Inequality in Australia

Address to the Royal Society of NSW

October 2024

Australia has a reputation for egalitarianism. It is not deserved.

This is a nation based on mercantilist plunder. Two hundred and fifty years after the publication of Adam Smith's *Wealth of Nations* [1], our leaders insist that the prosperity of citizens rests upon a trickling down of bounty from the export of raw materials. This simplistic narrative is told, and retold, by almost every newspaper editor in the country, over and over again, in the form of a Gregorian chant without end.

Economists are uncomfortable with this story. But I wonder how many Australians understand how our celebration of mercantilist plunder has contributed to an erosion of the nation's manufacturing capability, undermined labour productivity growth, and depressed the living standards of workers. I wonder how many understand how this narrative has contributed to growing inequality in Australia, especially as between successive generations.

Australians are aware that the living standards of today's workers are under pressure. They now have lived experience of the impacts of climate change and large-scale environmental degradation. They know that these impacts are getting worse, and that they will be much worse for their children and grandchildren. And they are aware of a growing concentration of wealth, increasingly in the hands of those who have privileged access to the continent's natural resource stocks, and those who no longer must work for a living.

These developments are part of a broader intergenerational tragedy that also features young workers being denied a reasonable prospect of home ownership; young workers burdened by mountains of public debt, the punishing costs of securing a tertiary education and the need to satisfy the increasing demands of 'credentialism'; young workers held back by a tax system that relies increasingly upon fiscal drag. Young workers, a declining proportion of the population, are having to pick up the tab.

Why has this been tolerated?

One explanation, voiced often in various groups concerned by what they see happening around them, is that all these things are the consequence of market systems designed by heartless neoclassical economists, prisoners of abstract theories.

That perspective is understandable. But the truth is much worse than that. The intergenerational tragedy playing out in Australia could have been avoided had our political system not been so dysfunctional, its leaders less inclined to turn a

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1 Smith (1776).

deaf ear to well-reasoned policy advice drawn from the textbooks of neoclassical economics.

But we shouldn't blame our political leaders either. After all, they are the product of a democratic system. Instead, we need to look at those who elect them; we need to look at ourselves; all of us.

Every generation of Australians since the first wave of European settlement has celebrated plunder, dumb luck, and 'finders keepers'. This is what we mean by 'a fair go'. In considering the merits of any policy proposal, every generation of Australians accorded the privilege of suffrage has only ever asked one question: what's in it for me? And because we celebrate plunder, we idolise those who plunder the most. They are our role models.

There is no Australian success story more wholeheartedly celebrated than the export of something taken from nature. Because our political leaders know this, they work hard to be seen to be complicit in these stories. An instructive example (Attachment A) is then Prime Minister Howard's wanting to take some credit for the announcement, on 8 August 2002, of a 25-year Australian LNG supply contract to China. According to Mr Howard, persuading China to relieve us of some of the burden of our natural gas reserves was 'a great Australian team effort'. Team Australia. All of us.

Two decades later, Australia is the world's second largest exporter of natural gas, and the fossil fuel industry is warning that we don't have enough gas available domestically to heat homes on the east coast of Australia. So, a gas import terminal is being constructed on the NSW coast. Apparently, it should be underwritten by the Australian taxpayer. This is the sort of game Team Australia plays.

It is time to ask ourselves some serious questions about the consequences of our 'fair go' ethos. Questions like these: Why have we supported a set of public policies that have heavily degraded the natural environment; energised a drift of wealth away from workers, in favour of retirees, property owners and mercantile interests; and entrenched an economic structure that, for two decades, has delivered very low productivity growth and even weaker real wages growth?

Over the first two decades of the 21st century, as productivity growth slowed sharply, the structurally adjusted level of Commonwealth government spending accelerated, increasing at almost precisely the rate projected in the first *Intergenerational Report*, published in 2002. And, despite the warnings written into the *Intergenerational Report*, the tax system that Australian governments have been relying upon to support that spending is in much worse shape today than it was then. There has been no structural reform of the tax system in the past 24 years. For more than two decades, we have been on notice that our tax system will prove incapable of delivering what what will be asked of it. But we just couldn't be bothered.

