

## Australia Day Speech

26<sup>th</sup> January 2016

Parliament House, Melbourne

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### Introduction

Australia Day is an opportunity to celebrate our national story, to reflect on the people and events that have shaped our nation and to consider how our shared future might unfold.

And what a story it is!

In *Following the Equator* published in 1897, the American author, Mark Twain, wrote that:

*Australian history ... is full of surprises, and adventures, and incongruities, and contradictions, and incredibilities; but they are all true, they all happened.*

I'm an economist, not an historian, let alone a journalist, so you'll understand why I focus my remarks today on Australia's *economic* history and prospects. In doing so, I take comfort from the words of that doyen of Australian economists, Sir Douglas Copland, who once remarked that, "Australian history is, of course, largely economic history".

Unlike our political history, Australia's economic history doesn't begin in 1788. Aboriginal Australians were solving basic economic problems, like what to produce and how to produce it, long before the arrival of Europeans.

Indeed, evidence suggests that the Aborigines living around Port Jackson in 1788 were better nourished than the British soldiers and convicts who arrived on the First Fleet.

What's more, this continued to be true for some time until competition for limited food supplies and introduced diseases, not to mention interracial violence, took their toll on the lives of the local Aborigines.

So on Australia Day, it seems more than usually appropriate to acknowledge the traditional inhabitants and custodians of this great land—in our case the Wurundjeri people of the Kulin nation—and to pay our respects to their elders, past and present.

I would also like to thank Australian Unity and, in particular, Chairman Glenn Barnes, for inviting me to give this year's Australia Day Address.

My wife, Roslyn, and I have attended a goodly number of these breakfasts over the years and heard some wonderful speakers. I have no excuse for not knowing the standard you have come to expect.

This year, my father, Ted, and brother, Greg, are also in the audience. You can imagine the "helpful feedback" I'll get from those quarters if I fail to bring this off!

Australian Unity has a proud history of celebrating Australia's unique national identity, through its support of the federation movement in the late 19<sup>th</sup> century, and campaigning for the 26<sup>th</sup> of January to be established as Australia's national day.

Australian Unity continues to serve our country through the range of services provided to its members and as an advocate for reform and social progress across the nation.

### **Starting from scratch**

As everyone knows, Aboriginal people had lived in this country for a very long time—something like forty to sixty thousand years—before the arrival of the British First Fleet in Sydney Cove in 1788.

The Aborigines might not have settled the land in a European sense but it was their home and they knew how to make a living here.

The British settlers, on the other hand, nearly starved to death in the early months of 1790, when a promised shipment of food from the Cape Colony was overdue. In fact, the settlement relied on imported food to supplement its meagre supplies until the early years of the 19<sup>th</sup> century.

The first serious attempt to farm the land came with the grant of acreage near Rose Hill (modern-day Parramatta) to the emancipated convict, James Ruse, in 1789. He sowed wheat and raised the first successful crop ever reaped in Australia.

With the crossing of the Blue Mountains in 1813 and the discovery of the vast tracts of arable land that lay beyond, the basis of an agricultural surplus for export was established.

Yet it was not to be exports of foodstuffs (mainly cereals and salted meat) until much later. Australia's first export commodities were sealskins and whale oil.

### **Wool, gold and wheat—our first commodity booms**

As the urgency of food production diminished, the focus shifted from agriculture to pastoral uses of the land.

The costs of raising sheep in Australia were lower than those in Britain and Europe, not least because the land was acquired for little or nothing in the early years. Local conditions were also ideally suited to wool-growing.

The Australian wool industry grew rapidly from humble beginnings. By 1840, Australia had eclipsed Germany as the world's largest producer and exporter of wool. This meteoric rise reflected the strength of demand as much as the relatively low cost of supply.

Like our most recent mining boom, which flowed from the rapid industrialisation of China, our wool industry boomed in the wake of the Industrial Revolution in Europe, especially the mechanisation of textile manufacture in Great Britain.

