

Enhancing Australia's Prosperity

21 November 2016



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Acknowledgements

Distinguished guests.

Ladies and gentlemen.

I would like to acknowledge the traditional owners of the land on which we are gathered – the Ngunnawal people.

I would like to thank the Australian Institute of International Affairs for inviting me to speak this morning.

We have experienced some seismic international events over the last 12 months with the Brexit decision and the United States election.

And those events have raised questions here in Australia.

People are legitimately asking is Australia next?

My fundamental proposition this morning is that we don't have the antecedents of what led to Brexit and the election of Donald Trump.

But, and it's a very important but, we need to guard against forces that could create such an environment.

We need to protect and improve the factors that have driven our living standards and our social cohesion.

Is Australia next?

In explaining my proposition I want to start with some observations about the recent events in the United Kingdom and the United States.

There is no unequivocal answer about the complex forces that led to Brexit and Donald Trump's election as US President.

But I think, at the core of both decisions was a rejection of the establishment and a failure to make the middle class and low income earners better off.

And, to make them feel better off.

And by establishment I mean politicians, major political parties, big business, the media and the commentariat.

I think some of the votes were in anger, and some in protest. And the outcome of both events reflect deeply divided nations, more so in the case of the United States.

My thesis is that one of the biggest drivers of the divide in these nations is the lack of a sense of shared prosperity.

There have been some suggestions that our own unexpected election result with the shift to minor parties suggests we are going down the Brexit and Trump path.

I can see why commentators argue that, but I think there are tremendous risks of overstatement and like-for-like comparison.

Because I believe that Australia is a very different country to the United States or the United Kingdom.

Differences that do not create the same environment for the trends we have seen in other parts of the world.

Different value systems

Let me spell out the differences.

The United Kingdom has a long history of aristocracy and subsequent class hierarchy, and colonialism that contributes to the nation it is today.

That history was never going to make it a good fit with the European Union.

The United States, like Australia, benefits from being a young nation.

And young nations need to forge their identity.

As David Hackett Fischer discusses in *Fairness and Freedom*, the United States defined itself around freedom.

The platform from which our young nation built itself was fairness.

But from its very beginnings, the United States has been a deeply divided nation.

The United States civil war reflected this division.

The closest Australia has come to major civil unrest was the Eureka Stockade in 1854, and the Great Strikes in the shearing and maritime industries in 1891 and 1894.

The civil war ended slavery in the United States, but it left a chasm.

It left a class of citizen that continues to this day to face ingrained discrimination. And it also left a relatively impoverished South.

In contrast, the Great Strikes left our yet to be federated nation with a choice.

How would we define ourselves? Would we adopt our English heritage of a hierarchical class structure, or abandon it and recognise workers?

Our country chose the latter and it defined itself by fairness.

One of the first debates in the Australian Parliament was about establishing an arbitration court for workplace relations.

As a result the first Australian award with a minimum wage was established in 1906.

That first award and minimum wage, were about establishing rights for workers. It was part of the fairness that Australia became known for.

The divides in the United States, be they racial, geographical, or economic, make for a very complex set of social divisions and are the antecedents of a substantial backlash against the establishment.

Australia has a very different society. While we have largely failed Indigenous Australians, and have pockets of entrenched disadvantage, and some worrying trends in inequality ...

we do not have the same deeply entrenched and pervasive divisions as the United States.

So it is my contention that Australia has a different value system and societal structure to both the United States and the United Kingdom – which, if nurtured, will be our greatest protection.

Values in action

Social services

This value system is reflected in both our social services and our safety net, particularly compared to the United States.

We have access to universal health care in Medicare.

The details of how we manage Medicare and how to make our health system sustainable are hotly debated.

But there is no debate in our community or within our political parties about the removal of universal health care.

It is, and I predict will remain, a centrepiece of Australian social policy.

We have a mass education system. One that now extends into higher education.

In my view, education and all the things that flow from it, creates the single biggest platform to reduce inequality.

And access to education has been fundamental to maintaining the values of fairness and opportunity for all Australians.

It has been a centrepiece of social and intergenerational mobility.

And this shows in the statistics.

A generation ago, in the early 1980s, most people didn't finish high school, and less than 20 per cent of people got a tertiary qualification.

Today, about 85 per cent of young people finish Year 12, and more than half of Australian adults have tertiary qualifications.

Our newest initiative, the National Disability Insurance Scheme, is another example of our society putting in place a substantial structural safety net.

The NDIS has big design, implementation and funding issues to be sorted out. And they must be fixed if it's to be sustainable.

But, the Australian community has backed this as an essential part of our social infrastructure.

In so many aspects of Australian life, there is a sense of protecting vulnerable people. The old age pension, the unemployment benefit, the disability pension itself.

And while I'd be the first person to suggest they all need some modernisation, when they are under threat the community pushes back very hard.

So in the 2014 budget, when the whole idea of the unemployment safety net was thrown up in the air (even though the budget itself was heading in the right direction), I and many people questioned the fairness of leaving people without an income for six months.

Shared economic growth

Australia is also unique in recent economic history.