The present generation of Australians faces a reckoning. This is the first generation unable to make a credible claim that future generations of Australians will be better off than they are.

That's a serious matter. An inability to make that claim threatens a key pillar of the social compact upon which the legitimacy of our democratic system of governance depends.

There is a narrow pathway out of this emergent intergenerational tragedy, and the threat it poses to Australian democracy. But navigating it will not be easy. It will take uncommon leadership that makes the case for this generation not merely asking what is in it for them, but instead, doing what they can to secure prosperity for future generations of Australians.

Political power, national endowments, individual capability and inequality

Inequality in the distribution of political power is a matter that has concerned moral philosophers and economists for hundreds of years. Two dimensions have been the focus of most attention: short-termism and corporatism.

Short-termism is a consequence of the inescapable 'fact of life' that only the present generation has access to political power, a fact that necessarily poses a considerable risk to those not yet born. And the unhealthy consequences of corporatism were the principal motivator for Adam Smith's *Wealth of Nations*.

In his book, *The Price of Inequality* [2], published in 2013, Joe Stiglitz draws attention to some of the *capabilities* required of individual agents if they are to be relied upon to generate acceptable aggregate outcomes. And he makes a strong public policy case for the nurturing of those capabilities.

The importance of an emphasis on capabilities has long been articulated by Amartya Sen.[3] The capabilities perspective is central to the Stiglitz-Sen-Fitoussi Commission's report, published 15 years ago, on the measurement of economic performance and social progress. [4]

Sen emphasises individual capability not only because of its implications for aggregate outcomes, but because individual capability is a matter of primary interest in itself; indeed, *the* primary matter in any discussion of inequality. According to Sen, the core concern should be the extent to which individuals enjoy a set of capabilities that provides them the freedom to choose a life they have reason to value. [5]

The political system can pander to sectional interests for a very long time, as Australia's patronage of its extractive industries illustrates. Yet, it would be prudent to assume that the legitimacy of a political system is fragile. Paraphrasing Sen and Stiglitz, I would venture that trust in democracy is

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2 Stiglitz (2013).
3 See, for example, Sen (1992) (1999).
4 Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi (2009).
5 This perspective derives from Amartya Sen's exposition of development as freedom (Sen (1999)).

underwritten by a social compact in the nature of a golden rule in two parts: first, all citizens in the present generation should have capabilities that allow them to lead lives they have reason to value; and second, the present generation, being the only generation with political power, will do what it can to ensure that future generations are even better off.

The capabilities enjoyed by citizens are underwritten by national endowments. Some of these national endowments are a consequence of nature, components of 'natural capital'. Others have been developed by earlier generations of humans. These include the products of foundational investments in such things as: our rich indigenous cultures; modern multiculturalism; the visual and performing arts; our legal and regulatory structures; education and health facilities; systems supporting research and innovation; economic and social infrastructure; physical and financial capital; policy frameworks that promote freedom and economic security; and working conditions that support human dignity.[6]

Investments in national endowments should be designed to expand opportunity and enhance the freedom of all Australians, including those not yet born, to choose a life they will have reason to value.

Capability deprivation provides a powerful explanation for extreme inequality. For example, indigenous disadvantage is overwhelmingly a consequence of a lack of access to the nation's endowments, both natural and created.

And our appalling record of species extinction constitutes another form of capability deprivation with generational distributional consequence: because of species extinction, the present generation, and all future generations, have been denied access to national endowments to which past generations had access.[7]

Of course, equality of access to national endowments does not necessarily mean that all citizens will have the same opportunity and freedom to choose a life they will have reason to value. But a lack of equal access, unless it is calibrated to compensate for all instances of innate disadvantage (in a manner that would be favoured by John Rawls[8], for example), does mean that some will be denied the capability to choose a life of value. This form of capability deprivation should be assessed both spatially (as among different groups in society, for example) and temporally; specifically, in intergenerational terms.

