

THE FOURTH SIR JOHN QUICK BENDIGO LECTURE

# The Myth of the Level Playing Field

by

**Dr John White**

Global Chief Executive, Visy Industries

**LA TROBE UNIVERSITY, BENDIGO  
15 SEPTEMBER 1997**

ISSN 1325-0787



# The Myth of the Level Playing Field

by Dr John White

**T**his is the fourth public lecture dedicated to the memory of Sir John Quick, whose passionate belief that Government should reflect the will of the people ensured his place in history as one of the founding fathers of the Australian Constitution.

Now, some 55 years after his death, I wonder what Sir John would have made of the latest findings of the Australian social researcher, Hugh Mackay. According to Mackay's most recent surveys, Australian society in the late 1990s is characterised by an overwhelming sense of insecurity.

As a nation, Mackay says, we are disillusioned with, and distrustful of, our political and business leaders. We yearn for more predicability, more integrity, more vision and more leadership.

So much so that when extreme and unacceptable proposals are put forward by people such as the Member for Oxley, there is disturbingly strong support in some quarters.

How markedly Mackay's somewhat uninspiring picture of today contrasts with what must have been the prevailing mood 100 or so years ago. Then, Sir John Quick and others were shaping the Australian Constitution in the lead up to Federation. The mood of optimism and sense of promise must have touched many a colonial resident.

Many might disagree with the social commentary that people such as Hugh Mackay have produced about modern day Australia. But I think we'd all accept that as a nation, Australia is in danger of entering the next millennium with less optimism and sense of its potential than it had when it entered the 1900s.

I see no need to be pessimistic about the outlook for Australia. On the contrary, I'm extremely enthusiastic about the many opportunities that we have at our fingertips. What concerns me is that, as a nation we seem to be unsure about just how to reach out for and hold onto the multitude of opportunities that are available to us. In this respect we're behaving more like a colonial dependent than a dynamic country which is approaching its second century of Federation. Yet Australia is older than many European nations.

But before you accuse me of being unpatriotic, let me assure you that this view of Australia as a babe in the international woods is quite widespread. You will hear it if you travel internationally on business. You will even hear it in the corridors of power - if you know how to listen - in Europe, America and even Asia.

Several years ago I attended a Business Council summit on Australia's national debt. One delegate, a senior Japanese Government adviser on industry remarked that there was no need for Australia to worry about its economic situation. "Don't worry" he said "When your standard of living has fallen into line with other poorer Asian, African and South American countries, Japan will invest in factories in Australia and save you from starving." I remembered those comments when I read last month of Toyota's plans to spend a billion dollars on new manufacturing investment at Altona.

I trust that the Toyota investment and the jobs that come with it have more to do with the government's recent decision to freeze tariffs than any Japanese view that we've now become a third world nation.

But I'm also sure that if we'd taken the Japanese adviser's comments more seriously five years ago, and started addressing our lack of national vision and our uncompetitive industry policy sooner, there would have been many more investments made, and many more jobs created, than has actually been the case.

Around the time that Japanese adviser made his comment I gave an address titled, "Why Australia must balance the Ledger." My essential argument then - as it is now - was that Australia's future depends, to a great extent, on our ability to balance trade.

As I said then "the perilous state of the country's economy is revealed by statistics for the year 1991-92, which expose foreign debt of \$150 billion, manufactured imports of \$48 billion and manufactured exports of just \$33 billion."

In social terms, these bleak economic statistics then translated into unemployment of 11.8 per cent or more than one million people at January 1993. Youth unemployment was almost 30 per cent

Four years later, my argument hasn't changed. But the statistics have. For the most part they have got worse. Foreign debt stands at almost \$200 billion. Manufactured imports are \$74 billion and manufactured exports are \$48 billion. The gap has widened from a \$15 billion trade deficit to a \$26 billion deficit.

Thankfully, official unemployment has fallen below 10 per cent. But even discounting the number of people working part-time who want full-time work, unemployment is still far too high. Youth unemployment is still 30 per cent. Too many of our young people, our nation's future, are starting their adult life in an environment far removed from optimism and opportunity. Indeed many of these young people are themselves children of the long term unemployed.

