



Adapting to change – towards a fair and efficient Australia

A presentation by Graeme Samuel
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to the Western Australian Chamber of Commerce & Industry Leaders' Forum,
Perth, Wednesday 13 October 1999

Setting the scene

Australia, and indeed the whole world, is currently experiencing a period of rapid social and economic change of at least the same magnitude as Britain's Industrial Revolution, but within a much shorter timeframe. Sometimes it is called the 'knowledge revolution', or the 'information age', or sometimes the 'computer age'. But regardless of what it is called, the consequences are the same. Whereas the Industrial Revolution shifted the focus of wealth creation activities from individual labour to the operation of machines, the current revolution is shifting the focus of wealth creation from machines to individual skill, knowledge and innovation. In a way, the current revolution completes a circle: from wealth creation by individual brawn to machine-power, and now to individual brainpower.

Just like the Industrial Revolution, the current revolution means social and economic upheaval. The introduction of mechanisation to agriculture meant a dramatic increase in labour productivity, and thus fewer jobs on farms. People shifted from the rural communities to where the new jobs were emerging: in factories in urban centres.

These changes didn't occur without problems and there were strong opponents of change, just as there are today. There were also substantial transitional costs, particularly for people whose vocations had been rendered redundant or

uncompetitive by mechanisation. Almost everybody today would accept that the consequences of the Industrial Revolution, and the increase in wealth and trade generated, were beneficial to society. But the losers from these changes suffered for generations before the benefits of the Industrial Revolution were distributed more equitably.¹

These transitional costs were most keenly felt by a group known as the 'Luddites', who ultimately rebelled violently against mechanisation. Many of these people were weavers and combbers and dressers of wool. Others were artisans in the cotton trades. All suffered from the devaluation of their skills brought about by mechanisation, or increases in the scale of mechanisation. 'Having for centuries worked out of their cottages and small village shops on machines that, though far from simple, could be managed by a single person, assisted by perhaps children, they suddenly saw new, complex, large scale machines coming into their settled trades, or threatening to, usually housed in the huge multi-story buildings rising in their ancient valleys. Worse still, they saw their ordered society of craft and custom and community begin to give way to an intruding industrial society and its new technologies and systems, new principles of mechanise and markets, new configurations of countryside, beyond their ken and control.'² The similarity between these concerns and the concerns being expressed today about economic change are striking. There are two strong common themes:

- first, a loss of value or worth of the long-standing activities of particular groups of people; and
- second, concerns about the implications for the community in which these people live; in other words, concerns about a loss of social structure.

The current process of economic change means that the mere act of production – like growing crops, mining ore or manufacturing, even if carried out with the most modern machines – is not sufficient, of its own, to generate enough wealth to meet society's expectations. Modern machinery, by and large, has become accessible to all, so that global competition in such mechanical functions has become intense. Wealth creation through value-adding now relies on finding better ways of doing things, and better ways of meeting consumer needs and wants. Wealth creation now means things like:

- the supply of high value, sophisticated professional services in the areas of health, education and the law, including the export of those services;
- increasing the value of tourism services;

¹ Kirkpatrick Sale, *Rebels against the Future: the Luddites and their War on the Industrial Revolution: Lessons for the Computer Age*, Addison-Wesley Publishing Company, 1995.

² *Ibid*, p. 3.

- producing higher quality food and drink, like high quality wine (rather than just more of the same product);
- providing services that make it easier for people to shop for what they want (rather than expecting consumers to buy what's for sale when the shops are actually open);
- producing primary inputs like grains or iron ore that are designed to reduce manufacturing costs or improve product quality in downstream value-adding activities like meat or steel production; and
- providing innovative personal services to help improve the quality of life of consumers of these services.

In the face of these economic changes, some people seek to preserve their interests by convincing others that governments should do all they can to stem the changes, even if the changes promote the interests of society as a whole. This is what the Luddites of the Industrial Revolution sought to do. These opponents to economic change do an injustice to the whole community. But they also do an injustice to the people they purport to serve, by suggesting that trying to meet the challenges of economic change is hopeless and by holding out the hope that living standards can remain the same or grow without any change.