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6 National endowments are not the sole determinants of economic, social and environmental outcomes, of course. External drivers and shapers also impact national outcomes. Notable among current shapers of Australian outcomes the information and communications revolution; global climate change; and the industrialisation and urbanisation of China. And outcomes are impacted, too, by all the current policy settings of government, only some of which would properly be characterised as foundational investments.

7 The endowment in this latter case might be thought of as the opportunity to appreciate (that is, to derive psychic value from) the existence of the species now extinct. As Amartya Sen (2004) reminds us, in the loss of a species there is a loss of opportunity to appreciate its existence. And in that loss of opportunity there is a loss of freedom – a loss of 'freedom to have – or safeguard – what (we) value and to which (we) have reason to attach importance'.

8 Rawls (1971).

The foundational role played by natural capital

Human progress, measured in economic or broader social terms, has relied upon models of industrial production, including agriculture, based on the extraction of non-renewable raw materials like iron ore, coal and gas, and the absorption of a stream of 'ecosystem services' derived from things like fresh water, forests, marine life, arable soils, and various natural waste absorbers.

How might we assess whether human progress, relying upon these modes of development, is sustainable?

The Brundtland Report, published in 1987, framed sustainable development in intergenerational equity terms: development that deprives future generations of the ability to meet their *needs* cannot be considered sustainable. [9]

In an address delivered in 1991, economist Robert Solow offered the perspective that sustainability 'is (a moral) obligation to conduct ourselves so that we leave to the future the *option* or the *capacity* to be as *well off* as we are (my emphasis)'.[10]

Thus, Solow, too, couches sustainable development in intergenerational equity terms. But his concept of well-being goes beyond human *needs*. It includes an appreciation of environmental amenity, or what he calls 'our desire for unspoiled nature'.

Solow notes, reasonably, that when we think about our own well-being, or that of our family, our community, or even the well-being of the present generation, we should 'recognize that different amenities really are, to some extent, substitutable for one another'. Thus, we might see an opportunity for enhanced well-being in trading-off some amount of environmental amenity, some chunk of natural capital, for economic and/or social advancement. For example, we might choose to substitute a year's supply of firewood for the environmental amenity derived from a 500-year-old eucalypt.

These are the sorts of choices humans have been making for centuries: choosing to plunder the environment in the interests of economic and social progress; of individuals, families, and communities. It's been the rational thing to do, an easy choice to make; after all, it's not something any of us has had to pay for, until now.

Today, all the ecosystem services supplied by nature that are critical to human development are facing a set of extreme challenges, from climate change, loss of biodiversity, deforestation, and the collapse of ecosystem functioning.

These challenges pose existential risks to businesses, economies, and financial systems everywhere on Earth. Employment opportunities are being impacted

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9 *World Commission on Environment and Development, Our Common Future (The Brundtland Report)*. Oxford: Oxford University Press, 1987.

10 Robert M Solow, 'Sustainability: an economist's perspective', paper presented as the Eighteenth J. Seward Johnson Lecture to the Marine Policy Center, Woods Hole Oceanographic institution, at Woods Hole, Massachusetts, on June 14, 1991.

and productivity undermined. Accumulated stores of material and financial wealth are exposed to nature risks so extreme as to be uninsurable. Human cultures, livelihoods and lives are being lost.

So much for sustainable development.

The 1992 Rio Earth Summit conceptualised the sustainability challenge in terms of 'integrating and *balancing* economic, social and environmental concerns in meeting our needs (my emphasis)'.[11]

This framing has never made sense.

We should have been constructing models of development that acknowledge the biophysical *limits* of a finite planet; models that recognise that those limits constitute a set of immutable *constraints* affecting modes of human development; that the state of the environment is not merely one among many *choice variables* that humans might play around with in various 'trade-offs' and 'balancing' acts, over and over, without end.

