well.

The Australian banks are strongly capitalised, they have considerable liquidity and, on the whole, they've also managed credit risk effectively, reporting few problem loans by international standards. This means that we can have a high level of trust in the ability of Australia's banks to repay depositors. Indeed, our strong and stable banking system is one of the Australian economy's great strengths.

It's in other areas, though, where trust has been strained. It's clear that the behaviours highlighted by the Royal Commission have dented the community's trust in parts of the financial sector. The case studies used by the commission have put the spotlight on three very important issues:

1. the first of these is the inadequate way in which banks have dealt with conflict of interest issues
2. the second is the way the poorly designed incentive systems can distort behaviour – promoting a sales culture at the expense of a service culture, and promoting the short term at the expense of the long term
3. the third issue is the fact that the consequences of not doing the right thing have, in some cases, been too light.

Strengthening trust in our financial institutions requires all three of these issues to be addressed.

Central to this task is creating a strong culture of service within Australia's financial institutions. Too often our financial institutions prioritised sales over service and correcting this starts with the system of internal reward established by the board and by management. The vast bulk of people who work for Australia's financial institutions do want to do the right thing, and they do want to serve their customers as best they can. But like everyone else, they respond to the incentives that they face. If they're rewarded on sales or short-term objectives, it shouldn't come as a great surprise to us that that's what they prioritise. So, establishing the right incentives here is key.

One of the things that influences incentives is the consequences and penalties that apply when something goes wrong. Strong penalties can play an important role in incentivising good behaviour, and this is an area that we should be looking at, but we do need to get the balance right here as it can have unintended consequences.

In my view, it's worth making a distinction between the penalties that apply for poor conduct and those that apply for making loans that ultimately cannot be repaid. On conduct issues, we should set our expectations and standards high, and if they're not met the penalties should be firm. On lending, though, matters are more complex. Even when banks lend responsibly, a percentage of borrowers will end up in financial strife and be unable to meet their obligations. So, we need banks to be prepared to make loans in the full expectation that some borrowers will not be able to pay those loans back. After all, banks need to take risk and they need to manage that risk well. If they do become afraid to lend simply because of the consequences of making a loan that goes bad, then our economy will suffer. So, this is an area we need to watch very carefully, and appropriate balance does need to be struck.

More broadly, having clear lines of accountability can help build trust. The Banking Executive Accountability Regime, the so-called BEAR regime, is helpful here. This regime, though, is largely limited to authorised deposit-taking institutions and to prudential matters. It is worth thinking about how the same focus on accountability can be applied to a broader range of financial services and to conduct issues as well. As we do this, though, we should not lose sight of the fact that it is the banks' boards and management that are ultimately responsible for the decisions that the banks make. It's unrealistic, I think, to expect that an appropriate culture can be created through regulation and through penalties. Creating the right culture is the core responsibility of the boards and management of our banks.

Changes that are now taking place within the financial sector should, over time, help restore trust. I think it's going to be a slow and gradual process, though. The Royal Commission will have some recommendations that will hopefully assist with the process as well. One thing that would help is for financial institutions to have a long-term focus and reflect that in their internal incentives. Managing to short-term targets might boost the share price for a while, but the short termism can weaken the long-term franchise value of the bank. I think we've seen some examples of this recently.

I would argue that the franchise value is more likely to be maximised if our financial institutions have a long-term perspective, if they treat their customers well, if they reward loyalty rather than take advantage of it, and if they invest in systems and technology that deliver world-class financial services for Australians. In my view, doing this would not only be good for bank shareholders, but it would also be good for the broader community.

I'd now like to turn to the second issue, and that's a slightly different concept of trust, but in my view, it's one that's no less important, and that is the community's trust that real living standards will improve over time.

On many accounts, the Australian economy has performed very well over recent times. Over the past year it's grown by close to 3.5 per cent, inflation's been low and stable at around two per cent, employment has grown quite strongly and we're getting quite close to full employment.

So overall, it's a very positive picture. Business conditions are positive and government finances have also improved and are in reasonable shape. There's a lot of investment taking place in the economy, particularly in infrastructure, and the number of job vacancies is at a record high. The unemployment rate in New South Wales and Victoria is back to where it was in the early 1970s, so almost 50 years ago. So overall, it's quite a positive picture. Yet despite how often this story is told, not everybody shares this positive assessment. Not everybody feels connected to the progress that I see from a macro point of view.

How average hourly earnings in Australia adjusted for inflation have changed over time helps explain why this is the case. I think the picture is pretty clear. Over the period from 1995 to 2012, we witnessed a substantial lift in real hourly earnings; on average real wages increased by almost two per cent a year and that resulted in a substantial increase in people's real living standards. This occurred alongside inflation averaging around the midpoint of the two to three per cent target range and strong growth in corporate profits. Since 2012, though, it's been a different story. Over these six years, there's been very little change in average real hourly earnings. The increases in wages that we've seen have been broadly matched by inflation.

This is quite a change and it's having significant effects. On the positive side, flat real wages have supported the substantial gains in employment that we've seen, so they've benefitted many people. At the same time, though, flat real wages are diminishing our sense of shared prosperity. The lack of real wage growth is one of the reasons why some in our community question whether they're benefitting from Australia's economic success.

This is not a uniquely Australian story, though. A similar thing has happened in many advanced economies around the world. As a result, too many citizens around the world have diminished trust in the idea that the policies that have underpinned growth over the past 30 years are working for them. They feel more uncertain about the future and, in some countries, are also having to deal with very high housing prices. This unease is occurring despite the fact that unemployment rates in many advanced economies are at the lowest they've been in many decades.

The diminished trust in the idea that living standards will continue to improve is a major economic, social and political issue. Arguably, it's the most important issue we face. It underlies some of the political changes that we're seeing around the world. It is also making it harder to implement needed economic reforms. It's in our collective interests that this trust be restored.

This is a challenging task for us, but it is not an impossible one. Part of the solution is for the labour market to tighten further and for this to lead to a pick-up in household income growth. The current setting of monetary policy is encouraging exactly this, and it is working. As the labour market has tightened in Australia over the past year, there has been a modest lift in wages growth and we received further confirmation of this last week with the publication of the wage price index. The RBA also continues to hear reports of larger wage rises in areas where there's strong demand for labour and workers are in short supply, and I expect that we'll hear more such reports over time. So this monetary policy strategy that we have of keeping interest rates low and tightening up the labour market, I think it's gradually working.

