



The Quest for Prosperity:

SHAPING AUSTRALIA'S FUTURE





CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

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Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that influence the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England, Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.



About the Legatum Institute Foundation

The word 'legatum' means 'legacy'. The Legatum Institute Foundation is focused on tackling the major challenges of our generation—and seizing the major opportunities—to ensure the legacy we pass on to the next generation is one of increasing prosperity and human flourishing. The Legatum Institute Foundation is an international think tank based in London. Our work focuses on understanding, measuring, and explaining the journey from poverty to prosperity for individuals, communities, and nations.

Our pursuit of prosperity goes beyond the material. We believe that true prosperity is a combination of economic and social wellbeing. Our annual **Legatum Prosperity Index™** uses this broad definition of prosperity to measure and track the performance of 149 countries of the world. For a decade The Prosperity Index has been offering a unique insight into how prosperity is forming and changing across the world. Based on an updated methodology developed over the last 2 years with input from world leading advisers including Nobel Laureate Angus Deaton it measures global prosperity covering a variety of categories: Economic Quality, Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital, and the Natural Environment.

The Prosperity Index is a powerful tool that shows us how prosperity is forming and changing around the world. This provides a greater understanding of those nations that are becoming more prosperous as well as those that are becoming less prosperous and, crucially, what lessons we can draw from them.

Our research work, born out of our metrics, identifies and advocates for policies and practices that move individuals, communities, and nations from poverty to prosperity. Our analysis and our policy solutions are founded on robust evidence.



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Foreword

Prosperity is not only a critical national focus, but it is also important for business. National prosperity is supported by the successful running of the public, private and not-for-profit sectors. All sectors within an economy need to make essential contributions and collaborate to the success of communities.

The political landscape in Australia currently faces a number of issues that threaten the future prosperity of the nation – issues related to economic and social wellbeing. From housing affordability, environmental issues, economic growth to funding issues for critical infrastructure. These issues manage to divide the nation between elections and these are the issues that all sectors of society are trying to address.

Chartered Accountants help navigate their clients and businesses through changing political and economic environments. Prosperity matters and Chartered Accountants Australia and New Zealand advocates in the public interest on behalf of over 117,000 members on matters which influence our future prosperity.

The Quest for Prosperity examines Australia's prosperity over the last decade – our current strengths to weaknesses and what this means to keep Australia's living standards rising into the next decade. We have partnered with the Legatum Institute, drawing on the work from the Legatum Prosperity Index and other sources.

The findings shows that Australia is performing well, but there has been a decline since 2007. Australia has fallen from second to sixth in the Prosperity Index, particularly in economy quality, safety and security and natural environment pillars. This paper examines and identifies areas that business and government could target to improve Australia's performance.

We hope you find this paper thought provoking. Welcome to *future[inc]* and join the conversation.



Rod Ward FCA AM

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Executive Summary

True prosperity is more than just material wealth. Prosperity is created by both economic and social wellbeing working together. Prosperity means that citizens are able to have good health, access to quality education, strong and safe communities and opportunities to start a business or pursue a career.

This paper has been commissioned by Chartered Accountants Australia and New Zealand to examine Australia's performance in the Legatum Prosperity Index™ (the Prosperity Index). The Prosperity Index measures the dimensions of prosperity across nine pillars: Economic Quality, Business Environment, Governance, Safety & Security, Personal Freedom, Social Capital, Education, Health and the Natural Environment.

This paper compares Australia's performance against 34 other peer countries. Australia came sixth in the Prosperity Index in 2016, and performs particularly well in Business Environment, Health, Education and Social Capital. On other pillars, it is not far behind peer countries. This paper details the reasons

for Australia's strong performance and examines what is needed to keep living standards rising. It also identifies areas where Australia lags behind and shows what further improvements can be made.

Summary of Australia's performance:

Sub Index	Explanation	Rank against peer countries 2016	Change since 2007
Economic Quality	Openness of the economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency.	15	-7
Business Environment	Entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility.	7	-3
Governance	Effective governance, democracy and political participation, and rule of law.	13	-3
Education	Access to education, quality of education, and human capital.	4	-1
Health	Basic physical and mental health, health infrastructure, and preventative care.	8	+5
Safety & Security	National security and personal safety.	19	-5
Personal Freedom	National progress towards basic legal rights, individual freedoms, and social tolerance.	11	-2
Social Capital	The strength of personal relationships, social network support, social norms, and civic participation in a country.	2	-1
Natural Environment	The quality of the natural environment, environmental pressures, and preservation efforts.	14	-9

Australia has a rich heritage of prosperity to build on. Yet, like other prosperous countries, there is no room for complacency. There has been a decline in the scores of some pillars and a lack of progress compared to other countries in other pillars. Based on an analysis of its performance over the past decade, we have identified four challenges to keeping future prosperity growing for all Australians:

1. A less open economy in a competitive global environment, which means Australia may miss out on the benefits of a globalised economy and on the benefits of trade and competition.
2. A decrease in trust in political institutions that might limit the effectiveness of government, reduce the willingness of citizens to participate in public life, and reduce certainty for businesses about the government's regulatory agenda.
3. A lack of economic opportunities for some Australians that mean they do not share in the outputs of the economy.
4. Environmental pressures that reduce economic growth and harm Australia's environment.