As a result of committed reforming governments in the 1980s and 1990s, and our mining boom, Australia has experienced 25 consecutive years of economic growth.

And our values are reflected in the fact that growth has largely been shared across the country.

The average Australian's real income per capita has doubled over the last 40 years.

And when you look at Australia compared to other countries in the OECD, the growth rate for the poorest households in Australia exceeded that of the highest-income households in most OECD countries.

And to stress again: while not every Australian has experienced that growth equally, and we do have pockets of entrenched disadvantage...

... we can be very sure that the vast majority of Australians have benefited from that growth.

This is in stark contrast to the United States.

While median US incomes are gradually returning to pre-Global Financial Crisis levels, the growth is primarily at the top.

The top one per cent of income earners in the United States captured 85 per cent of the growth between 2009 and 2013.

The Global Financial Crisis caused immense hardship for middle and lower-income earners, particularly in the United States and Europe.

And many victims in the US felt the people who created the GFC were not held to account for their actions.

They felt the establishment destroyed their lives, stole their homes, but continued to live a privileged existence.

So taking all of this into account, do I think Australia is next?

As I said in my introduction, I don't think we have the antecedents to be next.

But if we're complacent or arrogant to the forces around the world and the sentiments of our citizens...

... we risk undermining some elements of tolerance, cohesion and the social compact.

Lessons to learn

So, what are the specific lessons we need to learn? What do we need to protect?

I think there are two things we need to focus on.

The first is we need to listen to citizens. We need to listen to where the discontent is, why the discontent exists, and ensure our institutions can respond.

But most importantly, we need to protect our capacity to grow. And we need to continue to ensure that everyone enjoys the dividends of growth.

And that growth improves people's quality of life, their sense of fulfilment and purpose, protects their choices, and offers opportunity.

Maintaining growth

Australia's recent economic history is unique. And that comes down to growth.

Growth is about rising real incomes per person. That is, on average, an individual's purchasing power increases.

And let's be very clear – that is what has happened in Australia over our 25 years of consecutive growth.

Our businesses drove growth through investment and innovation.

That's how we got technological advances that brought costs down.

Opening our economy to trade across the world encouraged competition and delivered greater consumer choice and lower prices.

Our careful management of migration and settlement has been a point of difference compared to many other countries.

Opening our door to skilled migrants brought new ideas and a more productive labour market.

The combination of these factors is how the average Australian's real income per capita has doubled over the last forty years.

But growth isn't just limited to the social infrastructure and rising incomes, it's also part of our daily lives.

The life expectancy of Australians is one of the highest in the world, and only behind Japan, Switzerland and Singapore.

And, thanks to medical advances and the economic growth that pays for medical care, our longer lives are also healthier.

For example, the mortality rate for cancer has fallen significantly.

If I think about the way we live, some necessities are more affordable and more accessible.

For example, the cost of a washing machine halved between 1984 and 2009. And the amount we spend on fridges and freezers has dropped by 25 per cent.

That's not to deny that some people feel cost of living pressures.

And moving beyond necessities, growth has meant we have a much greater rate of affluence than 50 years ago. Take family holidays, take transport, take spending on discretionary items.

And this is what growth looks like. That is what being better off looks like:

- a safety net
- people with increased spending power, including for non-necessities
- a population that is educated, and
- a population that has more choices than ever before.

Now I want to be very clear here again.

Again, I'm not for a minute suggesting there isn't poverty, there aren't inequality problems and there aren't pockets of entrenched disadvantage in Australia.

There are obviously some Australians facing severe economic hardship, and my intent is not to dismiss them.

But growth has given us social infrastructure, a safety net, and it's given many people greater affluence.

And growth, and the prosperity that flows from it, is what we need to protect.

Listening to citizens

Despite the enormous benefits of growth, there is a growing sentiment questioning the value of it.

This is reflected in the questioning of globalisation, migration, innovation and the value and virtues of technology.

Questioning of the very things that have driven our growth.

Because despite the increase in living standards and affluence, people don't feel better off.

And there's no point quoting statistics at people to convince them they're better off.

Instead we need to listen to this new sentiment with empathy and understanding. Not arrogance, blame and denigration.

So why are they dissatisfied? Let's go back to what people are saying.

They say they're worried about jobs and the future of industries in their communities.

They're worried about immigration and refugees.

They're worried about their local school not being good enough for their kids.

They're worried about not being able to buy a house. And they're even more worried about their kids not being able to buy a house.

They're worried about congestion and crowded public transport.

They see population growth happening without an improvement in the infrastructure, and are concerned about the impact on their quality of life.

They worry about terms like innovation because they feel this means my job will go.

They worry about terms like productivity because they feel this means someone wants me to work harder for less money.

While these concerns are real, I think they are primarily a response to the massive disruption we are experiencing.

People have always been perturbed by societal disruption, and this is nothing new.

But, in this fast-paced world where people feel like they have no time to do anything, or influence in their local community...

... they feel a loss of control.

And in our western democracies, when people feel less control, they look to their leaders and institutions for comfort.

And one of our challenges right now is that people aren't getting that comfort because they've lost faith in our institutions.