At the same time we have witnessed an increasing sell off of Australian owned enterprises with the danger of further diluting our ability to develop and control our own intellectual property. More profits from our rather small domestic market are being exported, instead of growing Australian companies' exports.

To me, this leads to one inescapable conclusion. There is an urgent need to balance our trade. This can only be achieved by developing our exports in manufactured goods and services, on the back of an increasing domestic market size and share.

I'm not denying the key role of our primary and mining industries. Today, however, our reliance on the efficiency of some primary and mining producers has allowed inefficiencies to develop in the service and manufacturing sectors. To turnaround our value adding industry performance demands a bipartisan national strategy.

Recently there have been some encouraging signs from both sides of politics that industry policy is back on the agenda. Predictably this has raised the ire of the economic rationalists in Canberra who would raise the alarm that we are about to enter a new age of protectionism. We are not. Protectionism is not the answer. We do not need it.

In fact my premise is that contrary to some recent closure announcements by manufacturers as diverse as BHP and Berlei, Australian industry can compete - and compete well - on the world stage. But our ability to develop new products and services must accelerate. Government's role in this is pivotal. It must provide the sort of leadership, policies and regulations which facilitate our industrial well-being.

The fact is we have no choice but to match world's best practice in everything we do, including Government policy. Obstacles to industry caused by inefficiencies or duplication in services - particularly government-provided services and costs - must be eliminated. It is worth noting that add-on costs, such as taxes and levies, are about double here what they are in New Zealand.

For an engineer like myself, having spent all my working life in the international manufacturing sector, the need for a coherent national vision and industry policy seems self-evident. No company succeeds without a dynamic strategy and vision, built on enlightened self interest. Certainly the successful Asian economies to our north believe so. Malaysia for example has a well articulated vision of where it wants to be in 2020. By contrast Australia, at least according to Hugh Mackay, is unsure of exactly where it is in 1997. How has this become so?

Until very recently both sides of politics in Australia were held captive by Canberra's Treasury bureaucrats. Treasury was converted to laissez faire economics in the 1980's. They embraced it wholeheartedly and they're still having trouble letting it go. For them it is a matter of faith, a religion. Stripped to its bare bones, Treasury's policy has been to have no industry policy at all. To put it another way, Treasury thought that acting in our own self interest was not in our interest.

I make no apologies for this criticism of the Treasury bureaucrats' view of the world. It seems their ideology - at least since the early 1980s - was that we should cast our future to the winds of the international markets. They believed that by taking the laissez faire lead, Australia could help bring about the mythical level playing field espoused by economic theorists. Indeed I have often been dismayed in the past at how easily and eagerly Treasury has sought out and accepted unquestioningly the lobby of overseas-owned interests. Yet they've disregarded the advice of successful Australian business leaders, presumably because they believe it is tainted by self-interest and so could not be in the national interest.

This apparent refusal to sincerely seek and act on the advice of successful Australian businesses robs them of an opportunity to thoroughly understand the market from the perspective of those who must be relied on to build the nation's future. This is a key differentiator between Australia and other successful nations.

The Treasury line is one I totally reject. The level of youth unemployment, and the continued growth of our foreign debt and the sale of Australian productive enterprises to foreigners are irrefutable evidence that their 15-year experiment of "economic irrationalism" as I call it, has failed.

Today, thankfully, there is a growing mood among politicians, the media, industry and some government departments that the Treasury view of the world, its belief in the primacy of the free market and its faith in the existence of the level playing field - is ignoring reality.

Prime Minister John Howard, has already moved to freeze car and textile tariffs. This action demonstrates an understanding of the underlying importance of the manufacturing industry as a key driver in the development of the economy. I am not a supporter of tariff protection. But I see no reason for Australia to expose itself to unfair competition when our competitors do not match tariff reductions. To do otherwise is just commercially stupid and is seen as such in Asia. The market is, in reality, determined by what other nation's governments do in conjunction with their own industry.

The Prime Minister has responded to recent reports such as the Mortimer and Metal Trades Industry Association reports by committing the government to tax reform and the examination of policies which promote investment, economic growth and revitalise industry.