From a longer-term perspective, another part of the solution is to boost productivity. The factors that are contributing to flat real wages for many workers are complex, but many of them are linked to globalisation and to technology. And the best way of dealing with this is not to ignore these forces, but to do what we can to capitalise on them. This means government and business having a sharp focus on the question of how we can best flourish in a world of global markets and continuing improvements in technology.

An important part of the answer must be investment in education and skills development, and in research and development. I think we need to be thinking long term here. Realistically, more investment in human capital will not make much of a difference to real wages this year or next. But over the next decade or two, it's crucial to raising real wages and living standards. Increasingly, our prosperity rests on the ideas that we have, on how we can take advantage of those ideas, and how we capitalise on new technologies. This means having a very strong culture of innovation in business; it's very important. With the right investments, I am confident that Australians can enjoy high and rising real wages in a highly competitive and technically sophisticated world.

There are, of course, other elements to lifting productivity. These would include the design of our tax system, the quality and pricing of our infrastructure and the strength of competition in our markets. We need to keep these areas all in focus.

The key point here is that raising productivity and ensuring a strong economy will, over time, help deal with the diminished trust that people have in the idea that their real living standards will improve. As I said before, we all have a strong interest in that trust being restored. Without it, a lot of things become more difficult, not just on the economic front, but the social front as well.

I'd now like to turn to the third aspect of trust, and that is trust in public institutions. One of Australia's strengths is that we have strong and stable public institutions. We can sometimes take this for granted, but strong public institutions are one of the foundations upon which our economic prosperity is built. They help support the public's trust in the development and implementation of economic policy, and in fair and effective administration of laws and regulations. And they can also help society balance some of the difficult trade-offs that we sometimes face.

I hope that you see the Reserve Bank of Australia as one of those institutions. We have been entrusted with important responsibilities by the Australian parliament and the government. These include: determining Australia's monetary policy; issuing Australia's currency; operating the core of Australia's payment system; acting as banker for the Australian Government; and having broad responsibilities for financial stability and for competition, efficiency and stability in Australia's payment system. It's a long and important list.

As we carry out these important responsibilities, I am very conscious that as a central banker, I'm an unelected official acting on the public's behalf. Reflecting this, the first of our internal values that we have at the RBA is to act in the public interest. We work hard to be worthy of the trust that's been placed in us. We seek to do this by speaking and acting independently, consistent with our mandate, by being analytical and pragmatic in our approach to policy, and by being accountable and transparent.

One element of transparency is the release of minutes after each of our monthly board meetings. The latest minutes were released this morning. These contain our assessment that the Australian economy has been doing well recently. It's growing a bit faster than average, the unemployment rate is trending lower, and inflation is low and stable. We expect this to continue for a while yet.

This is evident in our updated forecasts. Growth this year and next is expected to exceed three per cent before tapering off in 2020 as the boost from the large increase in LNG exports tapers off. Inflation's also expected to pick up, but only to pick up gradually. Inflation is expected to remain low. The public focus is normally on this central scenario, but it's important to recall that the range of possibilities around that central scenario is quite large.

As the minutes discuss, one of the current sources of uncertainty is the pace of growth in consumer spending. Over the past couple of years, consumer spending has been growing reasonably firmly and faster than disposable incomes. Our central scenario is for household spending to continue growing at around its current rate and for income growth to pick up to be in line with spending growth. But there are conflicting forces at work here. On the positive side, the strong employment growth that we've been witnessing is a plus for income and consumption growth. But working in the other direction are flat real wages at a time when debt levels are high, and housing prices are falling in our largest cities. So we're continuing to assess the balance of these forces carefully.

As we do this, we're watching the housing market closely. There has recently been considerable public attention paid to declining housing prices in Sydney and in Melbourne. It's important, though, to remember that these declines come after very large run-ups in housing prices in these two cities, which made purchasing a home difficult for a significant number of people. Over the previous decade, housing prices in Sydney increased by almost 100 per cent. So, we had a very large run-up in prices and there's been a modest retracement of those gains. It's also worth pointing out that this adjustment is taking place against a backdrop of a strong world economy, a positive Australian economy, low and declining unemployment, low interest rates, strong population growth and only limited pockets of excess supply in the housing market. This is a reasonably favourable backdrop against which to be having an adjustment in a housing market, but we do need to watch things closely.

The minutes also report that the Board evaluated the forecast made by the Bank this time last year and the Board does this type of evaluation exercise each year. Over the past 12 months, the economy has performed more strongly than we expected a year ago and the unemployment rate has come down by more than was expected. At the same time, though, the stronger growth and the stronger labour market did not translate into more inflation; wage growth and inflation turned out to be pretty close to what we thought they were going to be a year ago.

The fact that growth was stronger than expected is largely accounted for by a positive surprise on investment. The terms of trade have also been stronger than we thought, which, combined with a lower exchange rate, has helped. For a number of years we were forecasting a lift in non-mining investment that did not materialise. During this period of flat business investment, Glenn Stevens gave frequent speeches bemoaning the lack of animal spirits in the business community. But over the past couple of years, things finally turned around. The long-forecast pick-up in investment finally arrived and it's been stronger than we expected over the past couple of years and we expect this upswing in investment to continue for a while yet. So that's positive news.

In the context of its forecast evaluation, the Board also reviewed the various arguments that have been made by commentators for alternative courses of monetary policy. The timing of this review has no particular policy significance, but it's simply good practice for us to consider the issues and arguments from all angles, and we do this as part of our regular evaluation exercise.

As you know, following its deliberations a few weeks ago, the Board again decided to maintain the cash rate at 1.5 per cent, where it's been since August 2016. The central messages also remain the same.

First, the economy is moving in the right direction, and further progress is expected in lowering unemployment and having inflation consistent with the target.

The second message is the probability of an increase in interest rates is higher than the probability of a decrease. If the economy continues to move along the expected path, then at some point it will be appropriate to raise interest rates. This will be in the context of an improving economy and stronger growth in household incomes.

