

Craig Emerson
**Minister for Small Business, Independent Contractors and the
Service Economy**
Minister for Competition Policy and Consumer Affairs
Minister Assisting the Minister for Finance on Deregulation

One Australia, one market: towards a seamless national economy

Inaugural address to the HC Coombs Policy Forum
The Australian National Institute of Public Policy
The Australian National University
Canberra

6 July 2010

As an ANU alumni and a Minister deeply committed to sound public policy development I am honoured to be giving the inaugural address to the HC Coombs Policy Forum.

During the early 1980s, when I was studying for my PhD under the supervision of Professor Ross Garnaut and the added guidance of Professors Max Corden, Peter Lloyd and Peter Warr, I used to knock around in the Coombs Building. In fact, I frequently got lost in its honeycomb labyrinth. Do you still call it the CataCoomb Building? – because that's what it felt like, trying to find my way around the place.

Now, 27 years later, and a week after the Gillard government implemented the topic of my PhD – a Resource Rent Tax on minerals to follow the Hawke government's successful Resource Rent Tax on petroleum I helped devise after leaving the ANU – it is a delight to be back.

You would be aware that in this year's Budget, the government announced more than \$110 million in funding to establish The Australian National Institute for Public Policy, modelled on the successful Kennedy School of Government at Harvard in the United States. The HC Coombs Policy Forum is an integral part of the overall project, providing a forum for informing public policy development.

And it is to sound public policy development that I devote my address today.

By helping keep the economy out of recession through economic stimulus and bank guarantees, the Labor government has extended to 19 years the current recession-free run for Australia.

Though this is a marvellous achievement, it does, as with all success, bring with it fresh challenges. And one of those challenges is gaining the support of the Australian community for ongoing economic reform.

As the economy continues its recovery from the global recession there is a real risk that the community will conclude that ongoing reform is unnecessary. A defining feature of reform is that it entails costs to narrower sections of the community in the short term but potentially large benefits to the whole community down the track. The costs tend to be concentrated in both time and space, creating short-term political problems for a reforming government, while the benefits are delayed and more dispersed.

Concerns about sustaining community acceptance of the need for ongoing economic reform were expressed by my mentor, Professor Ross Garnaut, as far back as early 1985, following 13 years of sustained economic growth. Ross warned of the onset of a Great Complacency in these terms:

“As a community, we accepted the excellent economic performance as evidence that we had changed enough. Our community had never been comfortable with the application of professional economic analysis to policy choice – so-called ‘economic rationalism’ – but for a while, from 1983 to the turn of the century, had been persuaded of its necessity. Now Australians had reverted to their traditional preference for having popular politics in command of resource allocation and economic policy-making. The links were forgotten between earlier economic reform and the contemporary prosperity”.

The task I have set myself today is to point to the threat to future prosperity posed by the Great Complacency, to make the case that the present Labor government is indeed a reforming government and to set out the imperative for ongoing reform in an ageing population.

In doing so, I will connect the Rudd and Gillard Labor governments with the great reforming philosophy and traditions of the Hawke and Keating Labor governments. And I will point out that Julia Gillard has already proved herself to be a genuine reformer, achieving reforms that have eluded all previous governments. As Deputy Prime Minister, Julia succeeded in establishing greater transparency in the school system through the My School website, introducing for the first time a national school curriculum, making the historic transformation to a national industrial relations system and gaining agreement to a nationally uniform occupational health and safety system. I have every confidence that Julia will carry her reforming zeal and energy through her Prime Ministership.

I begin with this truth: Australia’s future prosperity in an ageing population will depend crucially on our ability to revive productivity growth.

In the decade of the Great Complacency – the 2000s – labour productivity growth slowed to an average of just 1.4 per cent a year from the record-breaking 2.1 per cent a year of the 1990s. And in the four years to mid-2008, multifactor productivity not only failed to grow, it actually went backwards for the first time on record – the economy was less productive than it had been four years earlier.