In embracing the language of 'balancing' and 'trade-offs', policy makers have accepted the notion that human development rests on the continuing plunder of natural capital. It is well past time we understood that securing economic and social development rests upon the rebuilding of natural capital, not its continuing plunder.

This is a matter of primary distributional importance. The rebuilding of natural capital, often referred to these days as 'nature positive', provides an opportunity for this generation to affirm its moral obligation to future generations, to ensure that, in Solow's words, 'we leave to the future the option or the capacity to be as well off as we are'.

The functional distribution of income

An obvious feature of the capitalist system is that it tends to generate an ongoing accumulation of physical capital through saving and investment. Ironically, the fact that it has tended also to degrade the stock of natural capital has received far less attention from economists than the question of what the process of capital accumulation does to the distribution of income as between capitalists and workers. This 'functional' distribution of income was a rather obvious interest of Karl Marx.

In more recent times, the French economist, Thomas Pikkety, has argued that because the rate of return on capital has typically exceeded the rate of workforce growth, we should expect to see the distribution of factor incomes becoming increasingly biased toward capital.[12]

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[11] United Nations Conference on Environment and Development (UNCED), Rio de Janeiro, Brazil, 3-14 June 1992. https://www.un.org/en/conferences/environment/rio1992.

[12] Piketty (2014). This is arithmetically guaranteed if all profits are reinvested (which, coincidentally, is what is implied by Phelps (1961) golden rule of capital accumulation), both

Yet, in Australia, the aggregate capital-labour ratio stopped growing about a decade ago and, whilst it experienced a brief period of growth subsequently, has been falling for some years now. This is a consequence of chronically weak business investment.

The behaviour of Auatralia's aggregate capital-labour ratio can, in part, be explained by the resources boom. But that boom has had an impact on the functional distribution of income through a transmission mechanism that doesn't depend at all upon its impact on the aggregate capital-labour ratio.

At the start of the 21st century, China had about one-fifth of the world's population. Having been closed off from the rest of the world economy for some time, in the last quarter of the 20th century it chose to embrace market economics and international trade. 20 years into the 21st century it had become the major trading partner of more than 120 countries, being the largest national source of imports into both the European Union and the United States. And it was buying more than a third of Australia's total exports.

Standard international trade theory predicts that a global shock of this magnitude will have a profound impact on the distribution of income, as between workers and the owners of capital, in every trading nation in the world.

Consistent with the theory, China's exports have been dominated by relatively labour-intensive products, mainly manufactures, and its imports by relatively capital-intensive products, especially minerals and energy.

According to standard trade theory, and in the absence of any border tax adjustment, like a tariff on imports or an export tax, we should have expected to see the following pattern of economic impacts in every one of China's trading partners in the developed world, irrespective of whether it ends up being a net-exporter to, or net-importer from, that country: (1) the domestic prices of labour-intensive products like manufactures fall relative to the domestic prices of capital-intensive products like minerals and energy; (2) the reward of labour (wages) falls relative to the reward to capital (profits); (3) labour productivity falls in all industries; and (4) relative to the owners of capital, workers are unambiguously worse off.

In contrast, Chinese workers benefit relative to the owners of capital.

Of course, there are a lot of other factors influencing relative factor prices, labour productivity, and so on. But those insights from standard trade theory do a pretty good job of describing the real economic impact on all developed nations, including Australia, of China's reemergence as a global economic power in the first quarter of the 21st century.

As China has opened to international trade, it has experienced persistently large trade surpluses (exports exceeding imports) with the major developed

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capital and labour are paid their value marginal products <u>and</u> the (absolute value of the) elasticity of substitution between capital and labour in production is less than unity.

economies of the United States and the European Union. These former manufacturing powerhouses, with large *trade deficits* to China, have had little difficulty seeing a direct connection between China's expansion and a decline in the living standards of their workers.

But Team Australia hasn't got it. To the contrary, we seem to believe that our sales of non-renewable resources to China and other rapidly industrialising nations in Asia have underwritten prosperity for all.

Australia has experienced a persistent *trade surplus* with China.