The third and final point is that the Board does not see a strong case for a near-term change in interest rates. There is a reasonable probability that the current setting of monetary policy will be maintained for a while yet. This reflects the fact that the expected progress on our goals of reducing unemployment and having inflation consistent with the target is likely to be only gradual. The Board's view is that it's appropriate to maintain the current setting of monetary policy while we make this progress.

I thank you very much for listening.

> CLIMATE CHANGE REVIEW

> 27 NOVEMBER 2018

> ADELAIDE

The IPCC 1.5 Degrees report: implications for Australia

Professor Mark Howden

Director, Climate Change Institute, Australian National University

As a signatory to the Paris Agreement, Australia has joined a global commitment to keep temperatures below two degrees Celsius above pre-industrial levels with an aspirational target of 1.5 degrees.

Unpacking the expansive Intergovernmental Panel on Climate Change 1.5 Degrees Report that reviewed progress towards these targets, Climate Change expert Professor Mark Howden said current emissions reduction commitments are nowhere near adequate. Instead we are hurtling towards the 1.5-degree mark and on track to well exceed that.

Quick action on climate policy is required to avoid what Professor Howden likened to going over a cliff in economic and social terms.

I'd like to acknowledge the traditional owners of the lands on which we meet. And I'd particularly like to acknowledge the students here today.

What I'm going to cover today is the recent report from the Intergovernmental Panel on Climate Change; it's commonly called the 1.5 Degrees Report. It's a unique experiment in science policy and how science can be incorporated into decision-making, particularly by governments, and it's the biggest science policy activity ever undertaken by humankind. It's been going since 1988, and we are now in what we call the sixth assessment cycle. And I've been involved in IPCC since 1990, so I'm the longest-serving IPCC person globally, and been involved in more IPCC activities than any other.

I've got a lot personally invested in IPCC, because I've seen climate change as being a really important issue for a long, long time. Not because it's about trying to isolate climate change and say it's more important than any other issue, but it is such a pervasive issue across the things that we do.

Pretty much everything we do affects climate one way or the other through greenhouse gas emissions. So, me flying down here this morning produced a lot of greenhouse gas emissions; the food we eat has got embodied greenhouse gas emissions; the air conditioning in this building produces greenhouse gas emissions. Pretty much everything we do influences the climate through those greenhouse gas emissions.

And climate influences pretty much everything we do as well – whether we pack the umbrella this morning, or wheat yields in Australia, or impacts on global supply of hard drives due to the huge storm in Thailand some years ago. The pervasive impacts of climate are really, really intriguing once you start to look at it. Climate is such an embedded thing within our society. Any change in climate will impact on our society in many, many different ways, sometimes in ways we don't expect. I think it is increasingly important as we go into the future that we need to have many, many people contributing to these issues, not just science here or science there. It's something we all have to engage in.

When I called it the IPCC Special Report 1.5 that's, the short version. The actual title of the report is this, An *IPCC special report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*. You can see that this is an intergovernmental report just by the nature of this title.

This report was requested at the Paris Agreement, going back some years, and so in a sense it was a commissioned report. That's the first commissioned report in the history of IPCC. And it was intended to be a global scale report, so it didn't come down to the Australia level, it was very much a global scale. And it was policy informing in the sense of governments at the Paris Agreement had already decided on two specific targets. There was a keep temperature well below two degrees target, that's the one that we've signed up to, and there's also an aspirational target, which is keep temperatures below 1.5 degrees. There's two different temperature targets in the Paris Agreement.

This report was effectively trying to post hoc inform those decisions which had already been made by governments, and saying, you've decided on 1.5 degrees as an aspirational target. Well, tell us, can we get there? And if we can get there, how do we get there, and what are the benefits from getting there? And so this report was really to flesh out some of those consequences of decisions that had already been made by governments. This isn't advocacy of science into policy, this was policy making a call, and then asking the science community to inform them about that decision that's been made. When you see press saying, it's all doom and gloom being pushed by the science, well, it's not the case. This was a policy-demand approach here.

To produce this Special Report, there were 91 authors, the people who wrote most of the text, 133 contributing authors, the people who wrote small parts of the text, 17 review editors making sure that the quality assurance processes within the report are really top notch; there's an incredible amount of cross-checking through this report. It includes a huge amount of review comments – 42,001 review comments received on this report. When you get 5000 comments on a chapter, it's a massive amount of effort put in by the science community and the governments of the world to try to make this as good as it can be.

These reports are some of the most reviewed documents in the history of humankind. So they're really unique in that sense. They've had so much effort put into them. And this particular report drew on something like 6000 studies, so the reference list was about 6000 studies long. It's a big effort, but not anything like as big as the main assessment reports, which are coming in the next few years.

I'm going to run through some of the results and messages from that effort. One of the first ones is that the climate of the globe continues to change, and it's due to human influences, it's not natural variability.

Looking at temperature changes back to the 1850s, the estimates of what's going on from natural influences – that's sunspots, solar variation, volcanic activity – that's pretty much flatlining. In fact, it's slightly going down, if anything.

When you look at what humans are doing through greenhouse gas emissions and the combination of the natural and the human influences and the observations of temperature across the globe, the average of those temperatures matches very closely the best estimate of temperatures due to both a combination of natural and human influences. The message here is that, yes, the globe warms, it's continuing to warm, it's actually warming up faster and faster over time, so it's accelerating that warming, and that is due to human influences.

In fact, there's less than a one in 100,000 chance that it's not due to human influence. So there's no wriggle room here to say that we're not causing this – well, one in 100,000 is pretty close to zero. So that's one of the first messages, that we're influencing the climate, as we have known since about 1822 with the first experiments, which showed that if you put carbon dioxide or other greenhouse-type gases into an atmosphere you would keep the globe warmer than it would otherwise be. So this is old science, it's getting towards 200 years old, that the greenhouse effect is a real thing.

Given that we're producing carbon dioxide and other greenhouse gases – we're producing lots of them, 42 billion tons a year of carbon dioxide through fossil fuel, and cement use and industrial activities at the moment – and given that we've known for a long, long time that if we pump greenhouse gases like that into the atmosphere we'll warm the earth, we can start to examine the relationship between those greenhouse gas emissions and temperature increase. We can do that through our understanding of climate processes, and we can do that through observations, because we have now got 150 years of change that we've seen relating to temperature increase and to greenhouse gas emissions increases.