Note that while the safety and security pillar has seen a fall in the rankings, this is primarily due to other countries overtaking Australia on this pillar, not a reduction in Australia's score. Australia has remained stable on this pillar.

These challenges are interconnected. We have suggested areas that could help improve Australia's performance. In some of these areas, the government has recently taken actions that should positively affect prosperity in coming years. But more needs to be done; and we suggest government and businesses consider the following:

	Considerations for government:	Questions for business:
Open and competitive economy	<ul style="list-style-type: none"> • Remove barriers to trade and strengthen trade agreements; • Focus on building core skills into the education curriculum skills (including STEM); and • Support innovation through funding and procurement decisions. 	<ul style="list-style-type: none"> • How can you work better with universities to produce the research you need to be world-leading? • How do you collaborate with learning institutions to ensure graduates have the skills needed for employment? • Can you predict which roles will be automated and which will be created? • How can you prioritise investment in research and development? • Can your business accept the higher level of risk that comes with innovation?
Lack of trust	<ul style="list-style-type: none"> • Improve transparency of government decision making for public spending (particularly spending with long term implications); and • Resource appropriate agencies to tackle corruption. 	<ul style="list-style-type: none"> • How can you adopt policies that limit corrupt practices within your business dealings? • How can you create a culture of trust, transparency and integrity within your organisation?

	Considerations for government:	Questions for business:
Lack of economic opportunities	<ul style="list-style-type: none"> • Ensure that all children are accessing adequate early childhood education; and • Provide better support in primary and secondary schools for disadvantaged young Australians. 	<ul style="list-style-type: none"> • How can you provide vocational training and employment opportunities to young disadvantaged Australians? • How can you support employees disadvantaged from backgrounds to continue to learn, develop and progress?
Environmental Pressures	<ul style="list-style-type: none"> • Continue preservation efforts, particularly focusing on land around urban areas; • Introduce policies that reduce resource use whilst also taking a holistic view towards economic growth; and • Increase the resilience of infrastructure to the impact of environmental changes. 	<ul style="list-style-type: none"> • How can you reduce the resource intensity of your business? • What are the opportunities that arise from better using existing resources? • How can you integrate a wider range of issues, including environmental factors, into your decision making process?

This paper discusses the main features of Australian prosperity. It shows the areas of strong performance and suggests ways to keep prosperity rising. It also charts the significant challenges to a prosperous future. Securing future wellbeing will require bold and courageous action. We hope this paper is helpful to those tasked with improving Australian prosperity.



1. Introduction

Australians enjoy high GDP per capita, low inflation, and relatively robust economic growth. On these traditional economic measures, Australia performs strongly.

The success or failure of nations is often measured using GDP, yet GDP is insensitive to much that a nation values.

The success or failure of nations is often measured using GDP. Yet, as argued earlier in the *future[inc]* series, GDP is insensitive to much that a nation values.¹ Increasingly nations and organisations take a wider view of success and development. An example is the OECD's Better Life Index, which measures wellbeing across OECD nations.²

Australian policy makers also embraced wider measures of success, albeit briefly. The Australian Treasury developed a "wellbeing framework" in 2001, which aimed to ensure that policy focused on a broad range of outcomes.³ This has been abandoned in favour of a narrower set of goals focused on the budget, lifting productivity and securing

the benefits of globalisation.⁴ The Australian Bureau of Statistics in 2013 produced Measures of Australia's Progress, which looked at whether life was getting better for Australians across a range of indicators in society, the economy, the environment and governance.⁵ This has been discontinued, and the loss of this perspective presents risks that policy makers are unable to observe the wider impacts of proposals on wellbeing.

However in September 2015 Australia, along with 192 other nations, signed up to the 17 Sustainable Development Goals (SDGs) of the UN's *2030 Agenda for Sustainable Development*. The SDGs call for action by all countries to promote prosperity while protecting the planet. Australia is

also part of the 2018 voluntary national review of the UN's High-Level Political Forum on sustainable development.

In this paper we take a broad view of national success, or more simply, prosperity. We consider Australia's national progress through the lens of the *Legatum Prosperity Index*[™] (the Prosperity Index). The Prosperity Index looks at both economic and social progress in 149 countries globally through nine pillars (see figure 1). It is a powerful means of promoting a discussion about living standards.

Across the nine pillars it uses both objective and subjective data to capture the full richness of a prosperous life. It is one of the few global indices to reflect both the creation of wealth, and its use.

Some pillars are economic: these relate to the contribution of the economy, businesses and regulation towards national prosperity. Some pillars are institutional: they measure the health of institutions in society that are necessary to manage conflicts, protect freedom, and enable citizens to participate in public life. The final group are the social pillars. These pillars are about the outcomes and quality of people's lives. It includes a nation's security and citizen's safety, the opportunity to be educated, the strength of trust and relationships, the health of a population, and the natural environment. All the pillars make up prosperity.