But the distribution of the gains from international trade, as between capital and labour, has nothing at all to do with the trade balance; it has nothing to do with whether a country experiences a trade surplus or a trade deficit. It is driven, rather, by what happens to the prices of the things the country trades.

China's engagement in world trade has reduced the relative price of labour-intensive products – that is, increased the relative price of capital-intensive products – in all its trading partners.

As the relative prices of labour-intensive products have fallen, the United States and the large manufacturing nations in the EU have experienced modest reductions in their terms of trade. But because we have a comparative advantage in highly capital-intensive resources extraction, especially minerals and fossil fuels, Australia's terms of trade have increased; indeed, as early as 2012, they were double what they had been only a decade earlier.

Large increases in the terms of trade are a big deal for those charged with macroeconomic management.

Increases in the terms of trade fuel domestic inflationary pressures that increase the domestic costs of production relative to trading partners, and an appreciation of the <u>nominal</u> exchange rate. Both contribute to what macroeconomists refer to as an appreciation of the <u>real</u> exchange rate, an adjustment mechanism that takes the heat out of the economy by damaging the competitiveness of all trade exposed sectors. Monetary policy can do little to affect the size of the real appreciation. A monetary tightening dampens domestic inflationary pressure but increases the nominal exchange rate. Effectively, the central bank can determine the distribution of the loss of competitiveness as between nominal exchange rate appreciation and increases in the domestic cost of production, but not the magnitude of the loss of competitiveness.

In the decade following the June Quarter 2002, in the first phase of the China-led resources boom, Australia's real exchange rate appreciated by 70 per cent. This had a profound impact on the competitiveness of all Australian import-competing businesses, broadly equivalent to the removal of a 70 per cent across-the-board tariff.

Over that decade, hours worked in Australian manufacturing fell by 10.3 per cent, falling from 11.4 per cent of total employment to 8.4 per cent. Over the past 20 years, Australian manufacturing has lost about 200 workers a week.

Between 2002 and 2012, mining's share of total employment, eaured in hours worked, increased from 1.1 per cent to 2.1 per cent.[13]

You will probably recall that as mining exports were accelerating, our political leaders were wringing their hands over Australia's 'two-speed economy'. But they refused even to wonder whether the damage being done to those in the slow lane might have had something to do with the frenzy of activity in the fast lane.

The damage done to Australian manufacturing by a 70 per cent appreciation of the real exchange rate in the first decade of the 21st century could have been avoided; for example, by levying a tax on the exports of non-renewable natural resources.

The Australian Government still has an opportunity to levy a tax on our fossil fuel exports, reflecting their embodied carbon. If we don't do it, importing countries will, eventually. For example, the European Carbon Border Adjustment Mechanism (CBAM) has been designed to do so. A fossil fuels export tax levied at today's European carbon price would add many tens of billions of dollars a year to government revenues.

For an economist, it is beyond irony to witness today's leaders turn to jelly when confronted with a claim that attending to the environmental risks posed by a new mining proposal will destroy hundreds of jobs, knowing that those same leaders have done nothing to prevent the loss of hundreds of thousands of jobs in manufacturing over the past two decades. And it is simply obscene to see some of them now posturing as champions of a 'made in Australia', manufacturing, strategy.

But what about the impact on the living standards of Australian workers generally of China's engagement in world trade? What matters here is not whether a country's terms of trade have improved or deteriotated, only what has happened to the domestic price of labour-intensive products relative to the domestic price of capital-intensive products. Thus, even though Australia's terms of trade have moved in the opposite direction from those of the US and the major EU countries, workers in Australia have been affected in precisely the same way: labour productivity has fallen, or grown more slowly, in all sectors, and the living standards of domestic workers have declined relative to the owners of capital.

Since Australian exports are relatively capital-intensive, a doubling in Australia's terms of trade implies that, in the absence of any border tax adjustment, the

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13 ABS, *Labour Account Australia, June 2024*. The data are seasonally adjusted 'hours paid for'.

relative domestic prices of labour-intensive products fall on average, by about 50 per cent. No other developed economy has experienced such a large negative shock to the living standards of its workers.

