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The Australian Moment: What's Next?

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Presentation by

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George Megalogenis:

Thank you, Denis, and thanks to everyone for coming, and Carol Schwartz as well for making the original call.

What I'm going to do is give you a good half hour to have a crack at me – lots of questions from the floor after I've given a brief presentation on, basically, what my thinking was behind the book [*The Australian Moment*].

The book's first and primary goal is to try and talk up the country. One of the reasons why I want to talk up the country is I think our leadership, at a political level, has been pretty mediocre for the last few years. And it's not something people consciously set out to do. I don't think people go into public life to bore on behalf of the country.

But the group on both sides, and I do say this equally, wax and wane between not wanting to talk the country up and deliberately wanting to talk the thing down for narrow political advantage.

This book was a number of years in gestation. The Global Financial Crisis and our rather heroic escape, by the rest of the world's standards, was one big thought that was going to go into this book, trying to explain how Australia got to a particular position where it was the last rich nation standing.

The other part of it, as I mentioned, was to talk the place up. The longer I thought about this book the more I wanted to be able to show this generation and the next aspiring generation, the public figures, people in the bureaucracy, people in the community sector even, what good reform looks like, what the country looks like when it isn't working well. When you have a good look at the 1970s in Australia you see what the country looks like when it's having a collective crack.

It was about having a look at what the 1980s and 1990s looked like in terms of some rather big picture economic and social reforms, and maybe telling the present day and the next generation that these things aren't easily done.

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The media cycle might want to encourage you to do this 24 hour thing, which is about trying to survive the day, or trying to win the day. But in the long run there are always people like me at the other end of the conversation that are into national storytelling. We're not going to pay too much attention to people who have had a brilliant 20-year run in the media but don't have any achievement to show for it. We're more interested in the long run.

I say this as gently as I possibly can to the present generation in Canberra, in Parliament House: most of you won't be remembered 10 and 20 years from now if there is no achievement to show for it.

After the book has been sent (and every author will give this minor complaint), there's always a thought that coalesces after you hit 'send', the thing you wish you'd written into the pages of the book but you trust after you've put it out that other people are going to have this thought with you.

The book itself starts roughly in 1973 with the first oil shock. I use external events to retell our domestic story. So rather than just doing a "Gough won an election and then this happened and then this happened" view of modern Australian politics, I've had a look at the external shocks and how they informed the Australian reaction. The Australian reaction in the 1970s, as I flagged, wasn't all that good.

But the thought that hit me after the book was written was that there is this thing called "national memory". At roughly the two or 30-year mark, countries start to forget the mistakes they've made in the past, and that's the point at which they start to repeat them.

I came across a very interesting quote. Some of you might have been around at the time when Gough Whitlam first went to China in 1971 as Opposition Leader, which is probably the single most important act of diplomacy that echoes still on the present day. Rising in our region is the next big economic superpower, in fact it is a superpower now, and Australia somehow managed to luck into the conversation to bring Beijing in from the cold, albeit from opposition. So Australia did this thing in 1971.

There was a conversation that Gough Whitlam was having with then-Foreign Minister Chou-Shu-kai. And bear in mind the context, the "yellow peril" was still a big issue in Australian

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public affairs. We were in the middle of Vietnam and China was still isolated from the international community.

In his conversation, Whitlam had said straight out to Chou-Shu-kai on July 5, 1971, “The American people have broken President Lyndon Baines Johnson and if Richard Milhous Nixon does not continue to withdraw his forces from Vietnam, they will destroy him similarly. The Australian people have had a bitter experience with going all the way with LBJ. They know the American people made him change his policy and they will never again allow an American president to send troops to another country in this way.” So this is 1971.

Chou-Shu-kai says back to him, “I have similar sentiments to you, such a very good appraisal of the American people. I do believe the American people will rise up and restrict the policies of the American President and overthrow him.”

Now, this is a year and a half before the Watergate burglary, so it’s not a bad call from the Chinese Foreign Minister that the American people would rise up and overthrow President Nixon but I don’t think he was actually making that prediction.

This is a thought that I wish I had in the book but I’m kind of comfortable talking about it after the fact – this thought about national memory is interesting. Twenty years on from Gough’s observation about Americans never going into a war of choice again, and Australians not following them, 20 years on from that observation, George Bush Snr did not invade Iraq. This is Gulf War I. They drove the Iraqis out of Kuwait but didn’t follow Saddam’s forces all the way to Baghdad.