Figure 1 : Pillars of Prosperity

Globally, Australia performs well on most pillars. However, like many developed countries across the world, it faces many challenges, such as a less competitive and open economy, dropping confidence in political institutions, and ensuring widespread access to economic opportunities. Further, on a number of pillars Australia has fallen down the rankings. Nevertheless, Australia has strong foundations; and its slide down the rankings can be reversed by recognising and responding to some of the challenges it faces.

02

Prosperity in Australia: Measuring the last decade





Australia came sixth in the Legatum Prosperity Index™ (the Prosperity Index) in 2016, dropping from its second placing in 2007. It performed most strongly in education and social capital. The only pillar in which Australia has moved up the rankings is the health pillar.

Sub Index	Peer rank 2016	Change since 2007
Economic Quality	15	-7
Business Environment	7	-3
Governance	13	-3
Education	4	-1
Health	8	+5
Safety & Security	19	-5
Personal Freedom	11	-2
Social Capital	2	-1
Natural Environment	14	-9

Furthermore, it has seen scores across four pillars decline, in economic quality, business environment, governance, and social capital (figure 2). It has fallen in the ranking for Natural Environment, Education, Personal Freedom, and Safety and Security because of minimal progress, while other countries have improved. Only in Health has Australia improved its ranking.

Beginning with the data in the Prosperity Index, in this section we examine Australia's performance over time in each of the nine pillars and compare it with a group of 34 other peer countries. We look at changes to policy, government, business and society, to explain why Australia has gone up or down the rankings in each pillar.

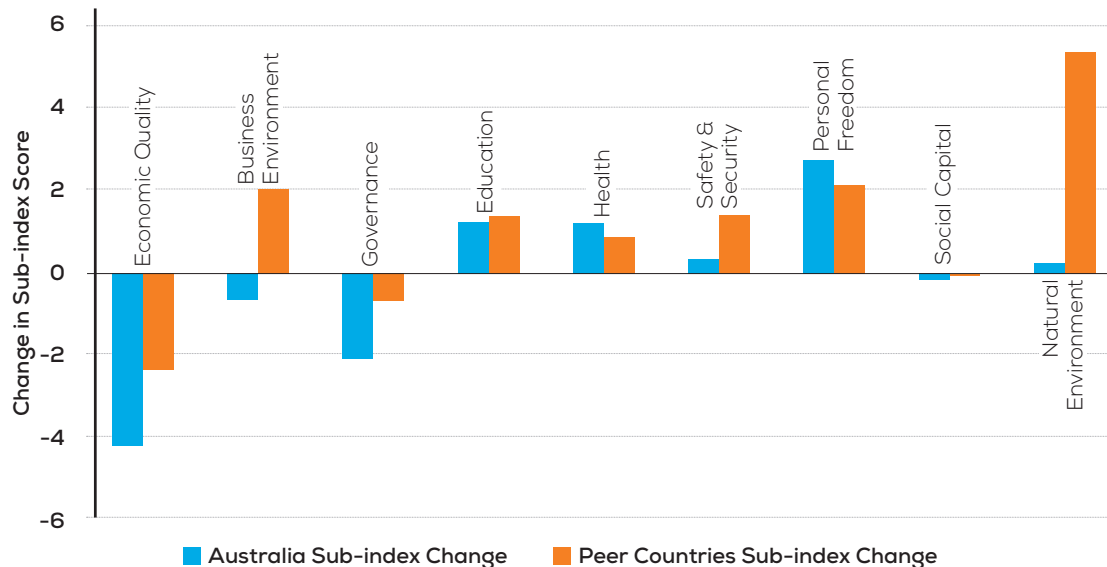


Figure 2: Real change in sub-index scores 2007-2016.



SCORING PERFORMANCE SINCE 2007: THE SCORECARD

We have compared Australia to a group of 34 other peer countries. This group is made up of 32 OECD countries, as well as Hong Kong and Singapore. A full list can be found below. We look at Australia's rank in 2007 and in 2016 against these peer countries for each variable.

We consider Australia's competitiveness on each variable, defined using the standard deviation within the peer group. Competitive (green) indicates that Australia is within one standard deviation of the peer leader. Uncompetitive (red) shows that Australia is within one standard deviation of the lowest ranked peer. Amber puts Australia in between the two. Progress is scored based on the real change in Australia in absolute terms since 2007. Green = the variable has improved. Amber = it has stayed largely the same. Red = the variable has seen decline over the past decade.

Defining the prosperity rankings

The rankings in this report are based on a comparison group made up of 34 other countries mentioned above, rather than the full set of 149 countries from the global Prosperity Index. In most cases however, the top 34 countries in the global Prosperity Index are comprised from the countries in this comparison group.

