

AUSTRALIA IN A COMPETITIVE MODE

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At first I wondered why the Major Mail Users of Australia invited me to address this distinguished conference. Other than for my fame in pushing the envelope. But I suspect it may be because I am Australia's champion promoter of mail use – Australia's major mail user, in fact. Certainly Australia Post thinks so. It claims the two Republic mail-outs – mail-outs directly arising from my Government's moves towards an Australian Republic - were the largest in our nation's history. The first was the Constitutional Convention in 1997 – 12 million documents. And in 1999, 12.5 million pamphlets were mailed out explaining the Republic Referendum.

The result, on that occasion, was a vote for the past, not the future, or even the present. But it is not the first time Australians have taken their time confronting the national and cultural imperatives.

They get around to things; from a background of knowing their place in the scheme of things has been reasonably good.

In 1900, at the beginning of the last century, Australians had the highest per capita living standards in the world.

We had the bounty of a continent to share, and only 3.8 million of us to share it with.

And the only country that came close to sharing this particular honour with us was Argentina. That wealth and those incomes, came from what is called these days in the history books, the Australian Defence model or, more latterly, the Australian Settlement.

Our prosperity was built on a triangle of fortune.

On one side of the triangle was the bounty of the high terms of trade which were enjoyed by commodity producers as they sold to burgeoning markets in Britain, Germany, the rest of Europe and the United States.

The second side of the triangle was the construction of a tariff to give protection and support to nascent industries seeking to manufacture things in Australia to diminish our dependency, our almost exclusive dependency, on manufactured imports.

The third side was a set of centrally fixed and arbitrarily determined wages and compensations by public tribunals that ensured that locally produced goods were affordable; the determinations of which had the effect of more equitably sharing the high worth and value of our primary exports.

National prosperity ran around this triangle of exports, protection and income redistribution like electricity around a circuit. Until, finally, the system started to degenerate about 1965. At about that time, the year of Robert Menzies' retirement, commodity prices began their long, secular decline to what they are today.

And with that decline came our incapacity to afford the high levels of protection, which, apart from anything else, stultified innovation and distorted reward.

And while this was occurring, the wage tribunals were passing on nominal wage increases so routinely, that they had even made a formula link to prices through the indexation of wages to inflation.

By the middle 1970s, at the time that John Howard became the Treasurer, Australia could no longer afford the living standard it had become used to. We were a nation living beyond our means – but we weren't yet ready to accept the implications of this unwelcome fact.

Through the current account deficit, which was the natural outcome of our terms of trade decline, we were calling on overseas savings, on someone else's savings, to maintain the life to which we had become accustomed. And the consequent deadening effect of the tariff on industrial innovation and competitiveness meant we had effectively become an industrial museum with our industry ticking over on life support. To make matters worse, because the institutional fix had been in for so long, real wage gains were paid at the expense of profits. Profits were smashed; we had disastrous declines in investment; and a concomitant fall in workforce growth.

The Australian Defence model, the Australian Settlement, had run out of puff.

The task of policy, when I was sworn in as Treasurer in 1983, was to effectively dismantle the model that had been with us for a century.

Eschewing the closed and closeted approach, with a sclerotic financial market, and a country ring-fenced by tariffs, the Labor Government 1983 to 1996 opted to peel back the layers of introspection and protection.

And so began the ambitious program of opening Australia up. Of internationalising the economy, internationalising the financial and product markets and seeking competitiveness the real and genuine way - by a marked upward shift in productivity.

And productivity could only come from a competitive structure - one in which we had true flexibility within and between sectors; with an open financial market, with competition and innovation coming from the great financial centres; and, in the product area, with the astringent, tonic effects of competition from imports allowed freely into the economy, without needing to jump an arbitrary domestic price hurdle.

These macro-reforms were accompanied by micro-economic reforms on a grand scale.

The by-word in dealing with questions relating to the provision of services in the Australian economy has to be competition.

With changes in the tax system, in the service economy, in telecommunications, in electricity, in ports and wharves, and in the labour market, we saw a doubling of trend productivity, which markedly lifted real incomes and maintained a high level of productivity.

In 1989, as part of this widespread micro-economic reform process, the Labor government converted the Post Office into a government-owned enterprise, Australia Post. We did this to allow Australia Post to make a better contribution to a more competitive Australian economy. We recognised the singular role of Australia Post in meeting universal service obligations, giving all Australians access to reasonably priced and accessible mail. We looked at what would work for the Australian economy and its efficiency, and what would work for a society with strong community values.