Note that this shock doesn't necessarily translate into a declining share of wages in gross domestic product. That's because GDP growth is also negatively impacted by weaker labour productivity growth. Thus, labour's share in GDP was 48 per cent in the June Quarter 2002 and in the June Quarter 2012.

Over the decade from the June Quarter 2002, Australia experienced staggeringly poor annual labour productivity growth, averaging less than 1 per cent, underwiting anaemic, in some years even negative, real wages growth. All sectors of the economy have been affected. Some will find this gard to believe, but labour productivity in the mining industry, measured by real gross value added per employee, fell by 46 per cent over the decade from the June Quarter 2002. And that has nothing to do with mining-related construction actitivity.

Standard trade theory says this is what should have been expected. The damage done to the living standards of Australian workers, through its impact on labour productivity growth, is not a consequence of systems designed by heartless economists, prisoners of abstract neoclassical theories. To the contrary, it is due to the steadfast refusal of legislators to take any interest in those theories.

And it is not merely neoclassical economic theory that supports a conclusion that the resources boom has undermined Australian productivity growth. One only need take a cursory look at the data. According to my calculations, the resources boom explains two-thirds of the deterioration in Australia's productivity growth performance so far this century relative to the last three decades of the 20th century (Attachment B).

Capability investments in the Asian century

A focus on national endowments illuminates the need to ensure that Australians are endowed with the capabilities that will be relevant to success in the Asian century. Success will come from integration based on complementarity, not from a race to the bottom in wages, social foundations or environmental standards. In managing the risks of growing Australian inequality, there is a need for new foundational investments, including public investments: in our schools, universities and vocational training centres; in developing Asia-capable workplaces and institutions; and in encouraging adaptability.

The case for making these investments was set out in some detail in the *White Paper on Australia in the Asian century*. It explained how past capability investments provide a contemporary basis of comparative advantage. These capabilities include excellence in governance; relatively low levels of corruption; safe working conditions; a concern with environmental sustainability and animal welfare; and institutions that support social harmony, economic and social opportunity, and tolerance. All these attributes support opportunity and freedom for this and future generations of Australians. They improve the wellbeing of the Australian people by enhancing their prospects of choosing a life they will have reason to value.

But a mercantilist will argue that all are costly; that Australia's international competitiveness would be improved by ditching them. And let's not kid ourselves; all are at risk. Upon election of the Abbott Government, every discoverable printed copy of the Asia century white paper was literally pulped, and every government supported digital link to it was severed.

The structure of taxation

The tax review commissioned by the Rudd Government, early in 2008, provided an opportunity for a group of tax policy experts to consider how the tax and transfers systems might best evolve to meet the challenges of the 21st century, and to underwrite future prosperity.

The review team identified challenges associated with strong population growth and population ageing; the Asian century; climate change and widespread environmental destruction; and developments in digital communications and commerce. We called out worsening housing affordability as a matter much in need of policy attention.

Our review identified the several potential sources of revenue: labour income; the normal return on capital; transactions; land; consumption; wealth; natural resources; windfall capital gains; economic rents; environmental externalities, including carbon emissions; and user charges.

We noted that placing reliance upon the first three – labour income, the normal return on capital, and transactions – put at risk the living standards of future generations by retarding productivity growth and workforce participation. We argued the case for reducing reliance on these sources and placing much greater emphasis on all others.

But understanding these things and convincing others of them are very different exercises. A nation that celebrates plunder and dumb luck, and respects 'finders keepers' will not easily see a case for extracting more revenue from natural resources, windfall capital gains, economic rents or environmental externalities. It will have no tolerance of land taxes or other taxes on wealth.

The GST commenced operation on 1 July 2000. We haven't managed to sustain any tax reform effort since. There have been attempts, and they have failed. The tax-mix switch achieved with the introduction of the GST was undone in two decades, with indirect taxes contributing the same share of total revenue as in 1997-98. We are back to where we were in the several decades following WWII, that led ultimately to the Asprey Review: ill-disciplined government, funded by fiscal drag that punishes innovation, enterprise, and effort; distorts the pattern of saving; and rewards tax avoidance and evasion.

