ABC Saturday Extra: 2016 Business Review

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With Geraldine Doogue

Is there an anti-business sentiment in the community and how is business responding? Has the nature of investment and wealth creation changed and can business deliver inclusive growth?

Our panellists discuss some of the issues facing Australian business in 2016.

Guests

Sally Loane, former journalist and public affairs adviser, now chief executive of the Financial Services Council

Graham Bradley, company director, former president of the Business Council of Australia, now Chairman of Infrastructure NSW

Dr Andrew Charlton, economist, author, former adviser to Prime Minister Kevin Rudd and director of Alpha Beta

GD: Joining me now to review the changes, the trends and their suspicions of where we're heading are three very skilled guests: company director and former president of the Business Council of Australia, and current chairman of Infrastructure NSW, Graham Bradley; economist author, former adviser to Prime Minister Kevin Rudd and director of Alpha Beta, Dr Andrew Charlton; and former journalist and public affairs adviser, now chief executive officer of the Financial Services Council, Sally Loane.

Now could we start, welcome to you all, with a very strong statement that I saw from the outgoing chairman of the Commonwealth Bank of Australia David Turner, quoted in the Financial Review about six weeks ago, claiming that wide spread bank bashing in Australia is part of the same anti-establishment groundswell behind Brexit and the election of Donald Trump in the United States. Very interesting statement I thought. Sally Loane, do you think he's onto something?

SL: It could be. It could be that feeling we saw with Brexit and with Trump that people are being left behind and of course the banks are the biggest institutions in this country, they have a lot of wealth, they do also generate a lot of wealth for Australians through their super funds and we can't forget that. But look, yeah it's possible that there are some links. It may be a bit crude because in the Australian context people are not being left as far behind as people in Europe or America. We have a much closer gap when it comes to…

GD: Distributed wealth?

SL: Exactly. We've got a very progressive tax and transfer system so, look, he might be onto something but maybe not entirely.

GD: I just wondered, Andrew Charlton, it made me think that we don't actually thus far – we'll see what happens in the Queensland election – we don't express this politically to the same extent, but maybe we do in that sort of anger about business which I think is there with that persistent statement that I notice is being made, 'have you sacked anybody over this?' This seems to be the new mantra: have you sacked anybody over this? If you haven't, you're not serious.

AC: I think both phenomena come from the same seed corn. We are experiencing a world of record low wages growth, low national income growth and rising inequality. And people are looking around to understand how the different actors across the economy are influencing that and there is focus on government – and Donald Trump has been a beneficiary of that groundswell – and there's also focus o0n business as well. People are asking these questions and looking to both business and government to find answers.

GD: Do you think that the way in which wealth creation is viewed in Australia is shifting or not?

AC: I think it has changed. I mean the extraordinary feature of the Australian economy today is record low interest rates that have never been lower. In the long history of central banking, the world has never seen interest rates at the rates they are today and that has changed the way wealth is created. You only need to pick up the BRW rich list and look at the people who have got to the top of that list, you only need to walk into the suburbs of Sydney and see the million dollar homes that five years ago were half a million dollar homes to understand that record low interest rates are changing the nature of wealth in Australia. The owners of assets, particularly the owners of property assets, but also equities, have gained enormously from this low interest rate environment and the losers form this environment are the people who don't own assets, the young people trying to get into the housing market, the lower income people who don't own a share portfolio. This is a huge change in the way that wealth is created and distributed in Australia and its having big implications.

GD: Graham Bradley, how do you see it?

GB: Well the other people that are not benefitting from low interest rates of course are retirees. They are a larger number and they are increasingly, I think, political and throwing their weight around in the politics of the countries of Western Europe. I'm not sure that wealth creation has changed. I think the asset classes that people are looking at have changed. Naturally with low interest rates people are looking for any kind of regulated return or secure return so you've seen great growth in property investments, utilities investments and infrastructure investments, but that's a cycle and it will change. I don't think there is a fundamental change. I think we have gone through, if you look at twenty years ago, we have gone through a revolution of people in the wider community investing in companies rather than just leaving that to the superannuation funds. I think people now realise that fundamentally the success of business enterprises underpins all economies.

GD: Well I don't know Graham, that's exactly what I'm wondering about – whether people do actually still believe that in the way they once might have.

GB: Perhaps but I think it has just been rather fashionable at the moment to bash big institutions. I don't see the tie particularly to the Trump phenomenon for example because he is very pro-business and will do a lot to stimulate the American economy if he puts some of his policies into practice such as lower corporate income and personal tax and stimulating infrastructure.