We have developed a scoring system for this report to give a clear visual indication of progress.	
Rank	Measures how well Australia performs relative to other peer countries (wider peer group identified as OECD plus Singapore and Hong Kong).
	Competitiveness is based on a standard deviation of Australia's value from the maximum and minimum values.
	Progress measures the real terms change in Australia since 2007, to chart the direction of policy travel within the country.
<div>Green is positive or good</div> <div>Amber is no change or average</div> <div>Red is negative or poor</div>	

The data used in this report was the latest available at the time of publishing the 2016 report. The data that was used to determine the 2016 rankings was based primarily on data collected in 2015 because this was the latest data that was available. Because of this many of the graphs show years running from 2007 to 2015 (not 2016). We have decided to do this to show progress at the time data was collected, rather than at the time the data was available.

A list of peer countries:

Australia	Estonia	Iceland	Netherlands	Slovenia
Austria	Finland	Ireland	New Zealand	South Korea
Belgium	France	Israel	Norway	Spain
Canada	Germany	Italy	Poland	Sweden
Chile	Greece	Japan	Portugal	Switzerland
Czech Republic	Hong Kong	Latvia	Singapore	United Kingdom
Denmark	Hungary	Luxembourg	Slovakia	United States

Economic Quality

15th

The Economic Quality sub-index ranks countries on the openness of their economy, macroeconomic indicators, foundations for growth, economic opportunity, and financial sector efficiency. Sound and stable economic fundamentals increase both economic wealth and promote social wellbeing. With this in mind, competitive, innovative, and diverse economies are best placed to deliver prosperity to their people.

Rank 15th (down seven places since 2007)

1 st New Zealand	14 th United States
2 nd Netherlands	15th Australia
3 rd Sweden	16 th Belgium
4 th Switzerland	
5 th Germany	

As well as falling down the rankings, Australia's absolute score under this

pillar has seen significant decline. Four out of thirteen variables have regressed, while only two have improved. This decline in score is part of a trend amongst all peer countries. However, Australia has declined at a greater rate than most of the peer countries.

Economic openness and foundations for growth are the areas that explain most of this fall. On economic openness, Australia has followed an international trend of falling or stagnating scores.

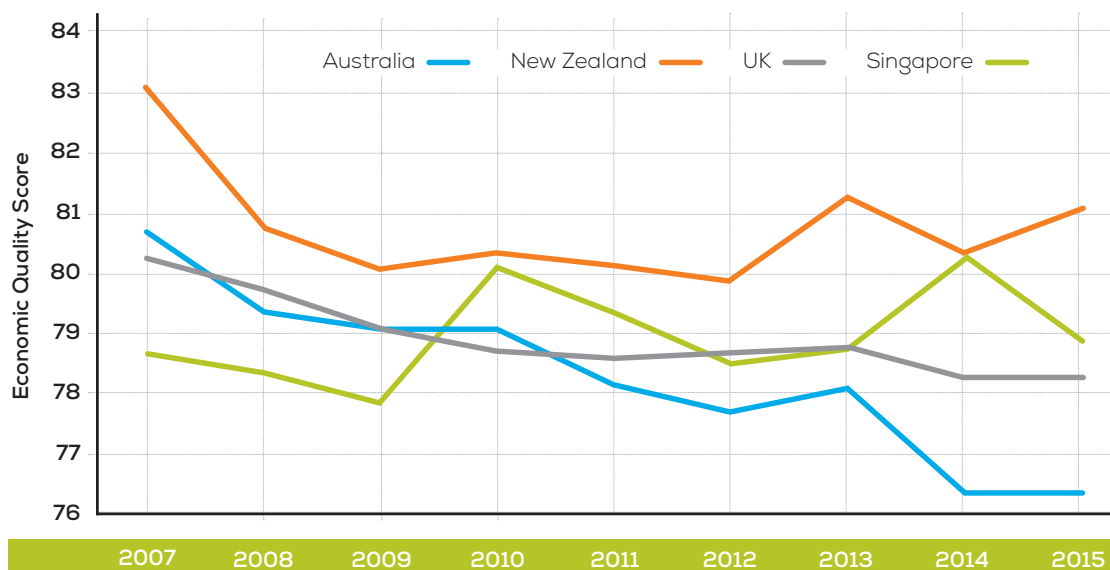






Figure 3: Change in Economic Quality performance since 2007.

Scorecard









Economic openness

For both trade barriers and anti-monopoly policy Australia's score has declined significantly since 2007 in both the rankings and the real scores. It now sits below the average score for the peer countries.

Variable	Rank	Competitiveness	Progress
Trade barriers	22 (-5)		
Anti-monopoly policy	20 (-17)		





Foundations for growth

Australia has remained relatively static on export quality, labour force participation and female labour force participation. However, it has seen its exports become less diverse over the last 10 years while the average peer country has stayed the same.

Variable	Rank	Competitiveness	Progress
Export diversity	31 (-2)		
Export quality	32 (-1)		
Labour force participation	10 (-1)		
Female labour force participation	13 (-3)		











Macroeconomic indicators

Australia retains a relatively low unemployment rate compared with its peers. However, even this score is lower than 2007. GDP growth as a five year average has not increased.