They've lost faith in government, organised religions, business, and our modern democratic societies.

They don't believe that institutions are capable of managing these forces in a way that benefits everyone.

I said earlier we are not divided in the same way as the United States and the United Kingdom.

But we are starting to see the substantial rise of minor parties on both sides of the political spectrum, and the rise of populist policies.

Close to 25 per cent of Australians didn't vote for either major party in the recent election.

And this drift from mainstream politics cuts across multiple groups.

It's people in regional and urban areas. It's people on low and high incomes.

It's the left, the right, and the centre.

People think governments have run out of ideas and credibility.

And they have certainly run out of money and can no longer throw it around to solve problems.

Throughout history, organised religion has provided a moral compass and comfort to many people.

But some organised religions have failed their members. While people may maintain their faith, their trust in the organisation has been eroded.

Turning to big business, we are not exempt from creating this distrust with institutions.

There is a loss of faith in business that was cemented by the behaviours in some firms that led to the Global Financial Crisis.

The economic hardship caused by the Global Financial Crisis has been outweighed tenfold by the loss of trust.

And we cannot walk away from the fact that continued reputation problems erode trust in business.

So, this combination of people feeling worse off, and having low trust in the institutions and the tools of economic growth, is the essential dilemma we are now facing.

The very things that will preserve our prosperity:

- the strength of our institutions
- driving increased productivity, which we know increases wages
- making the economy more innovation capable, which we know increases productivity

...are the things people are questioning and don't believe in.

And my fear for the country is that if we walk away from the very things that have protected us, we'll actually fail the people who need us the most.

New mindset

So, how do we counter this?

We need a new mindset and approach to leadership, across our institutions.

Mindset

The first mindset shift we need is to a global mindset.

And a truly global mindset is telling the truth about the futility of trying to protect jobs and industries in a global marketplace.

A global mindset knows you have to open up, not shut down trade.

A global mindset knows that forging strong cultural and diplomatic relations remains the best foundation for economic relationships.

The second is a digital mindset.

And I don't mean using digital to do business as usual.

I mean using digital capability to produce goods and services in a new and different way. Seeing that services and products are digital.

The third mindset shift is to focus on skills and capabilities as they will become as important as goods and services.

They will be the greatest protection from the disruption underway.

Mindset shifts are important, because old mindsets won't get us through this disruption.

Mindsets that start with protectionism and isolation will be our undoing.

Leadership

We also need a new approach to leadership.

Our leaders need to be grounded in a deep understanding of what is going on in the world, and how people feel about it.

Leaders need to show people how technological change leads to progress, give them a sense of vision and purpose, and step them through how we are going to respond to it.

And our leaders today need to show that they remain committed to the Australian values of fairness for all.

As Franklin D Roosevelt said, the test of progress, 'is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have little.'

Our leaders' greatest strengths should be the values of citizenship - honesty, compassion, respect, responsibility, and courage.

And, critically, they need intellect, empathy and aspiration.

So we know that when our leaders in business, government and the community are making decisions on our behalf, they are guided by a clear organising framework.

One that is not built on false promises that we never have to change, and change has no consequence.

Because making that kind of promise is a great unfairness.

Instead, an organising framework that is committed to delivering prosperity for all, and has people and fairness at its heart.

That is how we build confidence, and that is how we earn trust.

Building prosperity

I've talked a lot about growth and prosperity, and I want to talk briefly about the recipe for this.

And that recipe for prosperity is simple to describe, albeit not simple to achieve.

Successful businesses are, in the main, at the core of our formula for prosperity.

Successful businesses that invest and innovate to drive economic growth.

Growth which in turn leads to more jobs, ones that are better and higher-paying.

More and higher-paying jobs also mean an increased capacity for government to achieve social goals.

Our political leaders will be challenged by this recipe.

With people feeling a loss of control, the temptation will be to pursue a set of policies that seem, on the surface, to give control back.

And that naturally leads us to an agenda of the protectionist, anti-business and populist policy directions we're seeing around the world.

Instead, I urge our political, business and community leaders to return to the simple recipe of prosperity.

I urge them to stay the course of what has and what will protect us.

And we should collectively urge them to really think about short-term populist and anti-business mindsets.

And to be honest about the consequences of pursuing the alternative course.

Be honest about who will be the victims of that – not the affluent, not the people sitting around boardroom tables, not the people with multiple choices.

It will be the middle class and low income earners, it will be the poorest people, the people with minimal choices.

The policy architecture that will always be our best defence is the one that has given us our 25 years of growth:

- incentives to drive more globally competitive businesses so they can continue to deliver 80 per cent of economic output

- building a world class education and skills system so people are resilient to global forces of change
- driving flexibility and creativity in our workplaces so we improve productivity and have better jobs and higher wages, and
- building stronger budgets so we are a country capable of caring more for our citizens each and every year.

Conclusion

I, and all you, have been the beneficiaries, of a society built on growth, prosperity in all of its forms, and a social compact of fairness.

I don't believe we will head down the path of the United States. But I also don't believe we can afford to risk it.

Because that would require fundamentally renegotiating that social compact.

And that would be a lot harder than preserving it.

Thank you.