Notwithstanding the high cost of transporting wool, first to the Australian coast by bullock dray and then on to England, woolgrowers could still make a handsome return on their investment, given the prices paid by the mills and the low cost of acquiring land.

Lovers of Charles Dickens' novels will remember that the convict, Magwitch, makes his fortune in Australia. And the hapless Mr Micawber finally faces down his creditors as the financially solvent mayor of an Australian city. In Victorian times, Australia was seen as something of an *El Dorado*.

Wool was high in value compared with its bulk, which enabled woolgrowers to surmount the 'tyranny of distance', a factor that has dogged the development of heavy export industry throughout our history.

After 1851, wool was joined by gold as Australia's second major export commodity. Between 1851 and 1861, one-third of the world's gold was

mined right here in Victoria. No wonder we have such magnificent public buildings—including this one—dating from those glorious days.

Gold rushes continued into the 19<sup>th</sup> century as lucky prospectors struck pay dirt, first in Queensland in the 1860s and later in Western Australia in the 1880s.

The economic success of gold, like that of wool, owed as much to the forces of demand as supply.

On the supply side, Australian gold was mostly alluvial and therefore extracted at relatively low cost compared with gold located in deep underground reefs as in South Africa; and on the demand side, gold fetched a good price because it was the monetary standard in domestic as well as international trade.

The second half of the 19<sup>th</sup> century saw the further development of Australia's grain industry, especially wheat-growing. Like wool, wheat (and gold, for that matter) is a commodity whose market value is high in relation to its bulk, making it economic to transport over long distances.

### **Tensions rising**

Thanks to the enormous productivity of our three major export industries—wool, minerals and grains—Australia had become the richest country on earth by the 1880s, measured in terms of income per head.

The output of these great industries drew mostly on the input of land rather than labour or capital. Furthermore, because it was so plentiful, land was cheap relative to labour and capital.

As economics teaches us, where resources are scarce, prices are high—and so the wages paid to workers and the profits earned by suppliers of capital were generous, at least in the great land-intensive pastoral, mining and agricultural industries.

Taken together with Australia's small population (which by 1900 was still only 3½ million), the wealth generated by our great rural industries guaranteed us levels of per capita income matched only by New Zealand, a country that also rode to riches 'on the sheep's back'.

Yet latent tensions between the economic and social dimensions of Australia's development began to emerge towards the end of the 19<sup>th</sup> century.

Workers employed in Australia's comparatively less productive, city-based manufacturing industries were significantly underpaid compared with their counterparts in primary industry.

The gap between the high wages paid to country workers and the low wages paid to city workers might have been less of a problem had Australia's population been steady rather than growing strongly, primarily through immigration.

Australian governments had long feared invasion by a hostile foreign power and, as a result, were actively growing colonial populations. 'Populate or perish' was the mantra.

But where would these new arrivals find work? Australia's primary industries were not labour-intensive and hence produced very few, albeit well-paid, jobs—and many of these were often seasonal, like shearing.

Secondary industry was far less productive, given the small production runs needed to supply the local market, and uncompetitive internationally for much the same reason.

So secondary industry—those textile, clothing and footwear factories, iron foundries, breweries and the like of Carlton, Collingwood and Fitzroy—these would provide many of the jobs sought by new arrivals.

But the jobs would be low paid. Indeed, it was not long before city workers began to drift into the countryside in search of higher-paying jobs. The iconic image of the Australian swagman is emblematic of this drift.

Unlike the British and European experience of rural workers migrating to the new factory towns, in Australia the reverse occurred—the Aussie worker packed his billy can and humped his swag from the city to the country in search of better wages and more secure work.

Competition for rural jobs from lower-paid city workers sparked industrial trouble. The 1890s witnessed a series of crippling strikes in key primary (or

closely related) industries, namely, wool-growing, mining and stevedoring. The strikes were ruthlessly put down by the authorities acting in support of employers, which left a bitter taste in the mouths of workers across the country.

### **The Harvester Judgment and tariff protection**

The workers responded by organising themselves politically and the Australian Labor Party was born, one of the world's oldest political organisations.