But 32 years on, in 2003, his son, George Bush Jnr, did, and of course we followed. What does that tell you about national memory?

The Americans and the Australians hadn’t forgotten Vietnam but they had underestimated the risk of losing a war of choice.

Bush Snr had served in the navy during World War II as a fighter pilot. He flew dozens of combat missions and was a decorated war hero. His son was in the Texas Air National Guard and never went to Vietnam.

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So between father and son, between the 20-year governing memory to the 30-year governing memory, we're back in Iraq again.

The reason why I mention this, almost as an afterthought, after having hit 'send' on the manuscript on the book, is that Australia is at this tipping point now, at roughly the 20-year mark of its memory of its last recession.

I suspect that the last recession we had, in 1991, was one of the X factors that helped us through the Global Financial Crisis of late-2008/early-2009. You will recall the media was sweating – and this is one instance where the short-term focus for a government actually did help the government and did help the country – there was this incessant focus on the technical definition of a recession which was two quarters of negative growth.

GDP was definitely going to go backwards in that December quarter of 2008 because the entire world economy had fallen off a cliff in that final quarter of 2008.

But Kevin Rudd, the Treasury and the Reserve Bank, even though Rudd wasn't in Parliament in 1990/1991 when we had the recession we had to have, whether he was or wasn't a home borrower when interest rates were 17%, that's sort of a moot point, but in 2008 the governing memory of Australia was we cannot have this thing called two quarters of negative growth.

So they pumped all the cash into the system to avoid exactly that. They knew they were going to get one bad quarter. But they thought if they could get the second quarter up, there would be this confidence effect and the rest of the country would go back to work, or wouldn't get thrown out of work.

Like I say, we're at that outer reach of that particular memory that might get you through an experience like that. Twenty-something years out from a recession is also 20-something years of uninterrupted growth.

One of the other thoughts I've had since the book has gone out is that I, in my own name and probably on behalf of all my colleagues and former colleagues in Canberra, have to declare a war on whingeing. At the 20-year mark after a very deep depression, but 20 years of uninterrupted prosperity, this country has got a lot more going for it than not.

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But – and this gets back to the point about the leadership, and the leadership is quite mediocre at the moment because of this great big thing called “middle Australia”, which is a thing you always want to look after, but I’m about the explain to you why you can only look after it up to a point before you’ve got to let it look after itself – this great big thing called “middle Australia” has been complaining for a number of years now about the cost of living. Mark Latham talked about “easing the squeeze”. Kevin Rudd and Wayne Swan were talking about grocery prices and fuel prices. And now Tony Abbott is talking about the carbon tax and the mining tax and all that stuff.

So basically, for the last five or six years, politics has created this idea that no-one can be worse off. And, like I say, bear in mind what I’m talking about with collective memory, if you’re at the 15 to 20-year mark of uninterrupted prosperity and you get through a GFC, to a politician who sweats the media cycle and the polling cycle, the idea that nobody would be worse off apparently is a logical thought.

It actually isn’t a logical thought, certainly not from a public policy perspective. I’m going to take you through a couple of numbers. These are numbers that look back at the Federal Budget and the way the Federal Budget had been behaving when the first phase of the mining boom was kicking in, about 2003/2004/2005. Sorry to labour the point but at the national memory point, we’re starting to get to that second decade of uninterrupted prosperity.

The normal thing you would expect for a Budget to do, especially after a thing like the GST was implemented, you’d still expect your Budget to be weighted towards the have-nots rather than the haves; i.e. people who need means tested assistance as opposed to people with jobs who could do without.

A very funny thing happened in 2003/2004. This is the year that the Baby Bonus was supersized, the year of competition between Howard and Latham for the hearts and minds of working mums.

That year, 2003/2004, was the first time on record in the Federal Budget that the totality of family payments – now, family payments, of course, are not just for those with jobs but they’re also for sole parents without jobs – exceeded payments to the disabled, the unemployed and the sick, and the veterans and their beneficiaries.

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Quite an extraordinary figure if you think through what it means – at some point in the last decade, for whatever reason (and this is something I wish I'd picked up at the time because I would have been yelling and screaming ever louder about middle class welfare than I do today), we decided that the haves deserved more direct assistance from the Federal Government than the have-nots.