Variable	Rank	Competitiveness	Progress
5 yr GDP growth	17 (-4)		
Unemployment	11 (+1)		

Economic opportunity

Australia performs ahead of many of the peer countries on feelings about household income, financial engagement, standard of living, and absolute poverty. The one variable for concern is relative poverty, where the ranking remains low.

Variable	Rank	Competitiveness	Progress
Feelings about household income	6 (+6)		
Financial engagement	4 (-)		
Standard of living	10 (+1)		
Absolute poverty	1 (-)		
Relative poverty	26 (+2)		

A more positive picture is seen when we look at how people feel about household income, financial engagement, standard of living, and absolute poverty. Australia performs less well on relative poverty. While there has not been change in this variable, there is increased concern that the benefits of the economy are not being shared equitably.

Exports and non-tariff barriers to trade

A prosperous economy is open and competitive. Australia's score aligns with the negative trend among other peer countries: in the last 10 years, 33 peer countries out of the 35 have increased non-tariff barriers to trade (NTB). An example of an NTB includes the Australian Foreign Investment Review Board, which reviews and screens all investment into Australia over A\$252m. This slows foreign direct investment into Australia.

Australia has indicated a commitment to open international markets with the recent signing of the Trans Pacific Partnership (2016) and bilateral trade agreements with South Korea (2014), Japan (2014) and China (2015). However, the overall direction of legislation suggests increasingly protectionist tendencies. Since 2012, the number of trade facilitation changes have been vastly outweighed by the number of newly introduced Technical Barriers to Trade (one type of NTB), with Australia making only one trade facilitation change made for every 209 new Technical Barriers to trade.⁶

Reducing barriers through trade agreements on imported goods should

also help Australian exporters. As noted in Chartered Accountants Australia and New Zealand's *the Future of Trade* paper, international trade is, and will continue to be, important in supporting Australian prosperity.⁷ In Australia, exports account for 20% of GDP; yet it underperforms on the Prosperity Index in providing high quality and diverse exports. Ensuring that Australian goods can reach export markets quickly and efficiently often requires reciprocal agreements with those countries, to reduce barriers to trade. The effect of trade agreements therefore is doubly positive: consumers enjoy cheaper goods and services, while exporters have reduced transaction costs. Such agreements will also increase the opportunities for exporters of higher value and more diverse goods and services.

Anti-monopoly policy

Anti-monopoly policy is a proxy for the effectiveness of internal competition. Like the trade barriers measure, Australia has been part of an international trend seeing this score fall over the decade.

Although there are several factors that can influence the effectiveness of anti-monopoly policy, a prominent cause of this drastic drop appears to be a competition policy that until 2015 had not been comprehensively reviewed since the 1990s. This, in turn, caused major issues in rapidly changing areas such as intellectual property that still lacked an overarching, coherent policy framework.⁸ Indicating the scale of the problem, the Australian Competition and Consumer Commission (ACCC) still had 12 in-depth on-going investigations at the end of 2016, despite already closing high-profile

cases against Visa Worldwide Pte Ltd and Colgate-Palmolive Pty Ltd.⁹

However, there are promising proposals that are being implemented with the objective of improving Australia's competition policy. The 2015 Harper Review proposed 56 wide-ranging changes for competition law, indicating the need for reform in ensuring that Australia's domestic markets remain competitive.¹⁰

The 2017 Competition and Consumer (Competition Policy Review) Amendment Bill includes many of the Harper Review's proposals, adding to and updating 2010 legislation to curb monopoly power.¹¹ It contains a number of amendments to promote competition and restrict monopoly-like behaviour. It also addresses policy problems in particular industries, such as competition in markets for nationally significant infrastructure services. The Competition and Consumer Amendment (Misuse of Market Power) Bill 2017 aims to strengthen the prohibition on corporations with substantial market powers from engaging in conduct that has the purpose of reducing, or will likely reduce, competition in markets they participate in.¹² These changes should, in the words of the Harper Review, enact "competition policies, laws and institutions should promote the long-term interests of consumers".¹³ The passing of this legislation has the potential to improve Australia's domestic competition policy.

Improving economic opportunity

A prosperous economy is inclusive. It ensures all members have the resources and opportunities to enable them to participate in society, both economically and socially. This is an area for further improvement for Australia. On most variables in this sub-pillar, Australia has shown little improvement over the last 10 years (with the exception of feelings about household income). Like many of its peer countries, public debate has often focused on relative poverty and the distribution of wealth, particularly as Australia has seen increased unemployment and stagnant labour force participation.

In Australia in 2014, 13.3% of the population (2.99 million) fell below the poverty line, defined as receiving below 50% of the median income after housing costs.¹⁴ This is roughly the same rate as in 2007. Furthermore, 17.4% of all children are below the poverty line - an increase of 2pts from 2004 to 2014. This compares to a child poverty rate of 13% across OECD countries.¹⁵ 40.6% of lone parent households with children are below the poverty line. Where a child grows up in a workless or low-income household, this significantly affects their likely health and education outcomes, and also their future prospects of participating in the labour market.