Rather than focusing on the past in my address today, I want to focus on the future.

Firstly, I want to outline some of the changes we can expect to see in the future, particularly as a consequence of the broader application of new technologies in communications and information.

Secondly, I want to outline how economic and social policy can and should be designed to help harness and distribute the benefits of these new technologies for the whole Australian society.

Thirdly, I will compare where I think we are and should be heading with the current focus of the debate about social and economic change in some quarters of Australian society.

Fourthly, I will outline a path forward for social and economic policy, including some brief case studies for particular industries facing change.

Finally, I want to conclude on what I think all this means for political leadership in Australia.

New Communications and Information Technologies

I was experimenting with my computer at home a few nights ago. Some people I work with would suggest that this was a dangerous thing to do – something always seems to go wrong when I experiment. Like so many others, I have found keeping up with the use of technology in the workplace and the home quite a challenge. There is always something new: I finally got the video recorder to stop flashing zero zero zero, only to find I've got to deal with the internet. I understand the fridge will be talking to me soon: I'm horrified by the thought of what it might say!

But I was truly astonished by my explorations. I registered with an international shopping site and then, after reading a variety of critical reviews, ordered a DVD of Zeffereilli's wonderful production of the opera La Traviata. I had barely logged off when I received an email confirming the order. The next morning I received another email confirming that the product had been shipped. It arrived a few days later.

I also registered with an online supermarket and started a test drive of the computer shopping cart. My wife, who is unfamiliar with the workings of the internet, interrupted my mouse clicking. Within minutes she was clicking items into the shopping cart, marvelling at this new found experience and demanding to know when she could use it in real life. Can you imagine her reaction when, in just a short while, she will be able to wheel her shopping cart around the supermarket from the comfort of her lounge chair manipulating an infrared keyboard and mouse in front of an internet TV.

I realised as I explored the potential for internet shopping that email, a recent communications technology that has gained widespread acceptance, was just the start of electronic transactions. I thought of recent articles I have read on likely developments in broad-banded digital services using computers, telephones, televisions and other common household appliances. It's easy to see, extrapolating from current trends in software, that these digital services are likely to become more and more user friendly, while consumers are likely to become more and more sophisticated in their use. I also thought of the work that the Council did last year on Australia's postal services, and the widespread recognition in the industry that while personal letters are declining in use, the demand for parcel services to deliver phone and mail order consumer goods is growing rapidly. Indeed most of you will have noticed the announcement a few days ago by Australia Post of its joint venture with an internet service provider to make available its online service to Australia Post customers. You can be certain that Australia Post is not promoting this free internet service with a view to diminishing its highly profitable postal operations.

All these things are indicators of what is to come.

I understand why people have been cynical about the practicality of e-commerce to date, and there are genuine issues surrounding the security of information provided electronically.

Nonetheless, I am now convinced that electronic transactions from the home will become the norm for banking, bill-paying and purchasing in the future. This will dramatically change the business environment in Australia. Consumers will have access to information from competitors all over the world. Large expensive retail stores will be replaced by warehouses and computers. New car showrooms will disappear, replaced by electronic retailers offering the full range of available products. Many of you will have seen the TV advertisement of a new car customer fork-lifting the vehicle and dropping it to test its durability. The advertisement proceeds to suggest a more thorough examination could be made by examining the vehicle manufacturer's website. The advertisement is in fact for Intel Pentium III.

People will order the groceries before retiring to bed for delivery either before going to work or after returning home the next day. National Competition Policy inquiries into deregulation of retail trading hours are, I suspect, soon to become an anachronistic irrelevance – unless governments intend to seek to control the hours during which we can access the internet from our homes!

Indeed, fewer people will 'go' to work, many preferring to work from home or from a combination of locations. 'Working hours' and 'trading hours' will become meaningless terms, as people take advantage of electronic communications to do what they want, when they want, wherever they want. Broad-band telecommunications services will be provided from all over the world by a host of competing media, including private satellite systems.