By 2004/2005, tertiary education was receiving 2.5% of total government spending. When it comes to non-government schools, i.e. the thing that's in the state jurisdiction, the Federal Government decided to deliver more money to parents sending their kids to private schools, for the first time on record in 2004/2005, than the Federal Government in its own name was spending on tertiary education.

These two things, to me, were an early sign that we were starting to get a bit soft as a country.

The GFC, in a way, interrupted this and helped us think “big picture” again. The pet theory, basically, is that Australia is pretty good in a crisis, one of the world's best managers of crisis, according to the *Economist* magazine in the 1980s.

If you think about episodes like the Banana Republic, which we got out of pretty well, and you look at the Greeks today, they obviously don't have a Hawke and a Keating and a Peter Walsh and a John Dawkins and a Ralph Willis to sit there and say, “Right, the financial markets are coming after us. What can we do while holding our society together to impress them and continue our project?”

Obviously we do well in crisis. The GFC is another example of a crisis we did well in. But the softness was beginning to emerge in the middle of that last decade.

Now, of course, the Budget has gone into deficit and there's now this competition between winners and losers from deregulation to hang onto the thing that they were used to in the middle of the last decade.

The community's expectations are about here in terms of government spending – about 24 to 25% of GDP. The community's willingness to pay in terms of revenue is about down here – 22 to 23% of GDP. That is essentially the post-GFC story.

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Government spending hasn't blown out, notwithstanding what some politicians will tell you. Government spending is pretty much of the order it was all the way through that last decade when things were starting to get a bit soft.

But our capacity to pay has fallen a bit because of the GFC. That 2% gap, and this is a structural analysis I'll leave you with, is roughly \$30 billion a year.

If we have another hit from the rest of the world, there will be another big budget deficit for people to complain about.

How do you want to think this through in the community sector? Do you want to tell people, we're prepared to let go this, this and this, to step down to the "new normal" in revenue? Or do you want to encourage people to offer cuts in exchange for grand bargains on the revenue side so that the two lines meet at some stability point, at about 23 or 24% of GDP?

The actual numbers themselves are less important than the concept. The concept is, do you give up stuff or do you say, "Here's a better way to collect the revenue. Here's a better way to spend the money."

In the budget just been, the National Disability Insurance Scheme is in there, it's not fully funded but it is one of those things, one of those ideas, that if it's properly executed will have the country talking itself up in the next 10 or 20 years in the same way we talk about national superannuation and Medicare.

There is an interesting bit of data I want to share with you. There are about 410,000 people in the long run that will be in the NDIS. The mining sector, at the peak of its powers, is employing 250,000 people. So that's just over half the people who will be on the NDIS.

In a conceptual sense – this is a broadsheet concept, not a tabloid concept; you'll never read this in the *Herald Sun* – the question is, at which point does public policy look after the able-bodied young man who's going to get a six-figure salary to drive a truck in the Pilbara, versus the not quite able-bodied young man or woman who needs wheelchair access at a job that they do qualify for?

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It's not a bad question to ask yourself because it's a question, if you don't do it with a sense of special pleading, that might focus the minds of some of your local members and some of the people in the Federal Parliament.

There is this thing called a super-cycle and it's on for young and old. China will probably go at this rate, give or take the odd dip, for about another 20 years. Before China's finished industrialising, India's going to catch up with it and may pass it.

Australia is in a position that it's never been in before. There are two equivalent periods in our national history where a) through windfall, this is the gold mining boom of the 1850s; b) through active national choice to build a bigger nation after the end of the Second World War, the post-war migration program – at those two points, Australians were prepared to step up their ambition and they actually grew a much bigger country in the process.

My take-out thought about what the mining boom might be in the long run for everyone in this room, but more importantly nation-wide in terms of public policy, there is a 20-year opportunity, give or take some busts along the way, to do the equivalent of what happened after the gold rush in the 1850s, essentially when this city was built out of the windfall and some of the country towns like Ballarat were built out of the windfalls of the gold rush; or this idea of a medium-sized country that was built after the Second World War post-migration period.

How do you do it? This is the big question. By the middle of this decade, even on the lowest case scenario for population growth, we get to 30 million as a people. Thirty million requires an extra couple of cities, to get from a population of 23 million to 30 million. You can't all fit them in Melbourne, Sydney, Brisbane and Perth. You can't send them all out to the bush.