GD: It just seems to me that years ago John Howard persuaded us all, I think, to consider being shareowners – people who had never owned a share in their life – via Telstra. People bought that for quite a while. And when it didn't quite deliver what people thought, and then the GFC came and people said, 'no, no, that's not for me, that's for another class of person. I'm going to race back to negative gearing property,' which doesn't create any jobs, the argument is it doesn't contribute to wealth, though it might contribute to a little bit of a wealth effect, but it doesn't actually contribute to business…

GB: Well I have to disagree with that.

GD: You disagree do you?

GB: Investors in property create affordable housing and create more supply. The big problem we've had in Australia of poor housing affordability in some of our cities is that there hasn't been enough supply and that has been a function of regulation and government failing to do its long-term planning and release of land much more than it's been of investors investing in residential property.

SL: The other thing that's really significant for Australians is we have a compulsory superannuation system. Australians have a lot of wealth in super. We get to put 9.5% or more of our salaries into superannuation every single week and our super fund assets are second only to our property assets. It's quite massive and it's something that underpins our economy. In fact financial services is the biggest [contributor] to GDP, just underneath mining. It's really huge and that includes banking and all the super funds and all the funds management and life insurance companies. It employs nearly half a million people in this country. You can't see it like you can see wool and wheat and iron ore but it's actually real, it's in our economy and it is making Australians wealthy. I will retire wealthier than my parents did. My children will retire hopefully three times more wealthy than I will because of compulsory super.

GB: Whether or not they own their own home? Do you mean that?

SL: Yes I do mean that. We have to remember that. They are saving now for their retirement with compound interest from the day they get their first pay packet.

GD: If we come back to what's driving us, whether attitudes to wealth creation and the people who do it are changing. I noticed over the weekend that there was some very interesting writing from big business people and chief executives saying there has been an absence of public business leadership that is not doing business the world of good at all. In fact I think it was Shell's Andrew Smith that said we don't seem to produce leaders like Reg Ansett, Hugh Morgan and so on anymore who actually get in there and mix it, I was thinking of Sir Rod Carnegie and so on. I think that that does make a difference.

GB: It's very important that business people are more vocal and speak up on public policy. When I was president of the business council I railed at some of my fellow chairmen for not doing this.

GD: I remember.

GB: But I think it's harder in the era we're in, Geraldine, where there are so many sources of media for the public and where the mainstream media are no longer necessarily the main channel, particularly for some sections of the community. It's much harder to get those messages out. Do you think that's right Andrew Charlton?

AC: Look I do. I think it is important business people and other groups to present their views on public policy. I also think it's important for those views to be understood in the context in which they are given. There are lots of business groups that are terrific advocates for their members and so they should be but there's a difference between that and being advocates for other parts of the community so I think it's important to have a balance in the debate.

SL: If you're anti-business you're anti-growth. You're anti-the social safety net and all the things that business taxes provide for. I find it very strange that there is an anti-business sentiment because business, private enterprise, employs 80% of working Australians. That's 10 million people.

GB: I wonder if there really is an anti0business sentiment in the real underlying community.

SL: Yeah I wonder if there is too.

GB: I know we've had an election and it's been very fashionable, calling for banking Royal Commissions and so one but honestly it's a parallel universe with the companies that I'm associated with where the employees are switched on, they think that they are doing useful work in the community, they see their companies participating in the communities. Back to Richard Goyder's quote, you can't have a healthy business environment, a healthy nation, unless you've got healthy businesses.

GD: I've said this before, Richard Goyder, the head of Wesfarmers: "It is important that we do more to help the community understand that we need to be successful, just as we want the communities we operate in to be successful." But I don't know, Graham, I don't think that's as accepted now as it was before the GFC, I really don't.

GB: I don't think it is by the media but I think it is by the employees of most companies.

GD: Do you?

GB: Including the employees in banks, I have to say. They get some of the best employee engagement scores of any of the big companies in Australia. I don't think that's the grass roots view. It's a fashionable view and it makes for good headlines in elections but it's a very destructive view when it comes to what's really creating the strength and resilience of our economy.

SL: When you think about corporate philanthropy, when I started there was no such thing – it was all in America. This has been massive in Australia. And it's not just about companies, you know, big banks giving big cheques. It's actually their employees being embedded in the communities, putting back. Some of these corporate philanthropy programs are absolutely massive and, as Graham said, people are very invested. Employees have shares in their company. They really care about the environment, social and governance standards that their company has. I really think that most people out there, most Australians, are very proud of the businesses they work for and actually buy shares in the rest. And of course, they do so through their super funds.