Perhaps the single most salient illustration of the imperative of ongoing productivity-raising economic reform is this simple observation: today there are five working-age

Australians for every Australian over the age of 65 but by 2050 the number is expected to halve to around 2½ working-age Australians per older Australian.

These working-age Australians will need to be more productive to earn the incomes and pay the taxes to support the large increase in the number and proportion of older Australians.

Productivity growth in 21st century Australia means working smarter not working harder.

The most recent *Intergenerational report* demonstrates that lifting annual productivity growth by around ½ of a percentage point – from an assumed rate of 1.6 per cent based on Australia’s long-term performance to 2.0 per cent – could result in GDP per Australian being around 15 per cent higher in 2050 than it would otherwise be. In other words, the resumption of strong productivity growth could of itself go close to solving the economic problems created by the ageing of our population.

The Gillard Labor government recognises that productivity growth cannot be revived in the absence of a new era of micro-economic reform. Under Labor, economic reform in Australia has entered a third phase – let’s call it Phase III Economic Reform.

Phase I Economic Reform was the repositioning by the Hawke government of the Australian economy from a closed, inward-looking economy operating in a small, fragmented domestic market to an open, competitive economy operating in global markets.

Phase II Economic Reform was the implementation of National Competition Policy by the Keating government to facilitate greater competition inside the Australian economy through the removal of inefficient government-owned enterprises and exposing the remaining ones to competition from the private sector. Phase II Economic Reform also involved an historic shift to a decentralised wage-fixing system based on enterprise bargaining and the spreading of superannuation to everyday working Australians through a compulsory superannuation guarantee of nine per cent. That reform alone has generated national savings of \$1¼ trillion – the size of the annual GDP of the Australian economy.

Phase III Economic Reform involves the removal of internal regulatory obstacles to private business, moving Australia towards a seamless national economy. Removing these productivity-sapping regulations will allow businesses – large and small – to operate across state boundaries in more competitive markets. Phase III Economic Reform also involves investing in and reforms to our education, health and innovation systems, tax reform and increasing the superannuation guarantee to 12 per cent – an increase that was budgeted for by Keating but ripped away by Howard in 1996 after promising to keep it.

In my remarks today I will focus on the business regulation component of the Phase III Economic Reform effort.

Facing out to the world 27 years after Phase I Economic Reform began with the floating of the currency Australia now has one of the most open markets on earth. Import quotas have been abolished, tariff rates are at or close to zero, the financial system has been liberalised and unwarranted restrictions on foreign investment have been removed. Yet facing inwards, our economy still has up to eight markets. The *ad hoc*, overlapping and contradictory array of Commonwealth, state, territory and local government regulations continues to hamper the competitiveness and productivity of our businesses.

Phase III Economic Reform is the modern-day equivalent of putting an end to the rail-gauge absurdities of the early 20th century, when Prime Minister Andrew Fisher lamented that a passenger travelling by train from Perth to Brisbane was obliged to board four trains owing to the different widths of state rail tracks.

Ridding Australia of these internal impediments to business wanting to operate across state boundaries is only a recent aspiration. Some early reforms were implemented, such as the 1990 agreement between the Commonwealth and the states to share a common corporations law administered by a single national regulator.

But a comprehensive program of internal regulatory reform was not contemplated until 2006, when Productivity Commission Chairman, Gary Banks, handed down a report titled *Rethinking Regulation*. That report, commissioned by the Howard government, made 178 recommendations. In its response the Howard government claimed it had agreed in full or in part to 158 of the recommendations.

Yet as with its response to a report prepared a decade earlier by the late Charlie Bell, the Howard government's words spoke louder than its actions. Its 1996 promise to cut red tape by 50 per cent in its first term received only lip service.