The first federal ALP Government, led by then Prime Minister Chris Watson, introduced legislation to establish a Commonwealth Court of Conciliation and Arbitration in 1904. Henceforth disputes over appropriate wage levels would be determined by a court and not subject to the vagaries of the free market.

In perhaps its best-known judgment, the famous *Harvester Judgment* of 1907, the Court introduced the concept of the 'basic wage', an amount considered sufficient to meet 'the normal needs of the average employee regarded as a human being living in a civilised community'.

In 1907, that amount was set at seven shillings per day or 42 shillings per week. (That's about \$300 for a six-day week in today's money. Note that the minimum wage is currently set at \$656.90 for a 38-hour week. Real wages have risen substantially over the last century!)

Under the new arrangements, wages in Australia were to be determined primarily by fairness or 'comparative wage justice' rather than the underlying productivity of labour.

It was recognised early on that setting wages in this way would compromise the international competitiveness of Australian industry, most especially manufacturing. Imports of cheaper manufactured goods from countries without such generous wage-setting arrangements would undercut Australian manufacturing unless the price differential was eliminated.

Australia's extensive regime of import tariffs was instigated in 1908 to protect local manufacturers, and the jobs they created, from cheaper imports. This allowed them to pay the 'fair and reasonable' wages

determined by the Court. The Sunshine Harvester Company, for instance, faced a 40 per cent hike in its wages bill following the *Harvester Judgment*.

### **Australia's terms of trade and living standards**

Tariff protection essentially taxed Australia's super-competitive primary industries to subsidise the wages we chose to pay workers in our far less competitive secondary industries.

This arrangement may have been sustainable, although costly, had it not been for a steady, long-term decline in the prices of Australia's commodity exports relative to the prices of our imports, largely manufactured goods.

Slowly but surely the bounty generated by our great primary industries leached away, eroding the source of the subsidy to secondary industry that we needed to create jobs.

As the 'terms of trade' declined, Australia's relative living standards fell along with them. From top of the heap in 1880, Australia's income per head had fallen to 21<sup>st</sup> place a century later in 1980—not absolutely poor by any means but poorer relative to countries we like to compare ourselves with.

The first policy response to these changed external circumstances came in 1973 with the famous 25 per cent tariff cut instigated by the Whitlam Government. There followed a further decade of indifferent economic performance until the impetus for policy reform stepped up markedly with the Hawke-Keating ascendancy during the 1980s and into the 1990s.

At last there was a recognition that Australia's fortunes could no longer be secured from trading exclusively on our remarkable cost advantage in commodities. We had to become more productive, that is, more competitive, in a wider range of industries, including manufacturing and increasingly also services.

Rising productivity could square the economic circle for Australia—helping us to restore competitiveness to our export and import-competing industries, while continuing to pay high wages and enjoy rising relative living standards—or, in the words of our current Prime Minister, Malcolm Turnbull, to remain “a high wage, generous social welfare net, first world economy”.

Fortunately for all of us, the change in direction of Australia's most fundamental economic policies worked. By the end of the first decade of the 21<sup>st</sup> century, Australia had risen five places to number 16 in the per capita income stakes and stood one place higher still, at number 15, in 2014.

Of course, not all of this reversal in our fortunes was the result of changes in domestic economic policy. Over the past decade or so, the China boom reversed the long-term decline in our terms of trade quite dramatically, sweeping up Australia's living standards in its wake.

Truth be told, the sharp rise in our terms of trade masked the falling away of our productivity growth since the turn of the 21<sup>st</sup> century, as the momentum of reform from the 1980s and 90s wound down.

Now that the boom has peaked, Australia's living standards are once again falling and the lack of a productivity agenda is all too evident. As Warren Buffett is often quoted as having said, "It's when the tide goes out that you discover who's been swimming naked!"

### **Where to next?**

Reviving productivity growth is now a priority for Australia's economic policymakers. The review of competition policy I recently chaired for the Australian Government produced 56 recommendations on how to release the genie of competition to drive greater efficiency and spur innovation, both of which underpin improvements in productivity and living standards over time.