AC: I think that the message here is changing. The business message that, 'we deliver growth so support us,' was very effective for a long time but it's now breaking down and its breaking down in England in Brexit, in the US in Trump for one simple reason. That reason is people, typically middle class people, have lost faith that overall economic growth ends up filtering down to them. So the David Cameron message in Brexit fell on deaf ears because people were like, 'of course globalisation can increase national growth but that doesn't filter down to me. Same in the US.

GD: The question is whether they blame the politicians for that or whether they blame the businesses. That's what I'm so intrigued by.

AC: Exactly, I think that's the key distinction. Are we going for economic growth or are we going for broadly distributed income growth? Twenty years ago Bill Clinton said, 'it's the economy, stupid,' that was the mantra of his government and I think 20 years later, 'it's the economy, stupid,' didn't work for many people in Britain. It didn't work for many people in the US. They were like, 'it's income growth, stupid,' and that lack of income growth right around the world is what's meaning people are starting to question, is economic growth enough? Is globalisation enough? Or do we need to worry about the distribution of that.

GB: You need more than economic growth. You do need it to filter through but that's a function of productivity. Productivity has been restrained in most developed countries by excessive regulation and by a whole set of social and political forces and that's what Trump is going to attack in America and that will be a message to the rest of the world.

GD: You know what Graham? When listeners hear productivity growth they think that means they have less jobs and they've got to work harder. This is exactly the trouble. What business means, and this is obvious, I don't know that the community hears it in the same way. I think they hear it fearfully. Let me just tell listeners, Sally Loane from the Financial Services Council is with us, as is Dr Andrew Charlton, an economist and author and Graham Bradley, a company director, former president of the BCA. I noticed that there is a new little phrase creeping in that I suggest will become increasingly important, let me see what you all think – it's 'inclusive growth.' I noticed that even o the weekend, GUD's Jonathan Ling said that basically we have to start showing that we're creating jobs for middle aged and unskilled and semi-skilled. I don't know that business is talking about this or not.

GB: I think they're doing it. I think they're doing it.

GD: But it's that sense, I suppose, of saying, 'look, if we do well, we promise you that we will draw you along.' And maybe it means taking less return on investment in order to actually have more capital to use to employ people, Andrew. And where the rubber hits the road, is that what it's all about? Can you go to your shareholders if you're sitting around a board table and say, 'actually we're going to take 6% ROE instead of nine or 10?

GB: That's not the job of companies. It's not the job of boards of companies to be the employment agent of the country. They've got a responsibility to run their businesses productively otherwise they won't give the customer service and they won't be competitive. The best thing a company can do to create employment and benefit the community is to provide its service cost effectively.

AC: I agree with Graham. It's a company's responsibility to serve their shareholders. I think he's dead right about that. But the essence of the problem here is that at the same time as companies are talking about growth, at the same time as we're seeing increases in executive pay and increases in share prices, this year we have recorded the lowest rate of wages growth since the wage price index was created. So it's this divergence between what people are seeing in house prices, seeing in equity prices and the real lived experience of wages growth on the ground is creating the disconnect, not necessarily by throwing all responsibility onto corporate boards, that's not the responsibility of those boards but it is a social problem that needs to be addressed.

SL: I do come back though to Australians understanding where there wealth is and it is in superannuation and of course superannuation has massive investment in infrastructure and in equities, in businesses doing well. As I said right at the start, we have a very progressive tax and transfer system, we really do. We have not got the gaps that they have in Europe.

GD: But we're about to enter, as you know, a big debate – I can see it coming next year – about massively reducing the company tax rate. The argument business will make is that that will do precisely what you're talking about. I'm wondering whether the community will hear it.

SL: Graham's run companies, I've worked for a big listed company in manufacturing and I know that that big corporate tax rate is something that everybody looks at because companies want to grow. They want to acquire and they want to build things and employ more people. That's what companies do instinctively so when you give them a lower tax rate that increases their return on equity. It also gives them money to reinvest and they reinvest and build more. Shorten said exactly that some years ago. He agress with it.

GD: If they off-shore, this whole business about whether companies should be responsible to shareholders or to all who participate in their business – namely, labor and the community. This is an old debate, Robert Reich has mounted it for years saying that there has been disproportionate attention being put onto the shareholders' return, Andrew, and that we actually have to get to a broader base. That probably means people going along to annual general meetings if they are shareholders and Radio National listeners and saying to the directors, 'I want you to slightly vary your approach.' Does it mean that? Do you see what I'm getting at?

AC: I think that Donald Trump's relationship with business in the US is fascinating. He is putting onto the shoulders of business the responsibility for creating employment in the US…

GB: Or maintaining the employment rate.

