

State of the Nation

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Address to CEDA, Canberra, 14/06/07

Thank you very much, it's a delight to be participating once again in a CEDA function. It is particularly a delight that you'll be able to be in Canberra at a very high tone stage at our national political debate. No doubt, you all have taken the opportunity to enhance your understanding of the ins and outs of the electoral act over the last couple of days. The question of whether the Prime Minister's use of Kirribilli House for fund raising purposes or alleged fund raising purposes, breaches the electoral act has been advanced on one side and of course on the other side the question of whether the ACTU is in some form breached the electoral act by use of electoral role data or personal data for campaign purposes, has also got a bit of a run.

Public debate over the last couple of days has really been at a high level, kind of detailed policy analysis about the future of the nation. So no doubt you've taken some time to absorb all of these issues and form your own views about which of us is best positioned to take charge of the nation's future at the forth coming election.

Now it's perhaps been an appropriate time for my one big contribution to the political sayings list, which you may have seen Matt Price in the Australian did a run from time to time. I'm still working on my second big saying, we all aspire to be Winston Churchill in this game and leave a long list of quotations that people recite endlessly. I've managed one so far, I'm still working on the second, but my first achievement was to come up with the line, that in politics everybody exaggerates everything all of the time. I think the last couple of days have demonstrated yet again that I'm right and no doubt at the end of my contribution this evening you'll probably conclude again that I'm right once again, but I'll try and be suitably restrained in my observations.

Now if you want to assess the performance of a government, any government, I think there is a reasonably straightforward test that you can apply. Obviously we all have our political bias, some are strong, some not so strong, but we all have our values, our orientations. But if you want to set those aside and just assess how serious, how fair dinkum a particular government is, I think there is a reasonably good test and that is to ask yourself, as you look across the landscape of what they're doing, what they're on about, all the different programs and initiatives and ask to what extent do these reflect a genuine attempt to advance the national interest or the community interest as they see it. As opposed to securing their own re-election or rewarding their own supporters. Once you conduct that kind of analysis you get a pretty clear picture of what you're actually dealing with. Most new governments of either side, typically fair reasonably well on this test, longer-term governments don't. As governments tend to run out of ideas, run out of initiatives, they often resort to buying votes, to misuse of government advertising, to rewarding their supporters, to looking after their core support base. and all of the tricks that we tend to sadly associate with politics.

Now it's hardly going to come as a surprise to you that I think that is precisely what is happening to the Howard government. Much as I may have disagreed with them on many issues, if I look back in earlier times I'd have to concede that they were doing quite a lot of things that in their eyes were about advancing the national interest, or more often quite unpopular and often quite difficult. As time has marched on though, the ratio between those kind of things and initiatives that are clearly designed to rescue their political fortunes and to look after their own support base has changed very substantially. And that's why the government is on the defensive. It's on the defensive because it really doesn't have a serious agenda to tackle the crucial medium to long term issues, the challenges that face this nation, like water, climate change, broadband and education. And you can see when you actually put the microscope on some of the things that they are proposing to do in these areas, often very belatedly. You can see how cobbled together last minute belated kind of window dressing they really are and that's essentially because they've been driven to action not by a sense of urgency about the national interest or desire to tackle a longer term national problem, but by electoral pressure. Whether generated by us or the media or the wider community. So from where I sit some of the recent initiatives that they have been so proudly trumpeting are, little more than cynical responses to electoral pressures. In their own terms some of them are okay, some of them are quite good, some of them are nicked from us amazingly enough. But ultimately they're not really serious about what they're doing and therefore it's hard to treat these initiatives seriously.

The mining boom is keeping Australia's economy strong, that's hardly a statement that's going to come as a big surprise to anybody in the room. But underneath our economy is significantly less robust. Productivity has effectively stalled, notwithstanding the extraordinary attack in the parliament today, courtesy of Mr Howard, where he takes the view that one quarters productivity figures can be regarded as an indicator as a long term productivity trends, which is a bit like saying that last week's weather tells you what climate change prospects are going to be.