In 1994, the Government I led amended Australia Post's mandate so as to reduce its monopoly over a range of services which had otherwise been reserved to it. This was done in the interests of competition and enhanced efficiency. Where you see healthy competition, you also see lower prices and higher productivity.

We reduced the protection afforded Australia Post by reducing the level of protection for letter services from ten times the uniform rate to four times the uniform rate. Since those reforms, mail services have improved and Australia Post's return on capital has prospered.

Today, all Australians have access to a universal letter service at a standard rate. This is currently 50 cents. And Australia Post can carry letters under 250 grams for less than \$2.00.

But competition remains an issue. Without one provider being able to fully compete with another, there is no impetus to drive down prices. Therefore there is a limit on the market and the utility of the product. In my view, basic postal services should be sold at the lowest prices and additional services should be competitively provided to meet market demands.

The returns from monopoly prices whether they be in gas, electricity or mail, are generally, not fully passed on to consumers. Instead they result in a higher rate of return to the operator. Most of these organisations outperform publicly listed companies in terms of rates of return on capital. They become, in effect, a taxing point for the governments which own them.

Wherever the market is uncontested, the result will be reduced cost efficiencies, inefficient pricing and much less innovation - the very things that Australia Post needs to keep itself alive and growing.

And in the case of Australia Post, the price freeze or, shall we call it, 'the falling real price' has been falling slower than the productivity yields which have become available. This has meant that a larger and larger share of that productivity has been allocated to profits rather than to lower prices.

Which raises the question: can the nation enjoy a uniform rate of postage without undue market restrictions? And that begs another question: are community service obligations best funded explicitly by the Commonwealth budget?

Let me put the issue another way: should competition for mail be provided at, or below, the standard letter rate and, were this to eventuate, would Australia Post need an explicit payment

off the budget to compensate? Australia Post will answer that question in the affirmative: I would answer it in the negative. I do not believe that that has to be the case.

And Australia Post is effectively providing the answer to that question itself now, by giving substantial bulk mail discounts to large customers. It is cutting its own standard rate all by itself. Business letters, which account for four out of five items of mail, are priced at discounts to the uniform rate.

There is within the realms of possibility, a regime capable of being established whereby Australia Post can maintain the uniform mail service while competition is permitted at prices, either around or under, the standard mail rate. Like most monopolies, Australia Post needs to be pushed and prodded. Simply leaving Australia Post with a fixed but falling real rate is leaving it too much and the consuming public too little.

But Australia Post does operate a large and comprehensive network which has to be supported and paid for. And Australians are entitled to expect that the basic mail service is a right they enjoy under the social contract.

It is, to provide answers to economic conundrums such as these, that we have productivity commissions, so that, under scrutiny and looking at issues in balance, the government can be provided with good, firm and innovative advice.

But then again, the Government has got to want the advice and have an eye to competition and lower prices. We don't want Australia to see the doubling of its trend productivity under Labor to 2.7%, slide back to the old 1.25% we had in the decades up to 1983. Productivity is the medium which gives us higher real wages with falling unit labour costs, higher profits and lower prices.

Overall, Australia has prospered through a carefully managed process of competitive opening. The more competitive we have sought to be, the better off we have become. For all the foreboding about taking down the tariff wall and the claimed decimation of manufacturing, manufacturing exports have trebled with the fastest rise ascribed to elaborately transformed goods.

The evidence is here today, with so many Australian companies coming up with first class responses to the competitive opportunities made available to them. Much of this has revolved around adopting the latest technologies and adapting them to the needs of hard copy.

I saw Australia's sophisticated use of new technologies in action just a few weeks ago. I gave a speech in New Zealand on Monday morning. Early that same evening, the *International Herald Tribune* in Paris had picked it up on the Internet. Too late for inclusion in the Tuesday edition, it was scheduled for publication on Wednesday. Thanks to the technological leadership of two Australian companies, Océ and SecurityMail, the *International Herald Tribune* was transmitted and printed in Australia - and delivered to Australian newsagents - by 6am on Wednesday morning. Sydneysiders had the opportunity to read and digest my thoughts in a Paris-based newspaper - before Londoners had even climbed out of bed for breakfast.

Australia has gone through a textbook change in its economic fundamentals and it has never looked back. It was very much a case of 'off with the old and on with the new'. Australia has moved into the world with a confidence and élan we never had before.

Now the world is truly our oyster – provided that, and it is a big proviso, the essential threads of competition are maintained and, over time, improved. We will have to keep calling on our ingenuity, dexterity and cleverness. We will need to use them for all we are worth, because the competitive pressure will only continue.

In the 21st century, of course, communications and the transport systems which support them are a very different matter. To meet the competition from electronic communications, physical mail has to be increasingly competitive.