To accommodate another seven or eight million people you're going to have to start thinking big about how to build another city. Now, this thought hasn't penetrated Canberra yet unfortunately. But in the 1940 and 1950s, coming out of the Second World War, and the 1850s, when Australia was not yet a federation but there was still a sense of opportunity about this place, it was easy for the people at the time, and easy for their leaders at the same time, to think big.

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The reason why you want to think big now is because of two parallel global trends. Obviously the world economy is telling us to dig and it makes it uncomfortable for everyone, in my business and in the community sector and in this great big thing called “middle Australia”, where the global economy says, “There’s only just one thing I want you to do, and that is to dig” – and, that is, to dig just in a couple of locations, a bit of WA, half of South Australia, now that the world’s largest open cut mine will be almost on stream, and bits of Queensland.

Now, that isn’t obviously right around the country. But it is a terrific opportunity because the rest of the West is in decline. Australia is in a region that is growing and it’s in a region that is prepared to pay for our stuff.

But there’s a second competition here, and it’s a global competition. This is in the education space. That’s why I mentioned that figure before about private school funding. The Hawke/Keating Government hit on this idea of a virtual user-pay model in higher education, that’s through HECS.

The Howard Government hit on a second thing and almost by accident we discovered this new export earner called the overseas student, the full fee paying overseas student.

The thing that we haven’t come to terms with yet is that China and India are not going to keep sending their best and their brightest here to be educated. Sooner or later, America is going to come back again. The thing that always happens in Australia is our best and brightest tend to leave the country anyway for bigger opportunities.

If you’re going to build a big country, a genuine medium-sized power in the region, one that can hold its own on the region, if you’re going to think big as a country, what happens out of the mining boom isn’t the beginning and end of your story. What happens out of the mining boom isn’t, “here’s an extra billion dollars for my vested interest”. What happens out of the mining boom is this once in a half century opportunity to do this other thing, which is to grow a brain economy. Once you get your public policy thinking along those lines, the brain economy actually then starts to click in to all the other stuff. NDIS seems like it makes more sense if the education system is also kicking in.

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The question of what you do with the young men who are literally unemployable at the moment is you make sure you don't have another generation that gets lost to that. It doesn't mean you train people for the mines but you train people for whatever else that might be going around.

I think it's very important to think about this. Sooner or later, it's not that age is going to run over the top of us, sooner or later when a lot of these rising powers in Asia get to first world status, get to fully industrialised, their people, their middle classes completely outnumber ours.

The competition for their attention is up here. It's not how well we dig, because the mining sector only needs a quarter of a million people to be able to function at world's best practice. If we're going to get to 30 million we're going to have to start thinking a little more laterally about how we accommodate the next seven million. And how to make sure that the next seven million ... are part of the greatest place on earth.

And to make them part of the greatest place on earth we have to start thinking about raising the tone of our national debate. Stopping the boats, ending the waste, population policy – that is definitely not going to serve the national interest in the long run because people like me, 10 and 20 years from now, are going to say, “We missed the opportunity.”

I'm a glass-half-full person and I think the very fact of what's been going on in the last few years in Canberra, and the recognition internally on both sides of politics that this thing cannot last, is the first sign that we're about to correct. It may take a couple of election cycles before we fully correct.

But the other thing is, if we start losing people, and all we're doing is digging, and the people who get left behind don't belong, then obviously something like that is going to force us to shape up.

But I'd much rather see this happen from a position of opportunity, not Australia responding to crisis again. We've been pretty good in the last 10 or so years in responding to crises. The Asian Financial Crisis didn't flip us out. We missed the tech wreck, of course, and we're still standing after the GFC.

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But the fact that we were able to pull those three things off brings us to the next thought, and this is why I left the ending of the book open – how do you grow a great country? How do you create a great country? For everyone in this room, within your own sectors, it might seem a little beyond your immediate constituencies but it isn't beyond your immediate constituency because we're in grand bargain territory now, where people have to start giving things up – not your sector by the way – the people in the middle have to start giving things up on behalf of their children and their grandchildren.

There are a lot of good things you can spend money on. There are a lot of things we probably don't need to spend money on. But there's a serious job ahead of us so we can say to ourselves in 2020 or 2030 that we are the equivalent of the growth spurt after the gold rush or after the post-war migration program.

I'll leave you with that hopefully glass-half-full thought and take questions on any topic.

Thank you.

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