And the reason we can do this well for carbon dioxide is that when we emit, say, a ton of carbon dioxide, roughly speaking a third of that gets absorbed into the biosphere, into the soils and into the vegetation, roughly a third of that or a bit more than that gets absorbed into the ocean, and the rest sits in the atmosphere. And it doesn't get absorbed, it sits there for hundreds of years. And so, the next ton of carbon dioxide also leaves a bit more in the atmosphere, and it just accumulates over time. And we've seen the carbon dioxide concentration in the atmosphere rising from about 280 parts per million and is now at about 410 parts per million. And that's, again, due to human activity.

As we've seen that carbon dioxide accumulate in the atmosphere, we've seen that temperature rise and because of that we can actually say if we want to keep temperature rise, say, below 1.5 degrees, then there's only a certain amount of carbon dioxide we can emit and stay within that 1.5-degree target. This is what we call a carbon budget. It's the amount of greenhouse gas emissions we can emit and still stay within a given temperature range.

When we look at the carbon budget, given that we're producing about 42 billion tons a year of CO2, at the moment, at the current rates of emissions, we've got 10 to 14 years before we've used up all of that carbon budget if we're to stay below 1.5 degrees. If we keep going at this current rate, we can emit for about 10 to 14 years, then we have to go to zero. It's like going over a cliff in economic and social terms, and really incredibly destructive.

If we want to stay below 1.5 degrees, what that carbon budget says is that we actually have to make our emissions decline by about 45 per cent by 2030, and then effectively net zero by 2050, to stay below 1.5 degrees.

If we want to stay below two degrees, it's a little bit more lenient; we need to have about a 20 per cent reduction by 2030, but effectively net zero by 2075. In 2075 you students will still be alive. This is your future. This is talking about a net zero world within your lifetime, where any emissions you produce as a society have to be balanced by absorptions in the ocean or absorption in the biosphere. And when we're producing 42 billion tons a year, that's a huge task.

Some jurisdictions are taking substantial action to reduce emissions, like Canberra, California – who followed Canberra in terms of their net zero emissions – Adelaide, City of Adelaide's also got a very ambitious target in terms of emissions reduction. So various jurisdictions have said, this is serious, and we're going to do what the science says, and we're going to put in place policies which take us towards that net zero target. But they're the exceptions rather than the rule at the moment. At the moment we're racing towards that cliff in terms of that carbon budget.

Since the 1990s we have seen accelerating increases in global emissions. Then they levelled off three or four years ago, giving us hope that things were going to turn around. But then last year we saw an increase in global emissions. They'd levelled off reasonably well for about three or four years. Last year we saw them going up again, and this year our best estimates are they'll go up again. Rather than starting to go down, they're actually going up; they're going in the wrong direction.

And here in Australia, even though we've got our emission targets of 26 to 28 per cent reduction by 2030, our emissions are going up. They've gone up the last few years, they'll go up about two per cent this year, best estimate. So we're going in the wrong direction. It's not as though we're even starting the journey to emissions reduction, we're still heading in the wrong direction.

This isn't just about climate change by itself, because, say, if you're in China, one of the huge issues there is air pollution. They see synergies between reducing air pollution and going renewable, using solar and wind energy particularly, because it actually is a win-win situation for them. It's a win in terms of economics because they're major producers of solar panels for the rest of the global economy; they can take leadership in a geopolitical sense; they can alleviate a major domestic health issue which kills millions of people a year in China. This is a way of carving out a space for them in the emerging world, and we've just forgotten how to do that in Australia. We've given up that space to other nations.

If we go back to 1996, we had the world's best electric motors, we had the world's best solar PV systems, we had the world's best solar thermal systems, and because of political decisions we sold off all that IP overseas. At that time, we had our own wind turbine industry here in Australia, we were, in some ways, world leaders in terms of renewable energy, and we blew that opportunity. And that is terrible, I think. That was a really high tech, clean, green, high value, great jobs prospect for Australia, and we blew it. And that's one of the things that really annoys me, the opportunities that have gone missing because of political stances on this issue.

If we're thinking about what we can do in terms of greenhouse gas emissions and stay within a given temperature range, focusing on 1.5 degrees, if we take historical temperature increases and simply extrapolate it out to the future, current temperature increases will get to 1.5 degrees above the pre-industrial baseline by around 2040, 2026 is about the earliest, and there's a few studies which show that we're heading towards more like 2026, 2028 for 1.5 than 2040. But a conservative estimate is that we're going to hit 1.5 by about 2040. We haven't got much time here before we get to 1.5 degrees.

Even if we go to net zero by 2050 there's still a chance we're going to exceed 1.5 degrees. And if we don't reduce our other greenhouse gas emissions, like methane from agriculture, nitrous oxide, we're highly likely to exceed 1.5, even if we go to net zero with our carbon dioxide emissions. And we simply haven't got the technologies at the moment to significantly reduce emissions from, say, agriculture. It's really hard to feed the world and reduce emissions at the same time.

If we look at that in terms of greenhouse gas emissions instead of temperature, if we start reducing emissions now, we can have a long, slow glide path down, a somewhat manageable scenario where we have to reduce emissions by a little bit every year. If we keep on emitting for, say, another 10 years or so, we have to have much more rapid greenhouse gas emissions reduction.

And then, we have to find ways of sucking carbon dioxide out from the atmosphere, because we've gone below the 'zero line'. That's what we call negative emissions. It's actually sucking carbon dioxide out from the atmosphere, either with vegetation or with technological ways of doing this. The longer we emit greenhouse gases, the harder we have to reduce those emissions, the faster we have to reduce those emissions, and the much larger have to be those negative emissions. That's an expensive proposition, and we don't have the technologies yet to do that.

The message here is that early action makes it much easier to stay within a given temperature target, and it means that we don't have to have risky and high cost options like negative emissions at huge scale. We're talking about billions of tons a year of negative emissions drawdown. I'll talk about what that means in a minute.

There are four generic scenarios, just for communication purposes, that we pulled out of the IPCC, and I'll only focus on two of these. The first scenario is a rapid emissions reduction pathway where we have a rapid start to reducing greenhouse gas emissions, and it means that we have very little negative emissions – below the line emissions – associated with negative emissions that we have to suck out of the atmosphere, because we've done all the hard work early.