The increased levels of unemployment have played a significant role in the persistent levels of poverty. 63.2% of

unemployed households were defined as being in poverty, increasing from 61.2% in 2012.¹⁶ This may be due to the fact that unemployment benefits have not increased in real terms since 1994, meaning they have not kept up with real wage growth.¹⁷

These numbers show that policy needs to focus on improving employment rates, and thereby household incomes, alongside ensuring that basic material needs are met. There have been a number of reforms aimed at moving people back into work. The Australian Government has adopted an “Investment approach to welfare”, which involves calculating a valuation of the future lifetime cost of welfare payments to the Australian population and groups within it.¹⁸ This valuation is designed to help tailor interventions to address barriers to employment for people who would be able to work with additional help. Further, in 2020 it will consolidate a number of working age payments into a single payment, which should make the welfare system easier to

navigate and strengthen incentives to work.¹⁹ While these have the potential to help, other reforms could also be considered to reduce unemployment, and hence poverty. The OECD has noted that Australia could do more to strengthen employment policies to boost labour market prospects for particular populations by, for example, focusing on early intervention for displaced workers, ensuring funding for employment service providers has sustainable outcomes, and providing affordable childcare for lone parents going back to work.²⁰

Beyond continuing to pursue active labour market policies, one additional way to coordinate action from government agencies and other organisations, is to agree a measure of poverty that focuses on both earned and unearned income, as well as material and social needs.²¹ This would be a useful first step to addressing poverty and deprivation in Australia, by creating a framework against which the effectiveness of policies and programs could be monitored and measured.

Business Environment

7th

The Business Environment sub-index measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation, and labour market flexibility. The strength of a nation's business environment is a critical factor in determining its prosperity. A strong business environment provides an entrepreneurial climate, enabling new ideas and opportunities to be pursued, which lead to more wealth and greater social wellbeing.

Rank 7th (down three places since 2007)

1 st United States	6 th Singapore
2 nd New Zealand	7th Australia
3 rd Canada	8 th Finland
4 th Hong Kong	
5 th United Kingdom	

Australia has seen a slight decline in the overall score for this sub-index since 2007, while the average across all peer

countries has risen slightly. Australia remains competitive in a number of areas; and there have been improvements in broadband infrastructure and a perception that working hard gets you ahead.

However, there is significant room for improvement. Australia has regressed since 2007 on being a good place to start a business, intellectual property protection, ease of resolving redundancy, hiring and firing practices and the cost of redundancy.

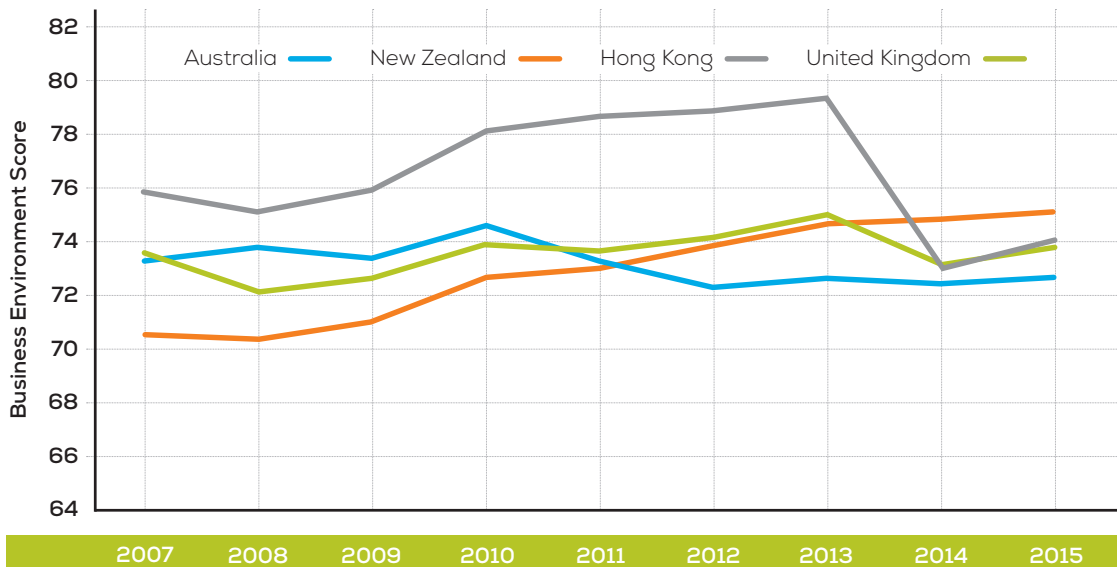








Figure 4: Change in Business Environment performance since 2007.

Scorecard







Entrepreneurial environment

This indicator shows that while it is easy to start a business in Australia from a registration perspective, over the past decade people's perception of it as a good place to start a business has declined.

Variable	Rank	Competitiveness	Progress
Working hard gets you ahead?	6 (+3)		
Good place to start a business?	22 (-2)		
Ease of starting a business	5 (-4)		









Business infrastructure

While the Logistics Performance Index and electricity costs remain static, the score for broadband infrastructure has increased significantly and aligns with a similar rise in other countries.