My fellow review panellists and I were gratified when the Government announced its acceptance recently of 39 of our recommendations outright, a further five in part and its openness to the remaining twelve.

Since then the Government has released its innovation statement with a series of further initiatives designed to stimulate innovation as a driver of productivity. This year we can expect further reports into the Australian taxation system and, most fundamentally, our system of federation.

The signs are very encouraging that the Government has once again taken up the reform mantle. Of course, reform is disruptive, and disruption is



unsettling, even painful. But the Prime Minister is right when he says, “Disruption is our friend; we should embrace disruption”.

Disruption will re-establish us on a path of rising living standards.

How can I be so sure? We have form, as I noted earlier. The reforms of the 1980s and 90s—including the first round of competition policy reforms following the Hilmer review in 1992—reversed the fall in Australia’s relative living standards.

The Hilmer reforms alone delivered a year’s worth of economic growth according to the Productivity Commission. We can be confident that a new round of reform would deliver at least as handsomely as the last.

And this time we have technological tailwinds to speed us on our way. The digital revolution is transforming the way we live our lives. The advent of smartphones has unlocked whole new ways of doing business, using the internet to build digital platforms where buyers and sellers can engage.

These new business models are challenging existing suppliers—from taxis to hotels and banks—as well as regulators and governments. But they hold out the promise of faster, cheaper, better ways of meeting our everyday needs.

This is what productivity growth looks like on the ground, and it is the very stuff of rising living standards. This time around reform doesn’t need to create new opportunities so much as to oblige us to stand aside and let new things happen.

And here there is a generational challenge. Younger Australians not only want new ways of hitching a ride and renting short-term accommodation; they trust arrangements that make many of us older people blanch.

Are these youngsters just naive or what? Where will they turn when their apartment is trashed or a peer-to-peer lender reneges and they lose their money? Yes, some of the problems are all too familiar but the solutions will be different this time. They’ll have to be.

It’ll be an interesting and at times confronting ride but then “disruption is our friend; we should welcome disruption”. It might even be “the most exciting time to be an Australian”!

## Back to the future

In a survey of Australia's economic prospects some years back, the *Economist* magazine famously quipped that Australia has a history of managing adversity well but managing prosperity poorly.

As it happens, this epigram was coined before the most recent mining boom. But the authors seem to have uncanny insight into our national character. Who could conclude anything but that we've wasted yet another commodity price boom, lived well off the proceeds and now face the difficult task of adjusting to life at a less exuberant pace?

Of course, the good news is that we manage adversity well. I guess we can see this process getting under way with a raft of reforms in the wings that I mentioned earlier. But we need to get on with the job. We need to allow the mills of economic policy reform to grind.

People often ask me if I'm confident about the future of this country. Older Australians especially seem to worry that younger generations won't live as prosperously as they have.

I think you've heard enough from me this morning to guess my answer to that question. I wholeheartedly share our Prime Minister's optimism, if not his pithy turn of phrase.

The opportunities before us are innumerable, immense and exciting. My colleagues at Deloitte Access Economics calculated some years back that the potential growth in just five of our industries—agribusiness, tourism, gas, international education and wealth management—could generate a surge in exports to rival that from the most recent mining boom.

Then there are Australia's cities, which are among some of the most liveable and attractive in the world, including our own 'marvellous Melbourne'. These will become powerhouses of economic growth in the 'knowledge economy', fuelled by digital technology and a rediscovery of the potential of place to drive prosperity.

And this is before we consider the growth-enhancing potential of reforms to competition policy, innovation, taxation and the structure of Australia's federation.

Mark Twain thought Australian history so full of surprises and adventures that it reads “like the most beautiful lies”; and yet “they are all true, they all happened”.

As we celebrate Australia Day 2016, let’s embrace the future, with all its surprises, adventures, incongruities, contradictions and incredibilities. After all, it can be no stranger than our past; and look how far we’ve come!

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*Ladies and Gentlemen, can I invite you now to charge your glasses and be upstanding, and join me in a toast to this magnificent country of ours—to Australia!*