The opposite scenario is where we delay reducing emissions, and we end up having to have huge amounts of negative emissions – sucking carbon from the atmosphere. In that scenario we have forestry land use change options, what we call BECS, which is bioenergy with carbon capture and storage, which is essentially where we grow trees, we harvest them, burn them to get the energy, and then grab the carbon dioxide from that burning process, and bury it underground. That's what BECS is. We have to have billions of tons of bioenergy with carbon capture and storage to stay within 1.5 degrees, if we go down that emission pathway.

So, just to flesh out what that means, if we're to do the first scenario it means that we have to reduce our carbon dioxide emissions by almost 100 per cent, 93 per cent, by 2050. We have to make renewables the major part, more than three-quarters of our energy production systems. Oil, gas and coal effectively disappear from our systems, so coal is only three per-cent of its current size of the contribution to primary energy. And in this particular case, we've got some land being used for bioenergy, and we've got significant emissions reduction from agriculture. So probably more than we've got technological options to do at this stage. That's the picture of what you have to do to follow this scenario.

If we look at the alternative scenario, we still have to reduce our emissions by almost 100 per cent by 2050, still have to have mostly renewable energy in our electricity system. Effectively coal still disappears from our systems; we've got a bit more oil and gas in the system. But the really big one here is the bioenergy with carbon capture and storage, that's the trees and burning the trees option. And under this scenario, you have to plant an area which is roughly the size of Australia under trees. Australia is 770 million hectares; this particular scenario has 720 million hectares under trees for bioenergy with carbon capture and storage.

You're dealing with 1.2 trillion tons of carbon dioxide being caught by this technique. The size of that is just astronomical. This is continental-scale land use change, directed, all successful, all worked out, with no negative impacts on water or food. And that's effectively an impossible ask under our current circumstances. Effectively what I'm saying is that this scenario of keeping on emitting leaves us with a very unpalatable choice in terms of keeping below 1.5. So we don't want to go here.

The next part of the report is really about the difference in impacts of climate change at 1.5 degrees versus two degrees. And part of the assessment of that is looking at what we call reasons for concern. Going back to the third assessment report – this is back in the early 2000s – the Australian chapter produced what is called the burning embers diagram. It's essentially a risk diagram. Up to one degree there's a small impact of climate change. Once you get to four, or five, or six degrees, there's a really serious and irreversible impact which can't be adapted to.

For these different issues of concern, which are biodiversity, extreme weather events, distribution of impacts – which is about geographical distribution in developed versus developing country impacts – the aggregate impacts at an economic scale, and then the risks of large scale disruptions, such as ocean acidification, coral death, etc. The risk profile differs between the different categories. I'll just move through the different assessment reports to show how as the science has improved, and we understand the issues, the assessment of risk has changed.

In our first assessment, going up to two degrees, for most of the categories, it was relatively benign, so it wasn't too serious. In the fourth assessment report we understand the impacts of climate change more effectively. By the time we get to the fifth assessment report, there's even a bigger assessment of risk, so we're even getting into irreversible change to different ecosystems.

At one degree, which is where we are at the moment, we're starting to see more impacts. And then in this IPCC Special Report we did this again. Now, this only covers two degrees down to zero, so it's a different scale than the previous ones. But, again, as our understanding improves, so pretty much every one of these reasons for concern has significant impacts at one degree, which is where we are now.

In this report there's more and more information, so now we can split it up into different sectors. We can look at food security, we can look at coral reefs, we can look at the Arctic, heat related impacts in cities, etc. For a range of them – fisheries, the Arctic, biodiversity, corals – the picture is looking pretty grim, even before we get to two degrees. Remember two degrees is the high-end Paris target. Even at 1.5 degrees there's significant risks for various systems. The message coming from the science community is that even though 1.5 or two degrees doesn't sound much, in fact, it matters a lot when you're dealing with many, many different systems.

I'll flesh this out in terms of two systems, one is coral and the other is broadly terrestrial ecosystems, to give a picture of how things have changed over the last few decades and where things might be going. If we look back before the 1980s, temperature increase was less than one-tenth of a degree above the historical baseline. And in terms of coral systems, in terms of the Great Barrier Reef, there was no evidence, either through coral cause or through Indigenous oral histories, of previous bleaching events. So as best we can tell, bleaching events didn't occur pre-1980.

By the end of the 80s we're starting to see localised bleaching events. By the 1990s we're starting to see mass bleaching events which are happening right across the globe, and recently we've started to see back-on-back mass bleaching events across the globe. And back-on-back ones are really important because it gives the coral no time to recover. Usually it takes several years to recover from a bleaching event. So when you get back-on-back events, effectively it just destroys the reef because the corals just can't survive. And they then get replaced by algae, and soft corals and sponges, and things like that, but the coral reefs themselves disappear.

Various reefs across the globe are starting to see really, really bad impacts. If we carry that out to the future, at 1.5, between 70 and 90 per cent of our coral reefs are going to be seriously damaged or destroyed, and at two degrees more than 99 per cent of coral reefs, the tropical coral reefs, will be seriously damaged or destroyed. This is the degree of impact that small-sounding temperatures actually have on particular ecosystems.

Similarly, if we look at terrestrial ecosystems much more broadly, land-based ecosystems, going back to the early 70s there's no particular evidence for climate impacts. As we go into the current period, we're starting to see impacts on various systems. Alpine levels of vegetation, alpine systems going up (in level of impact); we're starting to see impacts on various organisms, some positive, some negative; and as we go into the future, up to 1.5 or two degrees, we start to see really quite significant impacts. And just at 1.5 degrees we start to see large numbers of species being problematically affected by climate change. Not just one or two here or there, not just small furry creatures, but the whole ecosystem is going to be impacted in different ways, really significant changes.

Next is fire danger. Just this morning I was listening to the radio; the Premier of Queensland said these are unprecedented fires at this particular time of year, unprecedented hot conditions and incredibly dry conditions. They've got fires with a 50-kilometre front up there in Queensland, and they are really concerning.