Variable	Rank	Competitiveness	Progress
Logistics Performance Index	16 (+1)		
Broadband infrastructure	23 (-)		
Electricity costs	3 (+1)		





Barriers to innovation

While Australia performs strongly on access to credit, there has been negative progress on intellectual property protection and insolvency resolution.

Variable	Rank	Competitiveness	Progress
Affordability of financial services	16 (+2)		
Intellectual property protection	15 (-5)		
Ease of resolving insolvency	13 (+2)		
Access to credit	3 (+1)		

Labour market flexibility

High redundancy costs and over-regulation make Australia uncompetitive on labour market flexibility. The scores for both of these variables have also declined since 2007.

Variable	Rank	Competitiveness	Progress
Redundancy costs	19 (-15)		
Hiring and firing practices	32 (-18)		

In order to promote prosperity, the Australian government should focus on improving regulation and policy for businesses across a range of areas, including labour regulation.

Entrepreneurial environment

A well-functioning business environment that is free and fair improves the likelihood that entrepreneurial initiative, investment and hard work all pay off. It also contains strong institutions, such as property rights and the rule of law.

There is an interesting contrast between these different perspectives on entrepreneurship. The ease of starting a business variable is measured on the basis of how long it takes for registration of a business, cost of registration, procedures before the final document is received, and paid-in capital. On this measurement, Australia is one of the best places to start a business. Government regulation for setting up a business in Australia is still quicker and less bureaucratic than similarly prosperous countries – compared with a 2013 G20 average of 22 days to set up a business, it can take only 2 in Australia.²² Furthermore, there have been generally positive attitudes to entrepreneurship among the broader public, relatively positive media attention, and the regular portrayal of positive role models for prospective entrepreneurs.²³

However, on the variable on whether people think Australia is a good place to start a business (a subjective variable rather than an objective one), there has been a real decline in people's perceptions. This points to other reasons why Australia might be a difficult place to set up a business beyond just registration, particularly labour market flexibility and barriers to innovation.

Labour market flexibility

A strong business environment enables businesses to adapt to new challenges; hiring the people they need, and rationalising their resources, when they need to do so. Further, given the rapidly changing nature of work, employers need to be able to support workers into roles where new training is required.²⁴ Labour laws need to ensure this can be done without being heavily impeded by costs and regulations, while also ensuring rights for workers are protected.

Australia's labour market flexibility has dropped significantly. There is considerable decline compared with peer countries with respect to hiring and firing practices and redundancy costs. Australia's declining scores are largely influenced by labour regulation changes. The 2009 Fair Work Act increased the cost of redundancy²⁵ for businesses to the equivalent of 11.7 weeks of pay, up from 4 weeks in 2007. This compares to 0 weeks in New Zealand, 8.5 in the United Kingdom, and a peer country average of 12.3 weeks.

The World Economic Forum in its 2016–17 Global Competitiveness Report listed restrictive labour regulations as the most problematic factor for doing business in Australia, ahead of tax rates and government bureaucracy. This is also reflected in business leaders' perspectives on the effectiveness of the labour market, which has declined in recent years.

Any labour legislation will always need to strike a balance between employer and employee rights. Indeed, a World Economic Forum (WEF) report suggests employee rights have recently been prioritised with improvements in wage flexibility and cooperation in labour employment relations. Generally, more prosperous nations have found ways to

preserve labour market flexibilities, and the employment gains that come from them, while ensuring an appropriate degree of protection for those losing their jobs.

Barriers to innovation

For economic growth to thrive and remain sustainable in the long run, barriers to innovation must be removed. There must also be access to credit, secure property rights and processes to resolve business failures such as insolvency.

While Australia performs well on providing access to credit, there are still barriers for some, mainly smaller, businesses and entrepreneurs in particular. In 2013, 53% of Australian entrepreneurs surveyed noted that access to bank loans had deteriorated, whilst 37% noted that government funding had also vanished.²⁶ However, although the Prosperity Index shows negative progress for Australia on the ease of resolving insolvency and intellectual property protection, the most recent reforms in these areas are not yet captured in the scores.

On top of increased funding opportunities for businesses from the National Science and Innovation Agenda (2015), the Insolvency Law Reform Act (2016) provides greater protection to businesses that fall into bankruptcy, increasing the encouragement for prospective businesses to start in the first place. For instance, the reduction of bankruptcy periods from three to one year, as well as providing more protection for company directors against personal liability for insolvent trading, promotes higher risk-taking among entrepreneurs, thereby

spurring on the development of new businesses, ideas and industries.²⁷ The changes should have a positive impact by increasing business risk taking and providing opportunities for companies to restructure if in financial distress.