Some of these things are happening already. Telephone information and booking systems can be located physically anywhere in the world where communications services are adequate. More and more people are working electronically from home, including in remote locations. Australia Post is gearing up its parcel delivery services, especially in rural areas. Internet service providers are building their data bases on specific customer preferences: the value in their businesses lies in the ability to precisely target consumer needs through access to massive amounts of information.

Implications for Social and Economic Policy

Australia has a history of extensive regulation of competition and markets to achieve particular social and economic outcomes. Much of this regulation was designed to restrict the operation of markets to protect producers from competition and distribute the wealth Australia derived from its natural resources. So, for example, Australia taxed exporters of raw materials by imposing tariffs on imports of manufactured goods, in order to protect manufacturers from foreign competition. In addition, statutory marketing arrangements for agricultural produce were introduced to pool and share returns from farming, and to increase domestic prices to compensate farmers for the taxes imposed on their inputs (like tractors) and consumer purchases (like motor vehicles) by tariffs. Regulation of labour markets and professional services ensured that these people got their 'fair share' as well.

But restricting competition to distribute wealth throughout the community had some unintended costs as well as the intended costs. The protected manufacturers had less incentive to operate efficiently and readily capitulated to union demands because prices could be increased without difficulty. Farmers had little interest in producing better or more innovative products when any increased profits had to be shared with others. And because Australia was penalising its most efficient producers – the mining companies – we were generating less wealth from this sector than we should have been.

Most important of all, the falling relative value of primary produce exports meant that Australia's ability to subsidise inefficient producers from the income of efficient primary industries was diminishing. Overall, the 'protection-all-round' approach to managing the economy and ensuring equity had resulted in widespread stagnation and under-performance in Australian industries and consequent falling relative living standards. For example, based on GDP per capita, measured in purchasing power exchange rates, Australia was the third-richest country in the OECD in 1960 – after the United States and Switzerland, and our per capita income level was more than 50 per cent higher than that of the European OECD average. As a result of persistently low growth performance, Australia fell to fifteenth place within the OECD in 1992, surpassed by most industrial countries in Europe. At the same time, unemployment gradually increased from low levels in the 1980s.³

In 1974, a major step was taken to withdraw Australian industries' protection from competition. The Trade Practices Act (TPA) was introduced to prohibit particular

³ Singh A., Felman J., Callen T. and Thimann C. 1998, *Australia Benefiting from Economic Reform*, International Monetary Fund.

market fixing practices and anti-competitive mergers. Examples of common practices of the day included price agreements, predatory conduct and exclusionary provisions. The proponents of these practices argued that they were necessary to ensure ‘orderly marketing’; but the real purpose was to protect producers from damage caused to them by competition.

An authorisation process was also included in the TPA to allow anti-competitive practices and mergers that would otherwise contravene the TPA if the proponent could demonstrate that they conferred a net benefit to society. Importantly, the TPA thus implicitly assumed that restricting competition would not be in the interests of society, and thus restrictions should be allowed only where a robust net benefit case could be made.

Further measures were taken by governments to reduce restrictions on competition during the 1980s. These included deregulation of the finance sector and the phased removal of tariffs on imported manufactured goods.

Governments adopted a comprehensive approach to competition policy in the 1990s. This approach began with the National Competition Policy (NCP) Review by the ‘Hilmer’ Committee, which prompted all governments to sign off competition policy agreements in 1995. These agreements did three things.

- First, governments agreed to extend the operation of the TPA to all businesses and to introduce new provisions to regulate major infrastructure services like electricity cables to allow for competition between producers who need to use that infrastructure.
- Second, governments agreed to make their own businesses more competitive.
- Third, governments agreed to review their legislation that restricts competition to examine whether it stands up to the same tests as in the TPA for anti-competitive activities.

Governments also agreed that these things should be done by the year 2000, thereby completing the economic reform program to prepare Australia for the new millennium; and, indeed, the new information age.