To put those fires and that fire risk in Australia in perspective, going back to the 60s and 70s we developed this thing called the McArthur Fire Danger Index, which was scaled from 0 to 100; 100 was the worst possible scenario. The Canberra fires in 2003 were 113 on that scale, and the Black Saturday fires were 180 on that scale. And in the same year, in 2009, in Spring, in South Australia and in Victoria, there was an event which was 215 on that scale. So that's how quickly fire danger has changed with climate change. We're seeing very, very rapid changes in risk factors.

There's a lot to be gained from keeping temperatures down to 1.5 or two. So even though the numbers sound small, there's actually a lot to be gained by doing that.

The other things that this special report identified in terms of the benefits from keeping temperature down were fewer and less severe droughts, fewer floods – quite bizarrely, climate change in places like Australia brings both more droughts and more floods – and also brings higher extreme high temperatures, but also more extreme low temperatures. Our variability increases across our system. We're already the most variable continent in climate terms, and that variability is going to increase as a function of climate change.

We are also concerned about sea level rise. The difference between 1.5 and two, is small by the end of the century, but if you carry that out to multi-century timescales it's several metres' difference between 1.5 and two degrees. Roughly speaking, it's about 10 metres of sea level rise per degree in the long term. So, if you go up half a degree it's five metres. And to put that in context Tuvalu or Kiribati are only three metres above sea level. That's the highest point on those places, so they go under. These are really quite significant changes.

At 1.5 versus two, you halve the water shortages across the globe for people at risk in terms of water; it's halving the exposure to inadequate water. Several hundred million fewer people exposed to climate risk and susceptibility to poverty, particularly in developing countries; that's the tropical and subtropical belts across the globe. Reduced food insecurity because climate change impacts particularly on food production systems and, again, particularly in developing countries. And reductions in impacts on biodiversity, the coral reef and terrestrial ecosystems, the story that I've just told you before.

To translate this to economic benefits, Tom Kompas at the University of Melbourne recently published a spatially disaggregated analysis of global economic impacts, looking at two degrees, which is the Paris target, versus four degrees, which is roughly where we're going at the moment. The analysis is by the end of the century the difference between those two is going to be about $17 trillion a year. We gain $17 trillion a year by keeping temperatures down. That's just straight economics, that doesn't include all of the non-market values associated with coral reef destructions, etc.

There was another study, which looked at what we call the social cost of carbon. That's the cost of the impact in economic terms of releasing a single ton of carbon dioxide into the atmosphere. And the analysis, the mid-range analysis for that, was $US417 a ton spread across the globe.

So, for every ton of carbon dioxide we release, we're causing an impact of $US417, so over $A500, for every ton. Me flying down here cost, whatever, $500 on the plane, but I produced much, much more in terms of global impact through greenhouse gas emissions, because of the social cost – there's more than a ton of fuel that I used to get down here.

These are really big numbers. If you think about the arguments in Australia about a $20 carbon tax, well, if that's what's needed to solve it, $20 versus $417, that's a good deal. You're spending $20 to avoid a $417 cost. These are really basic economic principles about the goal that we're having here in terms of economic development, and how we have economic development which is compatible with the Sustainable Development Goals that every government signed up to.

The governments of the world have signed up to the Sustainable Development Goals. We've got 17 of those goals, one of which is climate change, but a lot of them are focused on poverty, food security, improved health, improved jobs, and improved consumption patterns.

In this report we pulled together the literature, hundreds and hundreds of studies that looked at the trade-offs between achievements of, in this case, energy supply, energy demand and land use, against each of those Sustainable Development Goals.

Just as one example of that, the Sustainable Development Goals which, look at zero hunger, if we look at energy supply, we see that there's a trade-off, which is if we're to reduce our greenhouse gas emissions there are negative impacts in terms of hunger. This occurs because if we are to go down the pathway of bioenergy with carbon capture and storage, we've got trees taking up land that would otherwise grow food. And so that puts people at risk of hunger, so that's the trade-off.

We also have some synergies in terms of zero hunger if we go down a different pathway. If it we design it well, we can have renewable energy that doesn't compete with good land for growing food, for example if it's put in arid areas where you don't grow much food, or on rocky hillsides where you don't grow much food, you can have positives. You can have more energy to process food, and to transport food, and to trade food without impacting on renewable energy consumption.

Broadly what this assessment showed is that we can reduce our greenhouse gas emissions and have synergies with Sustainable Development Goals. The choices that we make, make the difference. We can either go into the trade-offs with the negative impacts, or we can choose options that take us in a positive direction.

There are choices that we can make against every one of these Sustainable Development Goals that wrap climate change, in either positive ways or negative ways. The real importance of these IPCC reports is that it does start to give people information to make those choices more effectively.

There are changes needed to go down that pathway of 1.5 degrees or two degrees. Our current national commitments in Australia and globally are nowhere near adequate. Those emissions reduction goals are nowhere near adequate to take us to 1.5 or two. They're actually more consistent with 3.5 or maybe even four degrees. Our current goals in Australia are 26 to 28 per cent (emissions reduction). We have to go to about 45 per cent by 2030, and we have to go to net zero by 2050 to be consistent with 1.5.

We're nowhere near that at a national level. If we're to do that sort of thing across the nation and across the globe, it's going to require changes in every aspect of society; whether it's food production, or housing systems, or our transport systems, or our waste management systems, all of those things are going to have to be included, because they all produce greenhouse gas emissions; not just marginal change but often transformational change in those different systems.

We're going to need new technologies. We're going to need increased energy efficiency and efficiency in terms of water usage and food usage, etc. There are options in terms of new land uses, so it's the bioenergy story, but also in terms of sustainable agriculture.

Australia are leaders in sustainable agriculture; our farmers, in many cases, are better than any other farmers on earth in terms of making something out of very little. We've got a lot of lessons we can teach other people in other places as to how to have sustainable agriculture, feed the world, and have a lower footprint.

There's really a lot of good news here if we can act on it. We can see this as a real problem, and bury our heads in the sand, or we can see this as an opportunity, and recognise there's new things that we can do that have economic benefit, that have societal benefit.

And again, that's a choice. We can make those choices. And at the moment, Australia isn't making good choices in climate change terms. We tend to avoid the issue rather than grasp the issue and make the opportunities work for us.