This changing policy environment has come about through a period of sustained lobbying - largely by the business community. For example the Business Council of Australia's submission to the Federal Government's "Review of Business Program", says:

"The reality of an intensely competitive global market for goods, services and capital means that Australia urgently needs to create the conditions necessary to raise the competitiveness of domestic industry and to more effectively compete for global investment funds and projects.

"To achieve this requires a more strategic and all encompassing approach to industry development by government than hitherto, to enable industry to invest competitively in Australia to create wealth and jobs and raise living standards in the community".

"As a matter of principle, the council is not seeking new government subsidies or protection for Australian industry on a long-term basis.

"It believes that Australian industry must be globally competitive without such ongoing support from government.

"However, there may be cases and circumstances where support is desirable in the short-term to achieve national economic ambitions and industry growth objectives," - and to match what our competitors in the international market are doing.

Similar sentiments have been expressed by a growing number of employers and employer bodies. For example the MTIA's recent "Make or Break" report has called for a vision to guide industry and investment. It found that most Australian companies are looking for a new direction in industry policy. Indeed most of the several hundred companies surveyed complained of what they saw as a "reality gap" between Canberra's policy decisions and what was actually happening in the real business world.

Such an emerging consensus of the need for national industry policy is welcome. What is required is a national vision that will encourage an alliance between governments and industry that will positively encourage the latter to invest, employ, train, and export. Any industry policy that falls short of this fundamental aim is selling Australia short.

Australia must not miss this current opportunity to address industry policy properly. Failing to do so will ensure that our national indebtedness will continue to increase at the

rate of \$10 billion to \$20 billion a year. Long term and high levels of unemployment will persist. And Australia will risk becoming the factory-services slave of an industrialised Asia. Quite simply, our national sovereignty is at stake.

Having spent some time arguing that we need a national vision and industry policy, I would now like to outline in more detail just what I mean by it. Despite what the economic dries say, advocates of a sophisticated industry policy do not want a return to McEwenism, to fortress Australia. Fortress Australia, the highly protectionist approach to industry policy from the turn of the century to the 1980s, has out-lived its relevance. This is clearly evidenced by the fact our manufacturing sector contracted from the late 1960's onwards, even while tariffs and quotas were very much part of the landscape.

There is no doubt that countries that began economic reform in the 1980s, such as Australia, New Zealand, the Netherlands and Norway, have enjoyed more success than countries that have largely spurned reform. Take Japan, for example. There was a period when economists argued it would take over from the US in the mid-1990s. Today it struggles to have positive GDP growth. Advocates of industry policy acknowledge this. Without economic reform, Australia's international competitiveness would have fallen. Exporters would have found it more difficult to compete on world markets; domestic manufacturers could not compete against imports.

McEwenism had a role in its day. Let us not forget that it was in conjunction with a national vision to grow the Australian population by massive immigration, to build a strategic industry capability from almost zero base, and that every family should have their own house and world's best education and health care. But it is not the answer now. What's needed now is a more sophisticated approach to developing the nation, in line with today's global realities.

To paraphrase the MTIA report, the aim of our industry policy should be to secure investment in high value-adding industries based on leading technologies, world class competitiveness and strong integration with global markets, so that Australian industry can generate high quality jobs.

In short what Australia needs is what we observe first hand when we travel to countries as diverse as Germany, the US, the European Union, Malaysia, Ireland, Turkey, Holland, Israel and Singapore. We see how governments, industry and banks work together to build internationally viable networks of organisations and corporate structures to nurture competitive export-oriented industries.

In those countries, a national approach to industry is valued. It is an inherent part of the national culture of self interest. While the role of the free market is acknowledged, it is not considered sacrosanct. They recognise that the market is as much driven by competing nations' government policies as by so called open market forces. It is accepted that markets fail to serve social needs and governments intervene. These countries believe a partnership between government, industry and the broader community is needed to marshal individual and collective intellect and resources. They seek to create a national vision and link it to reality. They set goals. They create a road map by which they move forward.