It is important that governments continue to implement this National Competition Policy Reform program to help ensure that Australia’s regulatory environment meets its needs in the future. Whether or not the ways of the past actually served the needs of the past is an irrelevant question.

Under the National Competition Policy Reform agreements, governments remain committed and responsible for ensuring that the social and economic needs of the

whole community are met. This commitment should be met by looking forward, rather than behind.

The Current Debate

The application of new technology to the tasks associated with meeting society's needs provides the potential to 'do more with less'. Technology is a primary driver in increasing society's welfare.

But the transition to the adoption of new technology is rarely costless. The tractor has reduced the need for farm labour. As such it has contributed to rural unemployment and depopulation of rural communities. Similarly, information technology has dramatically changed the workplace. Typing pools have almost disappeared, while the need for other support roles has also diminished.

The current debate surrounding economic reform and competition policy has tended to focus on transitional costs such as these. Many of these costs have little or nothing to do with NCP. They are associated principally with broader influences such as new technology, globalisation and long-term demographic shifts. This is not to suggest that NCP has not imposed any transitional costs. By seeking to modify economic regulation to the changing needs of society, NCP is an integral part of the process of managing change.

Indeed, some transitional costs are almost exclusively the result of the application of NCP. Prospective reform of dairy marketing arrangements nation-wide, for example, will most likely mean that many smaller, less efficient farmers will not survive. The reform will also mean that efficient producers have more incentive to innovate and improve their performance. There will also be more incentives for value-adding activities. Thus, the benefits will be larger and more enduring than the costs. This provides the justification for the reforms.

This doesn't mean that the transitional costs of reform are not significant or that they can or should be ignored.

The Industrial Revolution imposed substantial costs on people whose skills or assets were rendered redundant or uncompetitive or otherwise reduced in value by the introduction of new technologies. In many cases, these transitional costs endured for generations.

But the lessons of the Industrial Revolution were not that new technology was bad, or that governments should have done more to halt or slow the process of adopting

the new technologies. The lessons were that governments needed to do more to facilitate the process of change: to introduce policies for the new economy rather than try to preserve the old. The lessons resulted in things that remained important during the entirety of the industrial age, but it was a long time before these lessons were recognised. The industrial age reforms included collective bargaining arrangements for employees, the abolition of child labour, mandatory schooling, publicly funded training and retraining programs and a taxation system designed to help redistribute wealth within society.

The challenge for the current debate on economic and social reform is to identify and introduce measures to ameliorate the costs of change, help ease the transition to the new economy and economic pressures, and ensure that there is equitable distribution of the wealth generated without undermining the wealth generation process. The challenge is also to design and implement economic and social regulation that meets the needs of Australian society in the information age of the new millennium.

This debate is inevitably contentious. Adjustment assistance to disadvantaged groups has to be funded by some form of taxation on other groups: transparent funding arrangements reduce unintended costs but also make the subsidy more keenly felt. Unwinding the protections enjoyed by some groups will, just as inevitably, be resisted. More broadly, new technology and economic change inevitably involves debate about community values and, in particular, the worth of maintaining service standards throughout Australia and ensuring the survival of small rural towns in the face of demographic shifts.

This explains why much of the focus of economic and social policy debate at present is on the relative decline of some rural communities.

When I say this, I should emphasise the words '*relative*' and '*some*'. Many people could be excused in thinking all rural Australia was declining in absolute terms, but nothing could be further from the truth.

First, as the Productivity Commission found⁴, only one region in Australia has suffered more costs than benefits from the economic reform process: the Latrobe Valley of Victoria, largely because of the heavy influence of electricity generation and the reductions in employment in generation resulting from productivity improvements from reform. All other communities have benefited from economic reform, although many rural communities have not benefited as much as metropolitan areas.

⁴ Productivity Commission 1999, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft report, Canberra, May. (p 116).