Indeed, the Howard era was one in which some reforms were unwound, the Business Council of Australia describing the last few years of that era as a period of:

*“... the creeping reregulation of Australian business ... [as an example of] how the benefits of past reform can be quietly eroded over time”.*¹

Would the Banks Report provide fresh impetus to internal market regulatory reform? Initial signs were hopeful. At its meeting of 10 February 2006, the Council of Australian Governments (COAG) identified six priority 'hot spots' where overlapping and inconsistent regulatory regimes were impeding economic activity:

- rail safety regulation;
- occupational health and safety;
- national trade measurement;
- chemicals and plastics;
- development assessment arrangements; and
- building regulation.

¹ Business Council of Australia, 2007, *Policy that counts: reform standards for the 2007 federal election*, Melbourne, p. 5.

Then at its 14 July 2006 meeting, COAG added another four ‘hot spots’ to the agenda:

- environmental assessment and approvals processes;
- registering business names and Australian Business Numbers;
- personal property securities; and
- product safety.

Now there was a semblance of a regulatory reform agenda.

But the next meeting of COAG nine months later, on 13 April 2007, was a triumph of process over outcome. COAG announced a process for dealing with reforms, including the 10 regulatory ‘hot spots’.

So frustrated did the Business Council of Australia become with the lack of tangible progress during the Howard era that its Chief Executive, Katie Lahey, felt compelled to conclude that:

*“Eighteen months ago COAG released a plan to tackle 10 business regulation hot spots. Clearly they were so hot they burnt a hole in the piece of paper and we haven’t seen them since”.*²

Upon its election in November 2007 the Rudd government set out to make COAG the workhorse of the Federation and deregulation of internal markets a top priority. The Minister for Finance and Deregulation, Lindsay Tanner, and I were appointed Co-chairs of a new Business Regulation and Competition Working Group.

Based on an array of reports prepared over the preceding decade we developed an agenda of reform in 27 areas of business regulation which was approved by COAG at its 26 March 2008 meeting.

At last, COAG had a truly national regulatory reform agenda. But was this destined to be yet another disappointment? When I attended the 3 July 2008 meeting of COAG, I was heartened by the personal support for the reform agenda in the breakfast rooms and corridors offered by Premiers who had by then finished reading their briefing papers.

“Why do we have eight different systems of licenses for electricians?” one asked. Another couldn’t believe that business owners operating nationally had to register their business names eight times and pay eight separate fees.

At that July 2008 COAG meeting the Prime Minister, Premiers and Chief Ministers agreed on the nature of the reforms to be implemented for 14 of the 27 areas, adding to the four already agreed. They also agreed to our proposal to accelerate the timetables for several of the reforms – ahead of those agreed less than six months earlier.

But there remained one big obstacle – money!

² ‘Smarten up, business tells leaders’, The Age, 19 December 2007, p. 2.

As we moved to national systems for licensing of tradespeople, registering business names and consumer protection, the states and territories would lose their revenue derived from license fees and levies, some using these charges to raise extra revenue for general budget spending. And they would need to build new computer systems for a number of the agreed reforms.

We had learned, too, from the successful National Competition Policy Phase II Economic Reform process, that Commonwealth incentive payments were a powerful driver of reform by the states.

Months of tough negotiations led to a *National Partnership Agreement to Deliver a Seamless National Economy*. By now the Global Financial Crisis had struck a heavy blow to all budget bottom lines. Within a \$550 million agreement, \$100 million was to be provided up front to the states and territories as payments to help defray the initial costs of the reform process. This down payment would be followed by two gap years of no payments and then two years of incentive payments of up to \$200 million in 2011-12 and \$250 million in 2012-13.

The National Partnership Agreement was settled in November 2008. Lindsay Tanner confided to me that he would be delighted if 22 of the 27 business regulation reforms could be brought to fruition, expecting at least five to fall by the way side.

Business organisations such as the Business Council of Australia began expressing concerns that perhaps the agenda was overly ambitious and that it should either be pared back or priorities set.

