



**Speech by ACCI  
Chief Executive Peter Anderson**

**AT THE 'PROBLEMS OF TODAY, WORLD OF TOMORROW'  
FORUM FEATURING OECD  
DEPUTY SECRETARY GENERAL AART DE GEUS  
AT THE UNIVERSITY OF SYDNEY**

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## INTRODUCTION

Can I add my welcome to Australia to the OECD's Deputy Secretary General.

My few remarks will comment on a number of the issues which we heard the Deputy Secretary General make this afternoon as well as providing some more immediate perspective on the events here in Australia which bear on the proposition in the title of our forum this afternoon - *'PROBLEMS OF TODAY – WORLD OF TOMORROW.'* I'll conclude by making a couple of comments which relate more directly to the events of the last 4 or 5 hours here in Australia both in Canberra and here in Sydney with the decision of the Reserve Bank.

In relation to the global economic crisis, if we want to identify the appropriate way to respond, then we need to accurately diagnose the nature of the problem. We also must have a realistic understanding of our global and regional place, and our industry profile. Here in Australia we need, in the context of a national economic crisis, (the likes of which almost all in business have never seen before in their business life), we have to appreciate the size and scale of our economy, that is a commodity based economy, a middle ranking economy, an economy that is deeply enmeshed in globalisation, an economy that has significantly benefitted from globalisation and the living standards that have accrued from our integration in world trade and therefore as a result of those features our vulnerability to be buffeted in a substantial way by what is happening globally.

I very much agree with what the Deputy Secretary General said about the place that we start here in Australia. We start with strong fundamentals and I think that is broadly recognised in the Australian community. There are strong economic fundamentals, fundamentals in terms of the government and the fiscal bottom line, the nature of our institutional structures are strong (and have withstood the buffeting), the nature of our financial institutions have withstood a buffeting the likes of which no one anticipated. So we are in a position where there are a range of policy levers available to us and that also contributes to the strength in which we enter this period and deal with this crisis.

But the downside risks are real - not only risks that flow from what I said was a proper understanding of the size and scale of our economy but also, as the Deputy Secretary General, said risks in terms of our reliance on foreign credit and also risks in terms of trade given our exposure to international commodity markets.

Obviously we are seeing a financial crisis now playing out into the real economy. If there's one message that we take even from the developments of the last few hours, it is that the scale and the depth of the economic challenges we face are substantially greater than even what we were discussing back in October or November of last year, in the early weeks after the financial crisis hit.

We are seeing that just through the revisions in forecasts from the International Monetary Fund, from what the Deputy Secretary General said this afternoon about the OECD's subsequent statements that will flow in respect of the global outlook and outlook here in Australia.

The policy responses that we need to have regard to are obviously policy responses that need to address both short term and medium term issues. In a narrow business sense businesses are very well advised to look at cost pressures (and reduce the cost pressures on doing business) and obviously to address cash flow issues. Our response in a broader policy sense, in macro terms, needs to not just be based on short term thinking but obviously trying to set ourselves up in the medium term so that we have a strong, indeed stronger, economy as we ultimately come out of this serious economic downturn. The policy responses need to be globally integrated and there are also a range of measures which need to be specifically domestically focused. It's axiomatic to say in this context that the solutions are neither single nor simple but past lessons are useful markers. This includes lessons that we can take from the way we withstood the Asian downturn of the late 1990s and early 2000s, and also the lessons that we take out of what occurred in the recession of the early 1990s. This relates to lessons in terms of the operation of fiscal policy, monetary policy and also the way in which our labour market responded to government policy.

It's clear there are a range of approaches we must not do in this environment. The wait and see approach doesn't work. We see governments, our own government moving very deliberately, very clearly, in a way to deal with domestic policy settings. We see unprecedented action by central banks, some coordinated, some on an individual basis. This means that we are learning at least some of the lessons of the recession of the early 1990s where we moved too late to alter domestic policy settings. We also need to ensure that we don't undermine confidence because ultimately it's business confidence and consumer confidence that will play a substantial part in turning this situation around. So language, even language from people like myself, is important. The way in which government presents policy and policy measures is important because we don't want to create a self fulfilling prophecy where, by virtue of our own language, we actually make matters worse.

We need to be pragmatic. Leaving it all to the private sector is clearly not going to work, but leaving it all to the public sector to do the heavy lifting in this environment won't either. This is a real test of the capacity of the public sector to undertake a role which drives private sector activity, because ultimately it will be the private sector, and the restoration of confidence and business activity and capital flows in the private sector, that will drive us out of the situation that we are in. However, the triggers for that in part will come from the policy settings and decisions made by governments and the work of the public sector.

Clearly, thinking short term will be a major mistake. The Deputy Secretary General cautioned against a return to protectionist sentiment and I strongly echo that sentiment. A call towards inward protectionism either in our trading markets or in our labour markets is (particularly in the Australian context but I would argue in our global context) a recipe for stagnation not a recipe for a growth agenda – which is clearly the agenda we need to embark upon if we are going to restore our living standards and not have our living standards threatened in the way in which they are.

Let me conclude my remarks then by just focusing specifically on a couple of the perspectives from today's events. The government, the Australian government announced a \$42 billion stimulus package which is based heavily around infrastructure, investment and also around direct stimulus of economic activity through a range of payments made to individuals in the community. Separately, the Reserve Bank has reduced interest rates, or the official cash rate, by a further 1% making it a 4% reduction in Australian interest rates in the course of the past 5 months, with the official cash rate now three and a quarter percent.

I think the first thing to say is that we are seeing a synergy between monetary and fiscal policy responses and that itself sends a good message. The policy regulators, those who make critical decisions in this environment, are making decisions which have regard for what one another is doing. But the basic question is, do we need what occurred today, can we afford it and are we spending money on the right things? Well, I think the way to answer the question is, those three questions is, yes we clearly do need a significant response. All of the indicators are suggesting to us that this is potentially deeper and longer than we had anticipated. Can we afford it? Very good question.

Another way of putting the question is to say can we not afford to do it and I think the answer to that is yes, we cannot afford not to do this. Can we afford \$42 billion when our budgets are under pressure, when our government yesterday announces a \$115 billion hit on revenues? Well, we need to add a significant stimulus, but we also need to ensure that we don't take our eye off structural economic reforms that are necessary, both in terms of our budget and in terms of our economy. If we keep an eye on the structural reforms, things that we know from history (or recent history in particular) are going to add value to our economic activity, then I think we can afford it if there is a strategy to deal with debt. And finally are we spending on the right things? Well by and large, the sorts of things the government is doing, a combination of a direct stimulus and infrastructure spending, are the right things. We can always argue, debate and should discuss around the edges the content of particular measures and particular packages such as our preference for tax cuts. But on first blush the government by and large is pressing the right buttons with what it is doing today.

Finally, let me just leave you with a question to ponder, one that I'm pondering every day now and that is what are the triggers for bringing us out of this economic challenge? Are the triggers here in our region? Is it going to be our region particularly, which is going to be able to drive the world economy out of this crisis? Are there things that we particularly can do both in terms of our regional work and our domestic work which are going to make a difference beyond conventional orthodoxy? These are difficult questions. We don't have the answers to them. They are not readily at hand. We are in some uncharted waters, but I think the more we apply our minds to those questions, keep asking ourselves and searching for those answers and use the resources that are available to us here in our institutions and the OECD, then we have the best prospects of coming out of this in a shorter space of time and in a way that does as little damage as possible to our community and to our business community and those that are so heavily buffeted by what is clearly a very undesirable economic environment in which we now operate.

Thank you very much, and I congratulate the University of Sydney on this forum.

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