Productivity has effectively stalled, exports are lagging, and the budget papers predict that the current account deficit is going to spill out again to about six percent in the next financial year. None of us knows when the mineral bonanza is going to end, but the wider medium term threats to Australia's prosperity is quite serious. The stars of our nineteen nineties export diversification are under threat. China's moving up the manufacturing value chain, challenging our prospects as a specialist niche manufacturer, which we shed so much blood for, which we suffered so much pain for during the eighties and nineties and managed significant gains. Manufacturing in this country is a lot more robust than many people will tell you, but none the less, it is under threat because China and other countries are moving up the value chain pretty quickly.

Asian universities are improving and therefore the substantial export market that we developed for high education is under threat because in some of the home markets the quality of the product that students can get there, relative to the quality of product that we can offer and of course price, the gap is narrowing very quickly. Key tourism assets like Kakadu and the Great Barrier Reef are threatened by climate change. Professional service exports are subject to increasing competition and underlying factors like aviation costs are under pressure from fuel prices, congestion, anti terrorism regulation and issues of that kind. So the kind of export diversification that was such an extraordinary achievement of the Hawke-Keating era and really did drive a great diversification of Australia's economic basis in the eighties and nineties, I think generally is under threat. And the fact that we are in the middle of a mining boom shouldn't mask the significance of that threat. And even the stars of the mining boom face challenges. Whatever we do about climate change we have to anticipate that our coal exports are going to be effected by the decisions of others on this issue. When Mr Howard stands up and talks about the coal industry he kind of forgets that there is another half of the equation, which is the purchase and their use of coal as a source of energy is of course a component of the total climate

change equation. Technological change, the discovery of new deposits, global market dynamics there are a whole lot of things that can very quickly change the economic dynamics of commodity industries.

The core question as we as a nation have got to ask on this front is what will we sell to the rest of the world in fifteen years time. What business will we be in, what businesses we'll be in. I like to look at these things in terms of short lists, because in a globalised economy the way things tend to operate is that all of the decision makers, the people who push money around, the people who buy things, the people who advertise things, tend to see things in terms of countries and regions and locations and short lists. So that for particular kinds of economic activity there's this list of three or four countries that's where the action is. So in mining, yeah we are right there up in the top of the list, one or two other areas we are doing quite well, wine for example. But one of our problems as a nation is that we aren't on any short lists, we are struggling down at kind of number fifteen or number twenty on a variety of short lists, but that isn't much of a help. And so there is a core question for us, particularly if the mining boom subsides as all mining booms in the past have. What short list are we going to be on in the globalised economy in ten or fifteen year's time? It's not easy to see a long list of short lists, pardon the, is that a *9:51.6 I think it probably is. Pardon the mixed metaphor *9:56.3 whatever it is. It's not easy to see where that will be, it's not immediately obvious to me, okay fifteen years time is a long way away, but it's the kind of thing that we as a nation and our government should be worrying about at the moment. It's not the role of government to answer the question directly, that's the role of markets, but it is the role of government to perform a very important indirect function. In ensuring that the economic environment delivers the best possible opportunity for export success across a diverse range of export activities. And that's precisely where the Howard government has been for an extended period of time, literally asleep at the wheel. It's been content to cruise on the proceeds of the mining boom and doing very little to prepare Australia for what are likely to be tougher times ahead.

