

Philip Lowe: Remarks on a Panel at the Australian National University's Crawford Australian Leadership Forum

Remarks by Mr Philip Lowe, Governor of the Reserve Bank of Australia, on a Panel at the Australian National University's Crawford Australian Leadership Forum, Canberra, 19 June 2017.

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Thank you for the invitation to be part of this panel at the Crawford Australian Leadership Forum.

The central issue is: where does the future growth in the global and Australian economy come from?

There are four points that I would like to make.

1. For a while, growth can come from a *cyclical* upswing in the global economy.

Over 2017, the global economy has improved. It is not just a story in one or two countries, but one that is broad based. After nearly a decade, the healing process after the financial crisis is well advanced, although there is still plenty of scar tissue. The Chinese economy has continued to grow, although there are some fault lines. And in Europe, it has been a few years now since the underlying problems last erupted. Globally, monetary policy remains accommodative, there has been a lot of financial system repair and fiscal policy is no longer contractionary. This is all helping.

So we are in a better position than we have been for some time. To be clear, we are not talking about a boom and there are still plenty of risks out there. But globally things are better. Animal spirits have been missing for quite a while and they might just be starting to come back.

2. At some point, the cyclical upswing will run its course. Beyond that, much depends upon demographics and technology. Here there are reasons for pessimism and for optimism.

Many developed economies, as well as China and Korea, face big demographic challenges. Populations are stagnant or declining. They are also ageing. Older societies want to save, rather than invest, especially so when there will be fewer people tomorrow than there are today. And older societies are likely to be more risk averse. So this is a major issue.

On technology, I am more optimistic. There are great advances being made in science: in the material sciences, in power generation and storage, in genetics and the health sciences, and in computing and artificial intelligence. It is hard to be sure how these will all play out, but advances in these areas open up possibilities that few of us can imagine. They can transform our economies and form the basis for a new wave of global investment and higher living standards. We can't be sure though: time will tell. But a clear lesson from history is that advances in technology form the backbone upon which higher living standards are built.

An obvious question is how to create and seize these opportunities that technology offers. There will be those in the audience better informed than me on how to do this. I do, though, find it hard to escape the conclusion that the starting point must be heavy investment in human capital and the creation of a culture that promotes innovation.

A related challenge is dealing with the distributional effects of technological progress. The sheer scale of global markets means that the potential gains to innovators who can tap into these markets can be huge. At the same time, new technologies and globalisation create some losers. At the moment, our societies are struggling in dealing with this tension. We have a strong interest in working out how to manage this better. If we don't do this,

technological progress and globalisation could come to be seen as bad things, not the good things they are. That would surely harm prospects for long-run global growth.

3. In Australia, it is likely that growth over the next couple of years will be a bit stronger than it has been recently.

The pick-up in the global economy is helping us. The return of mining investment to more normal levels is almost complete. Monetary policy continues to provide support and survey-based measures of business conditions have improved noticeably. Employment growth has also strengthened over recent months. These are all positive developments.

We do, though, continue to face some headwinds. Households are gradually coming to grips with slower growth in their real incomes. Growth in wages is unusually low, average hours worked have declined and the nature of employment is changing. So there is a recalibration of expectations going on. Many households are also coming to grips with higher debt levels and, in our largest cities, high housing prices. We need to watch these issues carefully.

4. Australia's longer-term prospects remain positive, but we need to keep working to keep them that way.

Over the past couple of weeks there has been much discussion of Australia's record run of 26 years without a technical recession. This is a significant achievement. We have done better than most countries over a long period. But just in case we are inclined to celebrate too much, we should remember that over those 26 years we have had three periods of rising unemployment. Our strong population growth has also flattered our headline growth figures.

As things currently stand, it looks likely that average growth in per capita incomes over the next quarter of a century will be lower than over the past quarter of a century. We should, though, be capable of stronger growth than we have seen over the past few years. But we can't take this for granted. It is important that we have a sharp focus on the reforms that can make a real difference to our living standards. If we don't do this, we will fall behind. The positive news is that there is no shortage of good ideas here. The not-so-positive news is that there is a shortage of good ideas that can successfully navigate the political process.

As we search for the reforms that will make a difference, we need to be aware that the drivers of growth in our economy are changing. Natural resources remain our main export earner, but Australians are increasingly employed in service industries. Right across the spectrum, competitive advantage is increasingly built on technology and management capability. This trend is not going to go away and we need to capitalise on it. There is no magic solution. But, as I said before, the central ingredient lies in investment in human capital. If we are to grow strongly in the future, then that growth will be built just as much on the quality of our ideas as it is on the quality of our natural resources.

Thank you and I look forward to participating in the panel.