AC: And he's threatening 30-40% tariffs…company specific tariffs on companies that take jobs away from the US. This is a real change in the social contract between government and business.

SL: It's radical.

AC: It's radical to put the responsibility onto businesses shoulders in the interests of local employment rather than their shareholders.

GB: And it will only work if he follows through on the other things which is taking off the regulation and bringing down tax rates and doing things that make US businesses more competitive. That will put pressure on Australia and Europe and every other country that's living under the old regime of high taxes and moderate growth.

GD: The attitude to tax, I was just reading that more than a third of Australians paid no tax in the year 2015. Eighty multinationals are in the middle or facing big tax audits and are talking to the tax department right now. Attitudes to tax could be a bit of a lightning rod in Australia I'd suggest to you, Graham.

GB: I think they are all around the world. And this was what the G20 talked about in Australia a couple of years ago. Countries around the world are tightening up on tax havens and this is a good thing because business who operate honestly want to pay their taxes, they want to be profitable and they want to employ as many people as they can profitably do so because they want to be good corporate citizens.

GD: Ok, in our final section – because we could go on for quite a while – we've got a major problem: we've have 12 consecutive quarters with contracting business investment in the private sector. You're saying this is where we're going to get the growth and the jobs and it's just not happening. Andrew Charlton, how would you drive business investment if you were running the country in the next little while.

AC: I'll tell you what it's not; it's not through another 25 basis point cut in the interest rates. There aren't businesses out there or entrepreneurs waiting to start businesses if the Reserve Bank cuts interest rates by another 25 basis points. Relying entirely on monetary policy in order to solve Australia's problems, lift growth and lift investment is simply not working. In fact, it's potentially having a perverse impact and depressing the economy because it's making people weigh up future demand.

GB: I don't think that's very likely, the Reserve Bank has been very steady handed in relation to interest rates compared to most other countries though I do agree with Andrew that they're not going to stimulate business investment. The statistics you quote, Geraldine, are of course coming off the top of the biggest resource investment boom the country had ever had where resource investment was 8 or 9% of GDP when it's normally 3%. What has to happen is that new industries will come in to take over. Infrastructure is one. Governments could do a lot to further stimulate infrastructure.

AC: But it's not happening.

GB: It's not happening because NSW is the only state to recycle assets and provide the funds whereas other states are denying themselves that opportunity.

AC: I think that's right. We need a broad policy sweep beyond monetary policy in order to stimulate investment and that does to regulation, it does go to fiscal policy, it does go to investment – and public investment in particular. All of those things are part of a policy sweep to support investment and grow the economy, much broader than monetary policy alone which is where we've been putting all of our focus.

GD: Somebody said monetary policy invites individuals to take the risk, fiscal policy means you get public debt. Public debt is only 40%, it's come right down but household debt is up to 125% of GDP.

AC: That's exactly right. Australia has one of the highest levels of private debt of any economy in the world whereas our public debt is reasonably modest by global standards so when it comes to thinking about stimulating the economy and which part of the economy has the balance sheet capacity to increase investment, you have to look at the public sector in terms of things like public infrastructure and other forms of investment in order to grow the economy.

SL: I'd look at financial services exports. That is an untapped potential. I mention our great resources before: wool, minerals; financial services is the next one. I'd look at the barriers to what's stopping exports.

GD: Are there jobs there Sally?

SL: Absolutely. If we can mimic what Hong Kong's done with the export of financial services – and by that I mean investors coming in from particularly our Asian region and putting their funds with our expert fund managers here in Australia, whether it's global equities, Australian equities, infrastructure or whatever they are, we do it really well. We can actually take a cut on that, but we've got to get the barriers out of the way and at the moment they are structural. We're working on that, the government has started on that.

GD: You even had a minister come and visit you this week?

SL: We did. Chris Bowen has started this. We're going to have this government finish it off hopefully. We've got to remove some of those barriers because it really can be the next potential boom.

GB: Absolutely agree with that and China is critical to this.

GD: Only 2% of companies involve themselves in China, extraordinary!

GB: A lot of professional firms do though. A lot of firms that are not on the ASX100 do and that's where the exports will be – in services and smaller organisations where we have genuine world class expertise in infrastructure and architecture and engineering – they're the people that may come out very well in the next few years, particularly with China's One Belt, One Road stimulus to the whole of the Asian region – trillions of dollars are going to go into infrastructure in our region and we're sitting here with some of the best skills in the region to participate in that.

GD: Look, it's been terrific to talk to you all and to get that sort of mix of aspirations so Sally Loane, Andrew Charlton and Graham Bradley, thank you very much indeed.

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