Next the COAG Reform Council conducted an assessment and, while describing our overall effort as constituting “good or generally satisfactory progress against 18 of the 27 deregulation priorities and four of the eight competition reforms”, it identified a number of reforms that it feared were slowing or at risk of slowing.

Our Business Regulation and Competition Working Group moved heaven and earth to ensure we got slowing reforms back on track, culminating in an unprecedented out-of-session agreement by COAG in February 2010 that would sustain the reform effort.

Now, in the middle of 2010, I can announce that we have already achieved 12 of the 27 regulatory reforms. That’s more than 40 per cent of the reforms knocked over just 1½ years into a five-year agreement.

And the remaining reforms are either fully on track or, in just a small number of cases, a few months behind schedule.

Here I want to pay tribute to the Premiers, Chief Ministers and state, territory and Commonwealth officials for their cooperation and in many cases, enthusiasm, for the regulatory reform program. A conventional interpretation of the reform effort has been that it is driven by the Commonwealth against the resistance of the states and territories. It is true that as COAG’s Business Regulation and Competition Working Group we have had our moments but, as a central agency club led by two Commonwealth Ministers, we could point to episodes of line agency recalcitrance – and eagerness – at both levels of government.

In truth, there is a high level of commitment to the reform process – a commitment positively and constructively supported by the COAG Reform Council and its Chairman Paul McClintock.

Overseen within my portfolio, Australia now has a new national system of weights and measures administered by the Commonwealth, replacing the different state and territory systems.

Under Nicola Roxon's guidance a national registration and accreditation scheme for much of the health workforce, including chiropractors, dentists, nurses and midwives, optometrists, osteopaths, pharmacists, physiotherapists, podiatrists and psychologists, has commenced. When fully implemented, it will replace 85 health professional boards and 66 acts of parliament with 10 boards and one national law.

For the first time, health practitioners will only have to register once and pay one fee to practice across state and territory borders. Western Australia and South Australia are set to join the scheme shortly, with legislation currently before their respective parliaments.

Overseen by Chris Bowen, a national approach to consumer protection regulation for mortgage broking has commenced, along with a national approach to regulation for margin lending and non-deposit taking institutions. And the Commonwealth has assumed responsibility for national regulation of all consumer credit provided by all lenders, including banks and payday lenders.

National regulation of licensing and supervision of trustee corporations has been implemented.

A streamlined business-to-government reporting system called Standard Business Reporting has commenced also under Chris Bowen's oversight, saving business an estimated \$800 million a year when fully operational.

New environmental assessment bilateral agreements have been finalised by the Commonwealth with each state and territory under Peter Garrett's supervision, streamlining environmental assessment processes to cut out unnecessary duplication and associated delays.

The first stage of harmonising the bases of payroll tax systems has been rolled out in all states and territories, while second stage reforms have been implemented in NSW, Victoria, Queensland, South Australia, Tasmania and the Northern Territory two years ahead of schedule.

Domestic and export requirements for wine labelling have been harmonised, saving our wine exporting businesses around \$25 million a year.

Legislation has been passed in all jurisdictions to establish a nationally consistent rail safety regulatory framework, as overseen by Anthony Albanese, with only the supporting regulation to be finalised in a small number of jurisdictions.

In addition to these 12 reforms, substantial progress has been achieved on each of the others.

By the end of 2011 the states and territories are scheduled to enact uniform model occupational health and safety legislation – one year earlier than originally agreed by COAG. Progress in this very difficult reform, overseen by Julia Gillard, is on track and we remain hopeful that Western Australia will come on board.

Work is well underway and on schedule to create a national system to allow the seamless movement of tradespeople between states and territories.

Within my portfolio, a national consumer law has been enacted and will replace 17 different consumer protection laws. Unfair contract terms provisions started on 1 July 2010 and the remainder of the law will be operative by 1 January 2011.

The new Australian Consumer Law will implement a uniform approach to product safety around Australia with the Commonwealth assuming responsibility for permanent product bans and safety standards.