No matter which way you look at them the whole variety of OECD comparative data on skills and education level in our country as compared with other developed nations are frankly scary. We've got an under skilled work force, an underfunded education system and a deeply entrenched dismissive attitude in our community to learning, which sadly we now have a government that panders to and manipulates that mentality. It's not something that's characteristic of the Liberal Party historically, in my view there are two great Australian leaders who more than any other advanced the cause of learning in our country's history, one of theirs, one of ours, Sir Robert Menzies and Goff Whitlam. Sir Robert Menzies fostered a popular culture that ensured that my parents grew up in a world that valued education and valued learning and wanted me as a child to value learning and to aspire to go to university. Goff Whitlam was the person who pushed through the abolition of fees and the initial expansion of tertiary education. It meant that for somebody like me who was a no body from a small country town, the idea that I could go to university was not outlandish, it was feasible, one from each side. Under John Howard it's a very different thing. Bob McMullen who I think is probably the local member for this area, sorry I don't know the boundaries to well in Canberra, but I think he's probably the local member for this particular spot. Got up in the parliament a few weeks ago to ask a question. Now Bob is a serious guy, he's a pretty mild mannered guy, he doesn't get under too many people's skin, as he got up the Prime Minister yelled out, ah, it's the professor, here comes the professor, I couldn't help myself, I yelled back, why do you think professor is a term of denigration, why in your mind is the word professor a term of abuse. There are too many Australians - it is a term of abuse, that's partly the reason why when most OECD countries most comparable countries like the United States, Canada, Western European countries have typically got eighty percent of their workforce aged people with school leaving qualifications or equivalent, we've got sixty percent. That mentality and politicians who pander to it and foster it are partly the reason why we're like that. Ten, twenty years ago it didn't matter too much, we have lots of jobs that you didn't really need many skills to do, technology is gradually squeezing those jobs out of the system and unless we catch up on skills, on learning, we potentially have a pretty serious future. The notation that we are going to have a big future exporting what you might call solidified know how to Asia, embedded in goods and services is eroding

and it's partly eroding because of that skills problem. And if you look at small things like the governments complete lack of interest in stuff like teaching Asian languages you can see there is a systemic problem that we as a nation have got to tackle.

The story of infrastructure is fairly similar, John Howard and Peter Costello are dreadfully agitated about port bottle necks in the coal industry in New South Wales and Queensland, but totally relaxed about the terrible state of broadband in Australia. That's all too high tech and complicated and out there and you now have to say it's twenty second century, because we've made the twenty first century, it use to be the twenty first century but they pushed it off into the twenty second century. Universal high-speed broadband is critical to improving productivity and opening up new exports opportunities, it's also critical to lifting our education performance.

When my twelve year old daughter does her homework, she's in a government school, she's expected to have access to the internet at home and of course the speed which she is able to download things actually kind of effects how long it takes her to do her homework. Now guess what the consequences of not having decent high speed broadband are in the productivity of learning, simple but important. In the nineteen nineties after years, decades, centuries of implicit disadvantage in this country, we suddenly discovered that our time zone was a bit of an advantage. We kind of got out of bed more or less the same time or vaguely similar times to all these people in these countries to the north of us in east Asia who were becoming the new engine of the world economy, a great thing, very helpful in a whole range of ways. We haven't yet worked out though that our time zone has another advantage, paradoxically, which broadband, genuine high-speed broadband can unlock. Many skilled, really seriously skilled services no longer require physical proximity to the primary activity. Editing journals, interpreting x-rays, writing soft ware, designing things.

I visited the Ford plant at Broadmeadows some years ago and they were doing R and D on vehicles that were never going to be sold in Australia because they were intended for the European market. So the communities and technology revolution has opened up a whole range of possibilities that previously didn't exist. Why is our time zone an advantage? Because our ordinary working hours tend to mirror night-time in much of the developed world, in particular UK, Europe, Canada, and the United States. And the kind of people who do these highly specialised activities like diagnosis things on x-rays and design things and whatever, they're typically not that fond of working at three o'clock in the morning and if you want to pay them to work at three o'clock in the morning you've got to pay them an awful lot of money. Therefore this opens up the possibility that in a whole host of these activities we could become in a sense the developed world's night shift, where we have our technologists, our radiologists, our designers working in ordinary working hours in Australia making use of high speed broadband connections to do all these things for people in other countries.

It's already happening, I heard some years ago of examples of people involved in Australia in editing copy for a New York magazine where the journalists and writers would complete the task of writing the copy in their working day. They often would come to Australia and while they're out partying or whatever New York kind of people do, all that stuff in Sex in the City, they weren't sleeping obviously, whatever they do at night, while they're out doing all that, there's Australians working ordinary day time working day, editing their stuff and when they get back into work the next morning, there it all is, all polished up or tarted up and edited and whatever, that stuff is already happening. But in areas like diagnostics for example and many other areas the capacity, the electronic capacity to move data around is obviously fundamental to it. And only recently I heard an example of an Australian radiology company that had big plans to supply diagnostic services to the US on x-rays that was being impeded in its plans by the inadequacy of the broadband that's available.