In Australia, just as in these countries, the community has the right to demand leadership by Government. It is reasonable for politicians to enunciate a direction and a vision for the future. We should define our national goals, and put in place policies, legislation and regulations that help us move in the direction to achieve that vision. In so doing an industry policy is inherently being implemented. Such policy would recognise the skills and diversity of our people, our strength in and dependence on infrastructure, our rural and resources-based industries, and the need to grow our domestic market, as the basis to grow Australian enterprises and to attract foreign investment and technology.

It would focus on research and development, engineering and technological capability, and efficient services delivery as the basis of a competitive export-capable, value-added industry.

It would distinguish between wealth creation and job creation. There is a propensity for governments to simply create jobs or encourage youth to stay in higher education to solve problems politically and socially. If these jobs are not wealth creating, they add to the debt burden and cost structure, making us less competitive in the long term.

Although innovative small companies are important we need to create and support a growing number of large indigenous companies if we are to succeed in the tough realities of the world marketplace. These do not necessarily need to be entirely Australian-owned, but they do need to be indigenous companies. By that I mean companies whose heart and soul and mind is in this country.

The question should be: "Will companies re-invest their profits in research and development in this country, develop products whose intellectual property is owned in this country, and use that intellectual property to create exports. Or is the company simply an overseas-owned enterprise here to take advantage of our marketplace?"

We should encourage and welcome foreign investment, but we should in parallel foster growth of Australian owned companies - aim for the growth of another billion dollar Australian company every year.

The indigenous companies which fit the desired model should be given full support of government policy in a way which benefits their competitive development. That is particularly so for those companies capable of developing value-added exports.

Whenever major procurements or developments depend on taxpayers' money, or concessions and licences are granted to exploit natural resources in the domestic market, preference should always be given to indigenous companies. Government could make it clear that foreign companies exploiting Australian resources or the Australian consumer market will benefit from having Australian partners and suppliers.

In addition, indigenous product design and development capability must be fostered. Unless a company has its own product range, it is unlikely to survive and prosper in the international marketplace.

To achieve this, we must recognise that people are the country's most valuable resource. Therefore, due attention must be paid to education and training. We must also address the social factors that ensure a happy and fulfilled workforce which is able to work to the benefit of their companies and the country. We must not tolerate any level of youth unemployment.

In broad terms, the national industry policy I am advocating must integrate the following 14 elements; as a minimum.

- National Vision that is shared by all Australians
- Education, training and health
- Research and development.
- Environmental sustainability
- Full employment
- Government purchasing to build indigenous capability
- Growing large indigenous enterprises
- Building value-adding industries on our natural advantages.
- International competitiveness in business and government, including tax
- Regional integration and globalisation

- Equal opportunities and human rights
- Capitalising on cultural diversity
- Ethical business practices
- Defence industrial capability

None of these elements imply protectionism. Rather, they represent enlightened self-interest to maximise our nation's opportunities and to position it to compete in and contribute to the global community. If implemented correctly, they can result in world-class enterprises. They can often bring together alliances of traditionally unlikely bed-fellows - unions, industry, government, and overseas-owned technology companies or developers.

I saw this happen in my previous position as Chief Executive at Transfield Defence Systems. In 1988 I led a consortium which bought the Williamstown Naval Dockyard from the Federal Government. At the time the ship yard was considered an industrial basket case and a good example of the worst of Australian industry. It was losing \$20 million a year despite considerable investment by the Federal Government. Today, that ship yard is producing world class ships at internationally competitive prices and is expanding into new markets across the region.

The transition was not easy, nor would it have been possible without the support of Federal and State governments and the trade union movement. All parties recognised that without radical change the ability to build and maintain sophisticated vessels for our nation's defence would cease to exist. Sydney's Cockatoo Naval Dockyard and Newcastle State Dockyard had already closed under the sheer weight of their ineffectiveness.

At Williamstown, we recognised that any long-term success lay with being internationally competitive. We knew that delivering world-class products to the domestic market was one key way of demonstrating our capability of developing export markets. We also recognised that becoming internationally competitive could not be done overnight. So we set a six-year target of achieving world best practice by 1994-1995. To meet this challenge we addressed two main fronts. We sought to become more efficient at building ships and we developed our own intellectual property and capability. In short we had to become an innovative enterprise.