This major micro-economic reform is estimated by the Productivity Commission to yield national benefits of up to \$4.5 billion a year.

Work is underway in Anthony Albanese's local government portfolio to simplify development assessment processes around Australia to provide greater certainty and efficiency in the development and construction sector. And good progress is being made under Kim Carr's direction towards a National Construction Code to enable a nationally-consistent approach to on-site building and plumbing standards.

The regulation of the production and use of chemicals and plastics has been a mess for decades with different agencies and different levels of government having overlapping responsibilities. Following my appointment as chair of a special task force and the establishment of a dedicated committee of officials, of the 18 first-phase reforms identified by a Productivity Commission report, 16 have been completed and a new governance structure to co-ordinate the remaining reform work is up and running.

As a result of work by state and territory small business ministers and my small business division in the Industry Department, a national system of registering business names will be established by mid-2011. One year's registration will cost \$30 and three years' will cost \$70, a large saving on the fees of more than \$1,000 that businesses pay at present to register in each state and territory for three years.

A single, national personal property securities system, overseen by Robert McClelland, will be operating by May 2011, replacing more than 45 registers in the states and territories.

And Robert tells me that the national legal profession reforms which will create national rules for barristers and solicitors are also proceeding well, following the release of a new national Bill for public consultation in May.

Reforms to setting, modifying and enforcing food standards are being developed under Mark Butler's guidance, and work is underway to create national consistency in food labelling.

A nationally-consistent mine safety regime is being created by Martin Ferguson and his state and territory colleagues, in conjunction with the reforms to occupational health and safety.

The states are working to develop a new electronic system for completing property transactions and lodging land title dealings.

Agreement has been reached by Martin Ferguson and his state and territory Ministerial counterparts to implement 25 of 30 Productivity Commission recommendations to reduce the regulatory burden on the petroleum exploration and development industry, with consideration of the remaining five recommendations pending the outcomes of the Montara Commission of Inquiry.

A new, national maritime safety regulator is being established by Anthony Albanese and his colleagues in the states and territories to implement and maintain national uniformity in commercial maritime vessel standards, regulations and administration.

A consistent and principled approach to the imposition of personal criminal liability for corporate fault – in areas other than occupational health and safety and environmental protection legislation – has been agreed by Chris Bowen and state and territory Attorneys-General and all jurisdictions are auditing their legislation against those principles.

By 1 July next year a further seven of the 27 reforms are scheduled for completion and the entire reform program is due to be finished by 2013.

When the regulatory reform program is complete, we will have replaced 160 separate pieces of legislation with just 10.

As important as these 27 reforms are to the Phase III Economic Reform process, they do not constitute the entire effort to move Australia towards a seamless national economy. Prime Minister Julia Gillard has been responsible for driving other reforms essential to making the transition to a single national market.

For the first time since Federation, Australia is set to have a single, national industrial relations system. It is a reform that John Howard cherished but which eluded him because of his insistence on Work Choices. Julia Gillard has secured the agreement of all states other than Western Australia to refer their powers to the Commonwealth.

In the sweep of Australian history this move to a single industrial relations system will be judged as a landmark reform.

And whatever business might think of the award system governing safety net pay and conditions for working Australians, Julia Gillard's effort in causing the replacement of more than 4,000 federal and state awards and instruments with just 122 national awards is a major simplification for business.

Similarly elusive has been the quest for a national school curriculum – delivered by Julia Gillard. For the first time in our history, school children will be able to move interstate with their parents without facing the disruption of tuition under a different school curriculum. Not only will this be good for the children it will enhance the mobility of working Australians, better enabling skill shortages to be eased.

Land transport reforms being overseen by Anthony Albanese will result in a single national regulator and laws for heavy vehicles, while also moving towards more efficient heavy vehicle charging. The Productivity Commission has estimated that these historic transport reforms have the potential to boost national income by as much as \$2.4 billion a year.

