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FINANCIAL REVIEW

Business must make own case

The business community must play its part in dealing with angry populism if it wants to get the pro-business, pro-growth policies that will benefit all Australians. That was the conclusion at *The Australian Financial Review*'s Chanticleer lunch in Melbourne yesterday. "The old world has gone", said panellist and financial services veteran Elizabeth Bryan. "The community feels it has a right to comment on how we conduct our business". Voters, politicians and ever-busy regulators are now just a fact of life, she said.

Ms Bryan is chair of Virgin Australia, and IAG. Her fellow lunch panelists agreed: John Mullen, chair of Telstra after a long career at Asciano, DHL, Deutsche Post, and Sir Peter Abeles' TNT; and Hastings Fund Management founder and AFL chair Mike Fitzpatrick.

Mr Mullen has rightly called for unity in business to make its case against rising public suspicion. The scale of the business communication problem has been shown by the firing within its own ranks as Mr Mullen responded at the lunch to criticism of the performance of Business Council of Australia president Catherine Livingstone from former Commonwealth Bank and financial services inquiry chair David Murray.

But it goes to a wider point that business, which in public is spearheaded by groups like the BCA, needs to be at the top of its game in defending its record, and explaining why it must be left to play its role if we are to have the prosperity the community wants. Central bank easy money policies around the world have done all the heavy lifting on growth that they can. *The Australian Financial Review's* theme for the past year is that business enterprises are the 'risk takers and growth makers'. But capital always has to be used the right way and under optimum conditions. Ms Bryan for example explained that despite IAG's other successes in Asia, it was not going to put its shareholders through the risks of investing in the Chinese insurance sector.

Part of getting risk right is how company chiefs are rewarded for taking it.

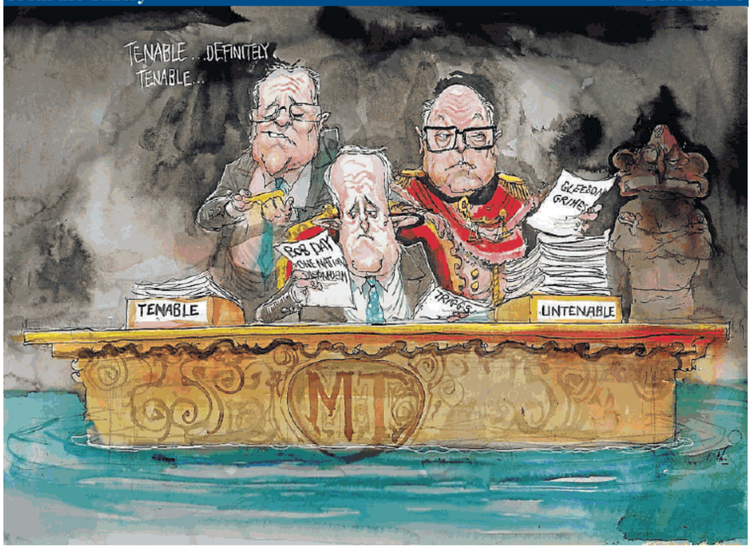
A big part of getting risk right is how company chiefs are rewarded for taking it – another target for populist anger since the excesses of the finance industry before 2008. Mr Mullen said that greater transparency had just pushed salaries upwards, while on the other hand making matters more complicated. Remuneration committees now take up more time than audit committees – and he confessed that he did not understand his own pay package. The basic proposition, reminded Mr Fitzpatrick, was that when management did better than expected the shareholders shared some of the rewards – but that has been further muddied by the well-meaning demands for soft targets for chief executives to meet in social responsibility areas.

Australian business also gets criticised for its concentrated power in some major sectors, with ACCC chairman Rod Sims asking yesterday why even higher legal hurdles should not be put onto mergers and takeovers. But companies also need economy of scale if investment is to be effective and worth the risks involved. And as Mr Fitzpatrick pointed out, Australia's big banks might look like an oligarchy, but tinkering with the system could instead threaten financial stability.