The problems Williamstown faced were not unique. They included low productivity, high levels of industrial disputation, idle time and injury, demarcation disputes, and isolated, inwardlooking management. There was a lack of personal motivation and a perception that

costs and delivery schedules were both unimportant and beyond any employee's control. Yet we overcame all these difficulties to emerge as a world class ship building operation. Prior to the changes the two American-designed FFG frigates the shipyard was contracted to build for the Royal Australian Navy, had been behind schedule and rusting on the slipway. Yet we delivered them ahead of schedule, on budget and to required quality standards.

The reborn ship yard was able to win the \$5 billion dollar ANZAC Ship contract and through that contract lead the development of in-country expertise in ship design and building. Inherent in the ANZAC ship contract was the requirement to achieve more than 80 per cent Australian and New Zealand content. This recognised that to maintain strategic relevance, the defence forces must be at the leading edge of technology. For that to occur, we must have an indigenous industrial support capability.

There are now some 1300 local suppliers involved in the ANZAC project. Many of them are small to medium enterprises, providing products and services that they have previously been unable to. They're meeting international standards of quality and price and as a consequence many are finding new market opportunities internationally.

While Treasury in Canberra might not have realised it as such, the Williamstown turnaround was a form of industry policy at work. The flow on effect has been tremendous. This experience at Williamstown provides an insight into what industry policy should be all about. The strategies put in place, picked up on the 14 elements mentioned earlier.

I highlight the Williamstown experience because it shows what co-operation between the different tiers of government, unions and industry can achieve. All parties marshalled their individual and collective skills and commitment to create a vision and then moved forward to achieve it. It did not stop at the company or government. The network of internationally competitive suppliers, overseas and local, also became part of the vision. Their contacts, expertise and knowledge are now invaluable assets. This approach has enabled a large company to be created and produced changes which have benefited the entire economy.

While Williamstown has certainly been a success, the true test of good industry policy is whether it produces internationally competitive industries. Indeed, industry policies which do not promote the growth of internationally competitive, export-oriented industries are doomed to fail, and should not continue. Ladies and Gentlemen, it takes focus, leadership, considerable team effort, determination and investment to turn a good idea into an internationally marketable and saleable commodity.

Development and adoption of new designs, new products and their associated intellectual property is a strategic imperative that needs to be recognised and facilitated by government. Success depends not only on industry's ability to develop new designs, but also on the community's ability to nurture, focus and network that development within internationally viable companies.

To date, few Australian companies have grown beyond relative mediocrity because revenue has been limited by a small, oversupplied, and fluctuating domestic market. Thus few companies have made the investment required to generate the intellectual property and saleable products needed to grow and export.

As I've stressed before, Australia must develop an increasing number of relatively large, strong companies able to export, based on their own intellectual property. Unless we do so, our industries will be increasingly subjugated by overseas interests. The simple fact is that domestic requirements are too small to grow capability and intellectual property among a large number of small domestic competitors, in the face of ever present international competition. The longer we attempt to do so, the less able we are to compete, and be self reliant, both strategically and economically. We must grow large, sustainable companies on whose coat tails small business can venture overseas.

The company of which I am now CEO, Visy Industries, has achieved world's best practice in its manufacturing operations in spite of the lack of national industry policy. This is thanks largely to the vision and drive of Visy's Chairman and owner, Richard Pratt, who has taken Visy from a one factory company to an international recycled paper and packaging giant with more than 5000 employees.

Now Richard Pratt and I are sponsoring a proposal which would see a group of Australian companies buy the Federal Government's key defence manufacturing assets - namely Australian Defence Industries (ADI) - and part of the Australian Submarine Corporation. Most of you must be familiar with ADI's Bendigo operations. Under our proposal the Bendigo operation would become an integral part of the new technology and systems engineering company which would be financially strong, publicly listed, and Australian owned. The new company would use its strong Australian defence manufacturing base to branch out, and compete for major defence, infrastructure, machinery and engineering projects both here and overseas. The aim is that it become Australia's premier technology company with a revenue of over \$3 billion within 5 to 10 years.