Now thirdly Australia's response to climate change fits with the same pattern. It's been an extremely languid response, to frankly be generous about it. Mr Howard has moved recently, he's moved from a

position of near overt denial to one of electoral window dressing. But he still doesn't kind of understand how serious the issue is. Our target of a sixty percent reduction in admissions by twenty fifty is based on scientific opinion that suggests that this is the kind of minimum change required globally to prevent the earth from heating up by more than two or three degrees over that period. Mr Howard sees this as a threat to Australian jobs, apparently blithely unaware that if the world doesn't achieve this kind of target the effect on our economy by that stage could be devastating. He also seems to think that nations like China will happily do the right thing on climate change without much wealthier nations like Australia setting an example. We have been for a number of years now, the great hope of climate change deniers and foot draggers all around the world by refusing to ratify the Kyoto protocol with whatever deficiencies they have. We are in effect providing an excuse for a host of nations and people around the world who's decisions really do matter, far more than ours, we have provided an excuse for them to drag the chain, when we should be leading, setting an example. Mr Howard's failure to undertake serious economic modelling of the likely impact of climate change on Australia for eleven years speaks volumes about his true attitude. It's important also to acknowledge that climate change is in fact a subset of a wider environmental challenge that the human race is at the early stage of facing.

Every person in this room has an environmental footprint that typically is ah, look I'm guessing, but if people want to ask me questions to back this up I'll probably struggle, but I'd say it's probably fifteen to twenty times the environmental footprint of three quarters of the human race. The resources we draw on the soil fertility, all of the things that we exploit, use the natural resources that make up our planet. Now until relatively recently the proportion of the world's population that's had the kind of environmental footprint that we all have has been relatively small. But what we are at the early stages of is a period in human history where there is a rapid acceleration occurring of the proportion of our species who are moving from a relatively modest environmental footprint to a much higher environmental footprint. They are in short westernising. If that occurs without significant change to the weight of that environmental footprint through technology and behavioural change, then literally the world will blow up. It cannot sustain three or four billion people living like we do. Even simple things like the shift from grain-based diets to meat based diets, put huge pressure on finite soil fertility. So climate change is but one component of a wider challenge. Now if we are to get out of the kind of John Howard, you know it's all a bunch of lefty, greeny, wanker, cafe late, sort of communist academic probably didn't leave school early enough kind of intellectual pointy head types brigade, you know the jargon. If we are to get out of that sort of rubbish and treat these issues seriously the question we in western nations have got to ask ourselves is this How can we manage to ensure that acceleration of living standards, which is so beneficial to these nations, China, India and others and to us, how can we ensure that, that continues but it is suitably moderated by technological change and by behavioural change and exemplary change on our part, of western nations part so that the net kind of human environmental footprint on the planet stays within the reasonable limits and ultimately becomes vaguely sustainable.

Now climate change is one component of that wider question and it requires a big mentality shift, we have to understand that we only have one atmosphere, there isn't an Australian atmosphere and a Chinese atmosphere and an American atmosphere and a Japanese atmosphere, there is in John Howard's mind, it's all the same atmosphere. And ultimately the totality of the resource of the planet in the same category and although these issues are very challenging and we have a long scale, thankfully at this point a long term capacity to deal with them. The first step is a mentality change that understands it's serious, and that the longer we put off doing something the more serious the pain is going to be. What do you reckon is going to happen when two thirds of Bangladesh is permanently under water and a hundred and forty odd million people have to find somewhere else to live? It's likely to be slightly disruptive, slightly disruptive. The consequences of these kinds of things are totally unpredictable and even though we are probably less directly threatened by that kind of thing than many other nations, because we are an island. I wouldn't want to be banking my luck upon that kind of thing.