The Asprey Review warned that placing exclusive reliance upon fiscal drag in the personal income tax system threatens the social compact. There is a bigger risk now. Over the second half of the 20th century, the share of working taxpayers in the population grew strongly. Today, demographic trends are reducing the working share of the population, and the share that will be paying income tax. A heavier and heavier burden is being placed on the shoulders of a declining proportion of the population.

There is a lot that can be said about much needed reforms to the Australian tax system. And the tax review published in 2010, devoted 1,000 pages of text to that end.

One thing worth keeping in mind as you think about tax reform requirements today is that, when we were working on the project through 2008 and 2009, we were confident that the Rudd Government's world-leading climate policy would be legislated. Its absence implies the need to explore ways in which the Australian tax system might best contribute to reducing carbon emissions and removing past emissions from the atmosphere. This is not the occasion for talking about these things, but they must be top of mind in any tax reform discussion.

Almost all the historical discourse on the fairness of various tax reform proposals in Australia has been framed in intragenerational terms; usually evaluating comparative static changes in progressivity, with current income as the denominator. In that framing, many of the much-needed reforms to the Australian tax system will be labelled regressive.

I would make two points here.

First, the interests of the most disadvantaged are not being served by a tax system that is punishing innovation, denying people opportunity, undermining economic growth, and threatening the sustainability of government service provision.

Second, and more to the point, the present tax system amounts to a conspiracy against future generations. If this generation is to make any credible claim that future generations of Australians will be better off than we are, then far-reaching tax reforms in the directions spelt out here are unavoidable.

Attachment A

Australian Government
Department of the Prime Minister and Cabinet

PM Transcripts

Transcripts from the Prime Ministers of Australia

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Howard, John

Period of Service: 11/03/1996 - 03/12/2007

More information Howard, John on The National Archive website.

Release Date:	08/08/2002
Release Type:	Media Release
Transcript ID:	12872

AUSTRALIA WINS CHINA LNG CONTRACT

I am delighted to announce that today I have been advised by the Chinese Premier Zhu Rongji that Australia';s Northwest Shelf Venture has been chosen by China to be the sole supplier of liquefied natural gas (LNG) to its first LNG project in Guangdong province.
The contract will be worth between $20 - $25 billion in export income for Australia. This is Australia's largest single export deal.
Starting from 2005–06 the venture will supply over 3 million tonnes of LNG per year for 25 years. It is likely to entail an eventual additional investment in a fifth LNG processing train for the Northwest Shelf facilities on the Burrup peninsula, which in itself would be worth about $1.5 billion.
I warmly congratulate the venture on winning this contract. It has been a pleasure to work so closely with the Chief Executives of the consortium to achieve this excellent result.
It is a major and exciting development in the growing trade and economic relationship shared by Australia and China. It represents a new energy partnership between our two nations.
This outcome follows several years of tireless work by many parties. A great Australian team effort has been involved.
I pay tribute to the companies and to the Australian Ambassador in Beijing Mr David Irvine who has been ceaseless in his efforts on behalf of the joint venture. Many of my ministerial colleagues have also been heavily involved.
The joint venture';s bid for the LNG contract was a major focus of my own visit to Beijing in May. I especially appreciated the manner in which my strong support for and representations on behalf of the joint venture were received by the Chinese leadership.
The awarding of this contract to Australia is a fitting way to mark the 30th year of diplomatic relations between our two countries. It speaks well of the trust and respect which exists between us as well as the maturity of the relationship.
Note: The participants in the Venture are Woodside Energy Ltd (operator), BHP Billiton Petroleum (North West Shelf) Pty Ltd, BP Developments Australia Pty Ltd, Chevron Texaco Australia Pty Ltd, Japan Australia LNG (MIMI) Pty Ltd and Shell Development (Australia) Proprietary Ltd – and the Venture's marketing arm, Australia LNG (ALNG).