Mail, of course, is notoriously subject to movement in economic growth. In most countries at the moment, direct mail remains weak, with overall declines in mail volumes. Volume growth is likely to pick up only as economic conditions improve.

But the continued erosion of letters to electronic substitution will impact on volumes leading to a discernible trend decline in volumes. Some European countries forecast longer term declines of 2-3% per year with bottom line outcomes of mail divisions being kept up only by improvements in efficiency - but even these productivity minings can go only so far.

Right now, the Americans are undertaking a painful review of the United States postal services. It was becoming obvious to them that the only part of the US postal service that is travelling at speed is Lance Armstrong and his US Postal Service in the Tour de France. Whether the recently delivered report will lead to significant reforms before the next US Presidential election is not clear. What is clear is that the pressure for reform is going to continue.

And in this respect, the Americans find themselves in the unusual circumstance of trailing the Europeans. The Europeans have agreed upon, and this year have set about implementing, a further round of postal liberalisation to ensure the European Union continues to extract maximum benefits from its increased scale. Companies like TPG and Deutsche Post are leading the way. They have shown that the future for the old mail organisations lies in reinventing themselves as sophisticated global managers of end-to-end services, including specialised services for mail and parcel delivery. A key part of the strategy is to form alliances of various kinds with complementary partners along the supply chain.

Now, in the current round of world trade negotiations, the Europeans are putting pressure on the Americans to open up their market for a range of services, including postal services, and this is lending weight to the arguments of Americans championing postal reform. I don't expect progress will be swift, but I do believe that change is inevitable.

Back home, Australia Post will have to perform to global standards if it is to avoid pressure to open itself up to further competition – pressure arising both from the major mail users and from the Government itself.

One asset that Australia Post enjoys – an asset which most Australian companies would kill to acquire – is tremendous public confidence. While email is still an insecure medium; while SPAM is ugly and intrusive; and telemarketing calls always seeming badly timed, that old red

post box amounts to an icon of national trust. Australia Post offices are regarded as reliable, impartial suppliers of basic communications services. It helps those who are on the margins of the information era – those who don't have email or the Internet, who can't pay their bills online. And the reality is that mail users benefit from this aura of trust around Australia Post. It's one reason why so many companies still choose to use direct mail to communicate with their customers.

But this is not a competitive advantage that will necessarily last forever. Internet and email security will be improved. More Australians will come to the Internet Age. So Australia Post will have to keep reinventing itself to stay at the top of the game.

Let me turn to what Australia must do to stay competitive in this changing global environment. Because the future for mail users, and indeed for all the generators, suppliers, designers and distributors of mail is intimately bound up with our success on the broader national agenda.

Australia must stay vigorously engaged in the current round of world trade negotiations. This latest trade round has two big negotiating items – agriculture and services, of which postal communications forms one part. It is hugely in our national interest to keep the pressure on for cooperative global solutions on trade matters, and to add our considerable intellectual weight to the negotiating task.

Meanwhile, when a nation as historically dependent on open global trade as Australia slinks down the side-path of bilateralism, it serves as a signal to other countries that multilateralism is potentially on the wane.

Australia has always to keep its eye on the main chance. We must work to get our relationship right with Asia. Asia is where all our interests come together, economic and strategic, and will continue to do so. It will continue to be the fastest growing area of the world over the next decade.

There are tremendous opportunities opening up for us around the region. And within Asia, the largest emerging commercial relationship for Australia is undoubtedly with China. China today is the world's biggest recipient of foreign direct investment. It has a massive trade surplus with America and a big trade deficit with Asia – which means there are items pouring into China from Asia to be repackaged and assembled for re-export to America. And China is rapidly becoming a significant consumer market in its own right.

Major opportunities will open up for those offering improved transportation and logistics. The big international firms are already vying for access to China – but it's not just the big firms who will benefit. They will bring along with them all the smart firms linked into the logistics value chain – including everything from inventory management to bar-coding systems – and there's no reason why Australian firms should not be among them.

Finally, let me say that the great paradox of modern competition is that success is increasingly going to be achieved through collaboration. In a globalised world, with global markets, we increasingly find success arising from groups or chains of expert suppliers linked together through formal ownership arrangements or less formal partnerships and networks. This group and this conference is a reminder of how important such gatherings are in sharing

information and ideas, refocussing strategies and establishing new networks for long term success.

Australia is now one of the most competitive places in the world. If we continue to apply ourselves; if we continue productivity mining throughout our economy - we can expect a due prosperity to be our very reasonable reward.

I wish you all the best with your deliberations.