Second, some rural communities are growing strongly, even relative to metropolitan areas. These are the communities where new industries have developed, like wine, canola, cotton and horticulture, or where traditional industries have been reinvigorated by more liberal trading arrangements, such as dairy produce in Victoria. The regions that have grown strongly in recent times include Dubbo, Wagga Wagga, Mudgee, Albury and the Mid-North Coast in NSW; Ballarat, Bendigo and Mildura in Victoria; most of the Queensland coast up to Townsville; Albany, Kalgoorlie, Broome and the Margaret River in Western Australia; the Barossa Valley of South Australia, and Katherine in the Northern Territory.⁵

Overall, agriculture and mining have grown strongly during the 1990s. Agriculture and mining now account for 60 per cent of Australia's exports, increasing in value, in absolute terms, by \$49 billion between 1981-82 and 1996-97.⁶ Even claims of a rural population decline are misleading. Certainly some communities have declined in size, especially those nearby a larger, rapidly growing community. But the proportion of Australia's population living in rural areas has been stable since the 1970s⁷, with growth in some rural areas, especially near the coast, more than offsetting declines in some inland towns.

In outlining these things, I am not seeking to belittle the problems of the bush, but I do want to put them in context.

There is a body of political opinion that suggests that the task of communicating the role of, and the need for, economic reform to rural communities is hopeless and should be abandoned – along with the reform program itself. Advocates of this view point to recent swings in rural seats at election time as 'proof' that economic reform has caused the decline of the 'bush', and, as a result, the 'bush' is in a state of revolt.

But this simplistic analysis is not supported by the facts. In almost all recent elections the 'swings' against incumbent governments have been consistent across all rural electorates, regardless of whether those regions were in decline or booming. For example, in the recent Victorian election, the 'swing' against the Kennett Government was the same in the boom towns of Bendigo and Ballarat as elsewhere in the State.

⁵ Productivity Commission 1999, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft report, Canberra, May. (Table B.1, p 382).

⁶ Australian Bureau of Agricultural and Resource Economics 1997, *Australian Commodity Statistics 1997*, December.

⁷ Productivity Commission 1999, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft report, Canberra, May. (p 19).

You also find that debates about the so-called decline of the bush are rarely focused on a specific issue, such as a particular economic policy measure. Rather, the debates appear to reflect a more general, pervasive and perhaps deep-seated set of concerns that relate to the relative decline of the regions compared to metropolitan areas. Even where a regional area is successful, the success is linked to the area becoming more 'metropolitan' in nature, reinforcing the impression that metropolitan Australia is growing at the expense of 'rural' Australia.

At the heart of rural concerns is a loss of perceived worth of the traditional activities of rural communities. The driving force behind these concerns is the relative decline of the value of traditional agricultural produce, measured as a proportion of Australia's total wealth creation. With agriculture's share of GDP now about 3 per cent, down from 21 per cent in 1948-49,⁸ Australia doesn't 'ride on the sheep's back' anymore, and economic policy in Australia focuses more on the new wealth creation activities. Many of these new activities are carried out in regional areas, but they don't support rural Australia in the same ways as the traditional activities. Rural lifestyles and communities will be changed forever by this process, but they will not disappear. What we think of as a typical country town in 20 years time will be very different from the country towns of our childhood. The ability to take these changes on board will be the hallmark of rural communities which succeed in the new economy.

The Way Forward for Social and Economic Policy

National Competition Policy is sometimes criticised for creating or accentuating income disparities within the community; that is, increasing the gap between the 'haves' and the 'have-nots'.

But one of the clear lessons of economic history, with considerable support from economic theory, is that the generation of wealth relies on adequate incentives being conferred on the people who are primarily responsible for generating that wealth. For example, a change in technology that increases the value of the skills of one group and reduces the value of the skills of another group inevitably causes shifts in the relative incomes of the two groups if the benefits of the new technology are to be captured. The role of governments here is threefold.

- First, to remove existing impediments to adoption of the new technology, if it confers a net benefit on society.

⁸ Boehm, E.A. 1993, *Twentieth Century Economic Development in Australia*, Third Edition, Longman Cheshire.

- Second, to find ways to equitably distribute the wealth generated by the new technology throughout society without undermining incentives to create and introduce the new technology.
- Third, to ameliorate the deleterious impacts on the adversely affected group by helping them adjust to the new economic environment.