The Bendigo facility should continue to be developed as a specialist vehicle centre and we would expand its engineering expertise into other commercial markets. One area we can see its specialist skills of particular interest is in the production of precision machinery and components for the recycling industry. But perhaps more importantly it will be part of a company that has the critical mass necessary to invest in the very expensive process of developing new products and pursuing new business opportunities.

However if we are to succeed, this proposal will need the active interest of Government to ensure that its tender process favours Australian-owned bids which can add value to the ADI and ASC assets in a way which will benefit local industry and create local jobs. Such action on the part of the Government would be a clear example of the sort of proactive industry policy which I have been talking about. It is nothing more or less than the sort of industry policy which is so regularly pursued in the home countries of our major competitors.

I submit to you that this is a very good thing, whether it should be ours, or another group of Australian companies that is successful. We must create the environment which ensures that Australian enterprises are given the greatest chance of becoming internationally competitive. We cannot leave it simply to chance. It requires a national vision.

The economic rationalists will still argue that government is not in the business of holding the hand of business. They may even point to several state governments that attempted to do this and ended up costing the taxpayers money. What this approach fails to recognise, as I have said, is that other countries do have industry policies that do provide tangible national benefits. The playing field is therefore not level.

And so long as we continue to entertain the notion that there is a level playing field, as long as we fail to implement a cohesive, effective national industry policy, then there is every likelihood that Australians will become technological spectators simply selling our cheap labour, becoming the white trash of Asia just as former Singapore Prime Minister Lee Kuan Yew predicted could happen.

My vision at the highest level is that we develop a road map for Australia's future which envisages us building a nation of 50 to 100 million people in the next 50 to 100 years, which is in the top ten nations in terms of living standards. This will require an open and enthusiastic immigration program and significant investment in our social and physical infrastructure.

We should envisage the vast opportunities and needs of building such a dynamic nation, which seeks input from Europe, Asia, Africa and the Americas, not only investment and technology, but also people, and resulting global linkages. We would, for example, plan the fast transport corridor that must integrate the South Eastern growth belt from Adelaide through Melbourne and Sydney to Brisbane. We would consider the water and energy requirements, the new environmentally sustainable urban developments, and the contiguous natural reserves.

In this scenario we would not need to promote ourselves as a cheap source of skilled labour or as a stepping stone to Asia for European and American companies. We would be a growth market of interest in our own right. And from this position we would have the capacity to participate in the global economy, particularly the Asian growth markets. This rapidly expanding domestic market would sustain internationally viable companies and provide security, prosperity and sovereign stability.

Most importantly, if we do not demonstrate our intent and ability to develop and share this vast, resource rich, but under-populated continent, it will again become the target of envy. And history would indicate that we will not be able to retain our preferred form of sovereignty over it. Such a road map for Australia is therefore, arguably, necessary to secure our children's future.

We must exhibit the same drive, determination and vision as Sir John Quick. We must choose to act in enlightened self interest. But we should do so with a thorough understanding of our environment, with an open and global perspective, and with a determination to grasp our many opportunities and to share the benefits. Then we will build a nation which is truly worthy of the aspirations of our founders.

**Postscript:**

I want to tell you about a display in the History of Writing and Writing Materials section of the Cairo Museum. The display traces the history of such, and includes stone, papyrus, paper, bark, resin and so on. There is in the collection a letter from the superintendent of construction in the Valley of the Kings to the Officer-in-Charge of all monuments, in which he says:

"I am being criticised for falling behind in production. The reason is that I am being interfered with by the bureaucrats. For example, last week I was required to bring the entire workforce of slaves from the site to the junction of the Nile and the Aswan so they could be re-equipped. This lost a total of three shifts. I would have lost no shifts had your people at head office had the wit to bring the equipment to the site."

There is a second letter by the same author:

"It is difficult to get production out of even slaves, if you do not feed them. I urge you to ensure the supply of food if production is to continue."

And I'm sure it will be the same in a thousand years.