In many ways, we are starting to move. If we look at our systems, we are producing less greenhouse gas emissions per dollar GDP. Our cars are getting more efficient, our energy systems are getting more efficient, etc. We are moving in the right direction, and we have got lots of the technologies that are needed to make us move towards carbon neutral. We're just not doing it at the moment. If we are to meet the Paris Agreement targets, we need a lot more ambition, we need to raise the bar and put in place the mechanisms to meet that. That's the policy agenda.

And it's really important, I think, because it's not just about economics, and it's not just about us living here now, it's about ethical and just transitions. And one of the discussions that's happening in Australia is about a just transitions authority.

The opposition are starting to talk about taking the just transitions processes that are happening, for example in brown coal areas in Victoria, and spread them much more broadly, so that we can make these sorts of changes without disadvantaging people who are locked into existing industries, such as the brown coal industry or the other coal industries. Just transition is not just thinking about people in 2030 or 2050, it's also about thinking about people right now, and helping those people get to a better place than they are currently.

We don't want to have change in terms of emissions reduction and climate change that brings unintended consequences, or externalities in the economic sense. We want to understand the consequences of particular change trajectories, so that we can make good decisions, and avoid the really negative impacts. And that's what this agenda's about. It's not about making change for change's sake, and just to avoid climate change, it's about how do we make a better world. How do we make a better Australia? And that's what the agenda, I think, is, and should be.

The faster we act, the more options we keep on the table, and the faster we act, the cheaper it's going to be to reduce greenhouse gas emissions. The longer we keep on doing the same thing, the harder it's going to be to reduce emissions, and the much costlier and much riskier it's going to be to reduce those emissions. This may involve pushing us towards agendas where we have to have massive amounts of negative emissions technology rolled out, Australia-wide type areas of land planted with trees.

The other consideration in terms of just transitions and ethics is that if we don't do this right now, we just shift the burden to future generations: people who haven't got a say in the decisions being made now. That's just unethical to do that. Basic ethics is about giving people who are negatively affected by a decision a say in that decision. There's a huge ethical issue there as well.

I just wanted to finish with an ultra-short summary; trying to summarise those 6000 references and a several-hundred-page report into three lines. Each half a degree matters. That's the story between 1.5 and two degrees. The impacts on coral reefs, etcetera. Every year matters. Every year we delay reducing our emissions just makes the task harder, and more expensive, and risker. Every choice matters. The choices that we can make, we can make really positive choices, or we can make really dumb choices.

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> WOMEN IN LEADERHSIP

> 29 NOVEMBER 2018

> SYDNEY

The leadership shadow: gender equality during a time of backlash

Kathryn Fagg

(then) President, Chief Executive Women

Speaking on her last day as President of Chief Executive Women, Kathryn Fagg reflected on her first-hand experiences of the challenges companies face in achieving gender equality.

Despite the measurable benefits of gender equality in the workplace, Ms Fagg said there remained pockets of resistance with some arguing the push for gender equality has now gone too far, resulting in a backlash against women.

With strong leadership the key to achieving gender equality, Ms Fagg issued a challenge to Australia's leaders to be a strong voice for change and reject the backlash.

Good afternoon everyone. 2018 has been an extraordinary and tumultuous year for gender equality.

Internationally, the issue of sexual harassment took centre stage, whether in the downfall of a Hollywood mogul or in the appointment of a US Supreme Court judge. Millions of women – and many men – came together through #MeToo to share their experiences of harassment and abuse.

In Australia, we saw three high-profile cases of women not wanting their alleged assaults made public, only to be forced to speak out and then called liars. Women in our Federal Parliament revealed for the first time the extent of the bullying they face. And just this week, we have seen the ongoing consequences of that. And in the fallout from the Royal Commission into Financial Services, senior women in business were challenged about their legitimacy, while some were portrayed very unfairly in the media.

What are we to make of all this? And what does it mean for us all as we head into 2019? Unfortunately, many of us have heard men say something along the lines of: “Well, we don’t need to worry about that gender stuff anymore”. Perhaps even more worrying, though, is hearing young women when they say: “Is it even worth bothering to aspire to leadership roles – if this is how we will be treated?” Yet, there is reason for hope.

The Economist magazine, not exactly what you’d consider a ‘bleeding heart’, said of #MeToo: “A movement sparked by an alleged rapist could be the most powerful force for equality since women’s suffrage.” It is this growing mainstream recognition that gender equality is positive for society that gives me confidence. And I suspect many of us will have been heartened by the success of women in recent parliamentary elections – whether at a federal by-election or at a state election.

And the good news is that we know what we need to do to improve gender balance – with leadership being the key. Today I want to discuss what the next phase of gender balance in Australian organisations could look like, and the role of leaders in bringing that about.

As a senior female business leader, I have first-hand experience of the challenges companies face – particularly in a world of rapid change and disruption. I know that any organisation will only be successful if it has talented and capable people. And I also know that improved gender balance leads to significant opportunities. In other words, the business case for gender balance is strong. Let me explain.

First, organisations with greater gender balance can draw from a broader range of talent and achieve better long-term business and organisational outcomes. As Warren Buffett once said: "We've seen what can be accomplished when we use 50 per cent of our human capacity. If you visualise what 100 per cent can do, you'll join me as an unbridled optimist…"

Second, research shows that having a diverse workforce provides tangible and measurable benefits. Companies are more profitable, more collaborative and more inclusive when they hire women.

Third, organisations that take steps to improve their gender balance can quickly realise the benefits. CEW sponsor BHP, for example, has committed to a 50/50 gender split at all levels of the organisation by 2025. Why have they made this commitment? Because of better performance. The company has seen improvements in its safety record, produced higher operational results and returned better scores on employee engagement where it has greater diversity.

These sorts of impacts are not one-offs. I speak regularly to both men and women who talk about the improved team dynamics when there is gender balance – whether that means an organisation needs to look at increasing the number of women – or the number of men. And I speak from experience with both.

So, we know that gender balance is good for society and good for organisations. But how do we go about improving it? Although there is no silver bullet, we now know that leadership is fundamental.

To understand what we mean by leadership, Chief Executive Women and Male Champions of Change undertook a collaborative project in 2014 – to define what actions make a difference. Our research was based on the Leadership Shadow framework, developed by Goldman Sachs. This framework says that every leader casts a shadow and their shadow has an effect on the group.