Business is now making a huge call on voters, to reduce the amount of tax that companies pay to secure greater investment, higher productivity, and more prosperity in the future. But the tax debate is now politically stranded, with the government putting forward only a fraction of the company tax plan it took to the election: Mr Mullen indeed does not think that the tax-cut-for-growth argument has any chance with the public. But both Mr Fitzpatrick and Ms Bryan were willing to adjust dividend imputation, a big incentive for domestic investors since 1987, in order to get a company tax cut that would flow to foreign investors in a capital importing nation, as well as helping Australians make investments overseas.

Business now has a new public task in pushing the case for growth across the economy, and must learn to rise to it.

From the Gallery — David Rowe



The centrist Clintonomics 2.0

Presidential race

Despite the rhetoric, Hillary Clinton's economic plans are mostly middle of the road, largely sensible and hardly stuff of the radical left.

Richard Holden

Once the bookies start paying out you know a race is over. And they are already paying bets on the outcome of the US presidential election. So it's a good time to start thinking about a Clinton administration – and particularly economic policy.

During her campaign Hillary Rodham Clinton (HRC) has argued for some fairly left-leaning policies, at least by historical standards. She has campaigned in favour of raising taxes on high-income earners and companies, raising the minimum wage, scrapping the Trans-Pacific Partnership, and creating the largest jobs program since World War II.

There's a good chance she believes in her platform. What then, might happen?

That requires a lot of speculation, but here goes.

Let's begin with the minimum wage. The best economic evidence suggests that modest increases do not decrease employment much, but do help the recipients a lot. Moreover, the Clinton plan to move gradually to a national $US15 minimum wage is hardly radical. Some large cities have already announced such plans, and many states already have minimum wages near the federal level. It's a good policy, and is likely do a lot to help the working poor.

Similarly, her stance on trade agreements are not revolutionary. I support the Trans-Pacific Partnership – but even advocates must acknowledge that previous deals have done most of the economic heavy lifting. Deals like the North American Free Trade Agreement were hugely important. The TPP is good, but it's kind of an optional extra in the trade reform landscape. And it's not even clear she is really against it based on recently revealed speeches she made to private gatherings.

Tax policy is an area with more-dramatic proposals. A 4-percentage-point increase on those earning more than $US5 million, adopting the so-called "Buffett Rule" to establish a minimum threshold rate of tax payable, raising the estate tax back to 2009 levels, and cracking down on certain corporate tax breaks and loopholes are among the measures HRC proposes.

These measures are likely to make a dent in income inequality, which is vital. It will also make the system look fairer. Hedge fund managers can't believe their luck that carried interest is taxed as if it were capital gains rather than ordinary income. That policy is a boondoggle for funds managers. Scrapping it won't raise much money, but it is important for confidence in the system. Overall, on tax it looks a boost to actual and perceived fairness, while arguably reducing the federal deficit.

Her website describes what may be her boldest policy: "Launch our country's boldest investments in infrastructure since the construction of our interstate highway system in the 1950s".

Anyone who has visited an American airport knows the US is in dire need of new infrastructure spending.

Many people (including myself) have advocated such infrastructure investment as a way to help overcome the downward shift in the stable rate of economic growth (or "secular stagnation") that has plagued most advanced economies. It is indeed a bold policy, and a very good one.

In education, Clinton plans to make preschool universal for four-year-olds. She also wants to guarantee up to 12 weeks of paid family leave. These are all things that should boost economic growth, in addition to improving health and education outcomes.

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It's not all quite so rosy. Her plan to strengthen manufacturing looks like wishing for the past, and calls for a "crackdown on companies that ship jobs and earning overseas" sound implausible. Calling for a "New Manhattan Project" to "rebuild American manufacturing" is rather over the top. It's not even clear it has a well-defined objective, apart from winning votes.

One could easily imagine this becoming old-style winner-picking industry policy: very expensive and not effective. And Congress might allow it, since it helps them deliver pork to their districts.

Hillary Clinton has different packaging from Bill, the previous Clinton – and some important differences. But the proposals are hardly the stuff of the radical left. They are pretty centrist, but should make America a fairer place – with better, growth-boosting infrastructure.

Richard Holden is professor of economics at UNSW Australia Business School and a visiting professor at Harvard University.

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