Attachment B: Australia's terms of trade and labour productivity

Looking back over the 21st century so far, there is likely to be a significant trend in Australia's productivity data, for a host of reasons that could be difficult to isolate. And the time series for productivity is also affected by large shocks, like the global financial crisis and COVID-19. But Australia's terms-of-trade were also shocked by the global financial crisis. And, if there is a strong inverse relationship between the terms-of-trade and productivity, then the global financial crisis should illustrate that relationship.

I am prepared to speculate that, in the period between the onset of the mining boom (the end of 2003) through to the onset of COVID (say, the end of 2019), most of the 'other' impacts on labour productivity (i.e., other than terms-of-trade affects) might be captured in some well-behaved trendline; maybe not linear, but why not start there? So, I have deployed OLS regression on the quarterly time series data for this period (65 observations in each series; indices, Dec Qtr 2003 (t=1) = 100), returning the following estimated linear equation:

(1) $$\pi_t = 104.0278 + 0.3372t - 0.0472p_t\,, \qquad R^2 = 0.9741$$

where:

π_t The level of productivity in quarter t

p_t The level of the terms-of-trade in quarter t

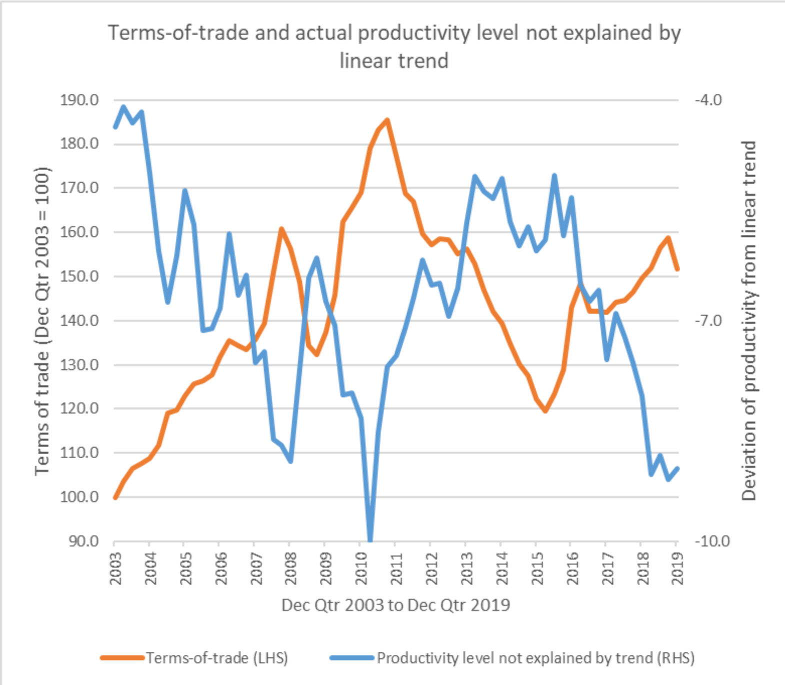
t $t = [1,2,3,\ldots,65]$

All coefficients are highly statistically significant (with vanishingly small p-values).

Stripping the estimated linear trend contribution from the raw productivity data produces the time series shown in the blue line in Figure Three.

This looks like something worth thinking about. It does pose a bit of a challenge to the narrative that the resources 'boom' has underwritten Australian prosperity.

Figure Three



What if?

So, what if the terms-of-trade had not accelerated from the Dec Qtr 2003 through to its post-GFC peak in the Sep Qtr 2011?[14] Well, the coefficient on the terms-of-trade in equation (1) implies that, all else equal, the average rate of productivity growth over those eight years would have been 0.53 per cent a year larger; that is, 1½ per cent a year, instead of the actual average rate of a little under 1 per cent. For reference, Australia's average annual rate of productivity growth across the last three decades of the 20th century was 1¾ per cent.

14 The terms-of-trade increased well above this level in the years following.

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