NCP addresses the first of these roles. The general system of taxation and social spending focuses on the second of these roles, sometimes supplemented by specific measures. I have, for some time, advocated that governments need to do more to meet their obligations under the third role. I think, on occasions, it will also be appropriate for business to help with the third role as well.

Let me move on to some examples of current issues facing governments and the Australian society.

I've already mentioned reform of dairy marketing arrangements. I was particularly impressed with the recent initiative of the NSW Minister for Agriculture, Richard Amery, to establish a Farmgate Deregulation Assistance Committee. The committee was established to help farmers adjust to the impact of farmgate deregulation. The initiative is relatively low-cost (about \$2m in total) and brings together a number of key participants in the industry to provide advice to dairy farmers. The initiative is forward-looking, progressive and, I have no doubt, will be of considerable help to the reform process. I commend the Minister for his actions.

Following the devastating floods in Gippsland, Victoria last year, Premier Kennett announced a proposal for the Victorian Rural Finance Corporation to offer to purchase flooded farms at fair value thereby easing the potential financial disasters that might have followed the floods. The proposal also envisaged the possible consolidation of purchased farms the on-sale of consolidated lots back to the farming industry. On its surface the scheme seemed both socially sensitive and economically sensible. But the response from some quarters was that it was heartless and insensitive and that instead the Victorian taxpayer should continue to subsidise the continued operation of small uneconomic and potentially financially devastated farm lots.

One final example comes from that well-known culprit, the banks. I recently chatted with one of Australia's leading bankers. I asked about people's concerns about recent branch closures, especially in small rural communities. His response indicated that the plan was to replace low turnover branches all over Australia with electronic banking, and that the bank would be announcing some initiatives in this area over the next eighteen months or so. I expressed surprise that the bank didn't have these new services available when the branches were closed. He

conceded that perhaps more could have done more to get the timing of these events better aligned. But what surprised me most was that the bank had done so little to promote the new services. It simply struck me as very poor business to miss the opportunity to 'sell' the new services (particularly since they would make banking more available), and at the same time, considerably alleviate concerns from rural communities that the banks don't care about them.

Implications for Leadership

Australia is changing dramatically in economic and social terms, along with the rest of the world. The changes are driven primarily by new technology, which provides the potential for substantial increases in the productivity and wealth of the Australian community. But this technology also reduces the relative value of some current skills, assets and activities in Australia, while substantially increasing the value of others. The resulting new economic paradigms in Australia challenge traditional community values in some areas. There are substantial adjustment costs for many people and some people are strongly opposed to any changes, especially where the forces behind those changes are difficult to understand.

Leadership is needed. The role of leadership is to promote the interests of constituents by explaining what is happening and easing the process of transition.

Leadership is not merely echoing and advocating ill-informed fears of the implications of a changing society. Neither is leadership, at the other extreme, telling people who may have concerns about a changing society that their concerns have no validity.

Business can help in this process. The main role of business is generating wealth in the community by adopting efficient approaches to meeting the needs and wants of Australians, including by increasing productivity with the adoption of new technologies. But business should also understand the impacts that these new technologies have on society, and consider the best ways to ensure that the new technologies win acceptance by society. This appears to be no more than sound business practice, but this approach has not always been adopted by business when changing the way that goods and services are provided.

Australia needs to help people who stand to suffer from social and economic change. The help should be designed to assist these people perform a valuable role in the new economy: thus, any help should be focused on adjustment, rather than seeking to maintain the status quo.

Australia also needs to ensure that there is an equitable distribution of the benefits of the new economy, without undermining those benefits.

First and foremost, governments should adopt policies to ensure Australia is well placed to reap the enormous benefits available from the new economy. Usually, this will mean reviewing policies and legislation which impede Australians adapting to and fully utilising these new technologies.

Well designed economic and social policy reform are essential ingredients to achieving these things. The National Competition Policy Reform program, implemented by governments with a focus on the future public interest as originally envisaged, is an important part of well designed policy reform.