So there is a huge challenge for western nations to display genuine leadership, to sustain our living standards, to continue to advance our economic growth, but to gradually modify the way we go about our business to incentivise technology, to ensure that market structures create the right context for technological innovation to occur and to bring the nations that are rapidly advancing in their living standards along with us so that it doesn't end in tears.

Now the final observation that I want to make to kind of illustrate my three point test about whether or not you are seeing a government run out of steam is the governments own spending and its own use of resources, tax payers resources. Australia is awash with money, the Federal governments awash with money. Company tax twenty years ago delivered nine percent of federal revenue, in the current financial year, or the financial year that's about to start rather, it's going to deliver twenty seven percent for federal revenue. Since the turn of the century public sector employment in this country has increased by twenty-eight percent, federal public sector employment has increased by twenty eight percent, that's almost double the total increase in employment in Australia. The number of senior public servants, the kind of people that get paid more than I do, sorry for the little jealousy there, but that's life. The number of senior public servants has increased by forty four percent. As you probably heard government spending on political advertising and consultants is completely out of control, it's now more than double the highest level that we achieved in real terms, even factor out inflation, their spending on political advertising, consultants all these kind of things, polling, market research is more than double the highest that we ever achieved. Individual departments get routinely handed more money, even for things that they're supposedly meant to be doing routinely, even for things that are supposed to be covered by existing depreciation budget lines. In the last budget, treasury, finance, department of human services got an extra sixty million dollars just for turning up. When you read the budget papers there is virtually no explanation as to why this additional funding is being provided.

And if you want the test of how a government has lost its way and lost its capacity to at least devote the bulk of its attention through its own ideological lens to advancing the national interest I leave you with this contrast. Within the space of six months, latter part of last year, beginning of this year, two initiatives from the Howard Government. Initiative number one, there is a bloke called Jim Frecklington, who's a coach builder, who had the honour of building the gold encrusted ornate carriage, horse drawn carriage that was donated by Australia to the Queen in nineteen eighty eight as our gift to the Queen to celebrate the bicentenary. Early last year he decided that he was going to build another one and he was going to make this a private gift to the Queen, and he got moving on this and he got out the old tools and whatever and got it going and during the course of the year he wrote to the Prime Minister asking for a bit of financial help. And the Prime Minister got this letter and thought this is an interesting thing, it's a private gift but we better give this due consideration. That's initiative number one, I'll conclude the detail of what happened in a second.

Initiative number two, ten billion dollar water plan to save the Murray Darling to seize control of the river system from the states to sort out all those decades of misallocation of water licences, mostly by the National Party but we don't want to mention that. And to solve this huge national problem, ten billion dollar plan, with a one page financial statement. Now the core question is spot the decision that went to cabinet because I'll tell you what happened. Late last year cabinet actually considered the question of whether Mr Frecklington would get some money from the Australian tax payer to fund his privately constructed, private gift to the Queen of another ornate horse drawn carriage with air-conditioning, diamond encrusted, gold encrusted and no doubt blinkers and flashing lights and whatever. Cabinet decided that he would be given three hundred and fifty thousand dollars of taxpayer's money as a contribution to this wonderful private gift to the Queen. Cabinet did not consider the ten billion dollar water plan, if ever there is an indication of a government that has completely lost touch with the primary purpose of why it's there, leave aside the ideological prisons that they do things their way, they push their barrows, we push ours, but each of us has an obligation to

pursue the national interest even through those lenses. Ever there's an indication of the government that has totally lost its way and run out of steam that contrast is it.

Thank you very much for the opportunity to be with you tonight. I'd urge you all to reflect on my little three point test, you'll probably all get different answers but whether it's state labour governments, federal liberal governments, I think it's a pretty useful test. It gives you a reasonably good indication of whether a government is worth persevering with, leaving aside your own personal political biases. Whether it's still there trying to do the job as it sees it in the national or community interest or whether it's essentially run out of usefulness and is now essentially focused on trying to ensure it gets re-elected. No prizes for guessing what my test showed up, I'd be interested to hear what yours shows up.

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