COAG has also now advanced a number of infrastructure reforms still outstanding from previous COAG agreements. In the last day of the Winter sitting of parliament, the Senate passed amendments to the National Access Regime, to improve the timeliness of infrastructure access processes and increase certainty for infrastructure investors. Progress has also been made in establishing the national electricity market framework, including the establishment of the Australian Energy Market Operator on 1 July 2009.

Other competition policy reforms are being revitalised, with my appointment as Chair of a Competition Sub-committee of COAG's Business Regulation and Competition Working Group. The Competition Sub-committee will oversee COAG's current competition reform agenda through to completion, and consider whether existing competition initiatives – which include energy, transport and infrastructure reforms – could be better focussed to deliver greater benefits for the economy and the community.

The Sub-committee will also advise COAG on new competition enhancing reforms to further boost productivity.

Though it has rarely commanded headlines during the term of the present Labor government, the Phase III Economic Reform program of making the transition to a seamless national economy is vital to restarting productivity growth. Comprising reform of 27 areas of business regulation, further competition policy reforms, a single national industrial relations and award system and a single national school curriculum, the Phase III Economic Reform program connects this Labor government with the productivity-raising reforms of the Hawke and Keating governments.

As rail-gauge style regulatory absurdities are removed through the Phase III Economic Reform program it will be easier, not harder, to identify and remove remaining obstacles to Australia becoming a seamless national economy.

In making this connection between the Phase I and Phase II Economic Reform Program and the Phase III program, I am not seeking to air brush the Howard government's economic reform program from the history pages. Rather, I have struggled to identify any coherent economic reform program during the Howard era.

Last week, on the occasion of the 10th anniversary of the GST, Mr Howard and Mr Costello nominated the GST as their greatest economic reform, pointing out that the GST replaced the wholesale sales tax and five state taxes. But that hardly constitutes a major reform.

If the GST is considered by its architects as the greatest of the Howard era economic reforms, where does that leave their beloved Work Choices? It has become the policy that dare not mention its name – a *name*, but only a name, which Tony Abbott has declared dead. A defining feature of Australian economic reforms has been their ultimate acceptance or at least acquiescence by the general community. Though the Australian public didn't like tariff reductions, there is no groundswell for the reinstatement of tariffs. The Australian people didn't like financial market deregulation but are not seriously calling for the re-regulation of the currency or the banks. The public hated National Competition Policy but are not calling for former government-owned enterprises to be re-nationalised. But the Australian people did call for Work Choices to be abolished because it was too harsh. And, despite Tony Abbott's ongoing defence of Work Choices, the public do not want it back.

In place of Work Choices, Julia Gillard developed a fair but flexible system of industrial relations. If the Fair Work Act were truly a return to a centralised wage-fixing system as ridiculously claimed by the Coalition, how did it serve the nation so well during the global recession? As business turnover came under pressure, Australian businesses – especially small businesses – negotiated reduced working hours with their employees to keep them on. This was flexibility at work, with no intervention by central authorities.

Similarly, the restoration of protections against unfair dismissal was, according to the Coalition, to be the death warrant for small business. As a principal architect of the Fair Dismissal Code, developed in consultation with small business organisations, I am pleased to be able to report none of the Coalition's dire prophecies have come to pass. I keep checking with small business organisations and they do not report long, complicated legal processes as predicted by the Coalition. And they do not report go-away money having to be paid by innocent employers.

As money rained from the sky from the China boom, John Howard told the Australian people he would make them relaxed and comfortable and a Great Complacency descended on Australian public policy making.

Labor has embraced economic reform to lift productivity growth out of the doldrums where the Howard government left it. Phase III Economic Reform, including investing in the talents of our people, increasing superannuation guarantee payments to 12 per cent and returning the budget to surplus in three years, is the revival of economic reform in the great reforming tradition of the Hawke and Keating governments.