The shadow may be weak or powerful, yet it always exists. It's a reflection of everything the leader does and says. So, it goes without saying that leaders have to lead by example and be aware of the impact they create.

We have come to better understand how leadership impacts corporate culture and the advancement of women leaders in Australia by focusing in a very personal way on a leader's shadow, by looking at:

- what they say
- how they act
- what they prioritise
- what they measure.

So, what did our research tell us? What are the most important things for leaders to do? In terms of what they say, leaders need to be clear about their commitment to improved gender equality. They need to articulate why it is important to the organisation and to them personally.

In terms of how they act, leaders must build a top team that is gender balanced. There is nothing more powerful than having role models, and leaders must be proactive in identifying and sponsoring talented women. And by sponsoring women – we are talking about creating opportunities for talented women – so that they are considered for roles and opportunities.

In terms of what they prioritise, leaders must make sure that there are robust policies around flexibility, and that people use them without risk to their career prospects.

In terms of what they measure, we know that targets work. In fact, it's difficult to imagine achieving any results in organisations without targets. And as we talk about what leaders can do, we must also recognise the environment we are in.

While there is a good deal of support for gender equality, there are some who believe things have gone too far. This resistance takes many forms. We have all experienced it in our organisations. We have read about it and heard it reported in the media. Chances are we've also confronted it at social events. We call it backlash.

And one of the most common issues in this backlash is whether women are being appointed on anything other than merit. At this point, we all need to take a collective deep breath. The concern is misplaced. Men still make up most appointments to leadership positions in Australia today.

In fact, according to the CEW 2018 Senior Executive Census, men make up 77 per cent of ASX200 executive leadership teams. And of the 23 CEOs appointed in the year to August 2018, 19 were men. That's 83 per cent. And in the key roles in executive leadership teams that are most likely to lead to CEO appointments – business unit leaders with profit and loss responsibility and CFOs – only 12 per cent are women. We have a very long way to go so that there are equal opportunities at the top.

To be clear, selecting people consciously on the basis of their abilities and qualities is a good thing. The right question to ask, then, is whether we can appoint on merit and also improve gender balance? And the answer is yes.

BHP and others have shown that it's possible. But it requires proactive leaders who recognise that 'merit' needs to be considered carefully. In fact, without a good deal of effort and rigour, appointing on merit can turn out to be a way to sustain the status quo.

The phenomenon we know as the merit paradox reveals how insidious our unconscious biases can be. It shows that a narrow focus on merit paradoxically results in more biased outcomes. Research has found that gender bias persists in many organisations, and even more so in self-labelled 'meritocracies'.

One study found that the more organisations promoted themselves as meritocracies, the more their managers showed greater bias towards men over equally qualified women. Managers in these organisations tend to believe they are objective and don't examine their biases, resulting in a paradox of meritocracy. So, how do we avoid the merit paradox. How do we appoint on merit and also improve gender balance? As always with change, the key is leadership.

First, leaders need a very considered understanding of merit. We need to think of merit as the abilities and qualities required for not only the specific role, but also the broader workplace. The overarching goal is to select an individual who will help build the most effective team.

I cannot stress this enough. When we are appointing to a role, we need to think about putting together the best team. And just like in a sporting team – you are not looking to put together a team of people who have the same strengths. And merit means recognising that what's needed for the future of the organisation may be different from the past.

Second, leaders need to make sure that selection processes are fair for both women and men. You may know of the 'Heidi vs Howard' case study which showed negative bias in play and what women are up against. Simply changing the name on an otherwise identical resume led assessors to judge female job applicants more negatively than males.

During the selection process itself we need to ask ourselves:

- Who is running the process and how will it be run?
- Have the role requirements been examined to remove any inherent biases?
- If using a recruitment firm, have they been asked for gender diversity in the candidates to be interviewed and shortlisted?
- If using a panel interview, is the panel gender balanced?
- Do you openly discuss possible biases with your leadership team, and ways these biases may be minimised?
- Are you ensuring that senior leaders are not hiring based on their gut feeling?

Some may claim the problem is that there are not enough meritorious women to select from. I'd suggest that those people are not looking hard enough. Women now earn the majority of undergraduate degrees in Australia – and have done so for quite a number of years. When organisations go out to find talented female recruits, they are often surprised at the calibre of women available.

It also helps, of course, if organisations build their own pipeline of talented women to draw on. How do you do that? You make sure that you are recruiting women, developing them, promoting them and retaining them in line with their male peers.

CEW Sponsor, Lendlease, for example, has done a great job of growing the talent pool of women in the finance function. Another CEW sponsor, KPMG created a sponsorship program to improve gender diversity at the partner level.

As leaders, we all need to identify and sponsor talented, high potential women. We also need to ensure that workplaces are attractive for women to want to work there. We must address issues such as lack of flexibility, bullying and sexual harassment.

If your organisation struggles to keep diverse recruits, the problem may be one of culture and work practices, not employees. It is telling that when women are asked why they don't believe they will have the same opportunities as their male colleagues, 80 per cent of them say it is due to their style not being valued, and only 20 per cent say it is due to competing priorities, such as childcare.

Embracing a diverse workforce means embracing change. This might mean more flexible work arrangements for both men and women. I well remember with enormous appreciation my colleagues who set the rule of no meetings outside of 9 to 5 when I returned from maternity leave. And of course, my male colleagues found it made an enormous difference to their quality of life as well. You can't just employ women, and not change anything else in the organisation, and expect to retain them.

Today is my last day as CEW President. I want to take this opportunity to challenge Australia's leaders. I'd like you to think about the shadow you cast around gender equality. I'd like you to think about what you say, what you do, how you prioritise and what you measure. Because, as leaders, we have a big impact.

We set policies. We make decisions about who to hire and fire. We make decisions about what to pay. We make decisions on promotions. And we know that gender equality is good for business and for our organisations.

So, be a powerful voice for change – and a strong voice against the backlash. Take personal action to improve gender balance in your organisations and in society. Encourage young men and women. Give them confidence they will thrive in a world of greater equality. Let them know that there are people like you who are working to bring about change.

Let's make a difference and see what Australia can achieve when we use 100 per cent of our human capital, not half.

Thank you.

Acknowledgements

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