The policies laid out in the 2015 Innovation Statement made by Prime Minister Malcolm Turnbull suggest a real commitment to entrepreneurship and paint a brighter long-term picture for Australian innovation. It includes, for example, a pledge to invest AUS\$1.1bn over 4 years to enhance Australian entrepreneurship, including a AUS\$30m centre for developing Australia's cyber-security industry and a AUS\$15m digital marketplace to enable smaller companies to work with government.²⁸ Not to be outdone, the Australian Labor Party have also announced a range of policy initiatives with the aim of fostering innovation. These initiatives include financing more start-up companies, setting up regional innovation hubs, and promoting the teaching of technical skills such as coding, mathematics and science.²⁹

Furthermore, the creation of the government-led Intellectual Property Mediation Referral Service has provided a cost-effective way for new and smaller businesses to protect intellectual property.³⁰ Whilst there will always be some concern over the vulnerability of intellectual property rights, this is an encouraging improvement to incentivise innovation in Australia.

Governance

13th

The Governance sub-index measures a country's performance in three areas: effective governance, democracy and political participation, and rule of law.

Democratic, accountable government and strong institutions are an important foundation for transforming economic success into prosperity shared by citizens.

Rank 13th (down three places since 2007)

1 st Finland	12 th Iceland
2 nd New Zealand	13th Australia
3 rd Norway	14 th Ireland
4 th Netherlands	
5 th Sweden	

While Australian governance remains strong overall, it has fallen three places in the global rankings, and sees negative progress in some variables.

For example, under effective governance, Australia has fallen in four of the five variables: confidence in the national government, efficiency of the legal system in challenging regulation, government effectiveness and transparency of government policy making. All four variables are based on survey data and therefore people's perceptions that the quality of governance is declining. Regulatory quality is the exception, and shows improvement despite the average for peer countries remaining the same since 2007.

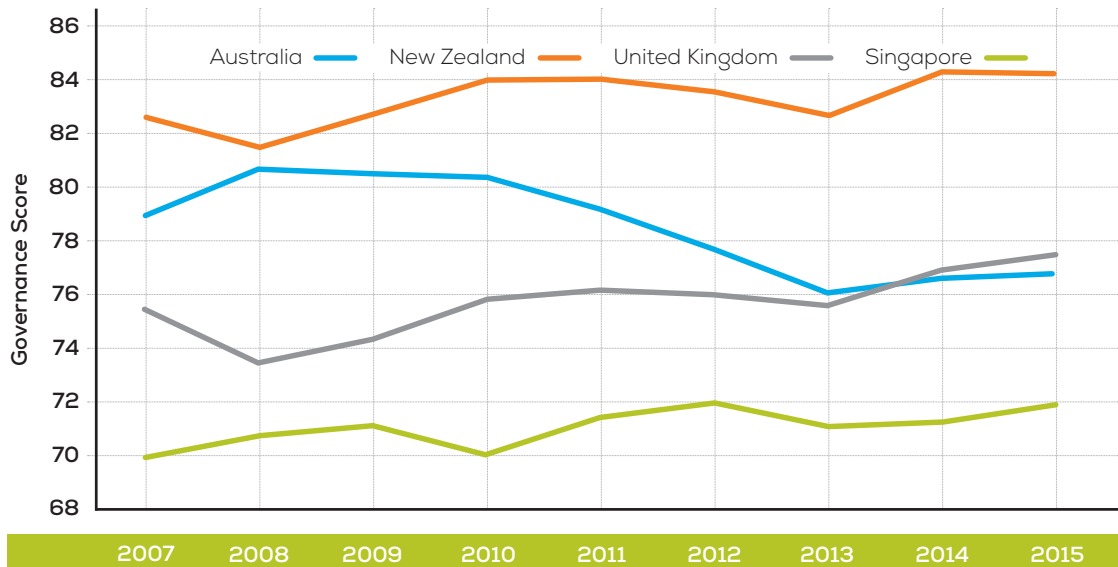








Figure 5: Change in Governance performance since 2007.

Scorecard











Rule of law

Australia has regressed in the Corruption Perceptions Index and judicial independence. Rule of law has seen positive progress in the last decade.

Variable	Rank	Competitiveness	Progress
Rule of law	9 (+4)		
Corruption Perceptions Index	13 (-2)		
Judicial independence	13 (-7)		











Effective governance

Australia has regressed relative to other countries in confidence in the national government, efficiency of the legal system, government effectiveness, and the transparency of policy making. It sits in the middle of the peer countries for each variable.

Variable	Rank	Competitiveness	Progress
Confidence in national government	13 (-)		
Efficiency of legal system in challenging regulation	19 (-2)		
Government effectiveness	16 (-7)		
Regulatory quality	5 (+5)		
Transparency of government policymaking	22 (-10)		

Democracy and political participation

Australia has performed reasonably well, and remains very competitive on democracy level, political participation and rights, and voter turnout. However, it has seen little progress for increasing the number of women in parliament. This puts Australia behind numerous other countries, including the UK and Canada.

Variable	Rank	Competitiveness	Progress
Confidence in honesty of elections	13 (+7)		
Democracy level	1 (-)		
Political participation and rights	1 (-)		
Voter turnout ^b	5 (-1)		
Women in national parliament	17 (-4)		

b. Voter turnout here means the total vote divided by the estimated voting age population

The main challenge for Australia is to ensure that the decline in governance performance is stopped, and positive reforms are made to move back up the rankings.

A lack of confidence in the effectiveness of Australian governance

The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions, and regulatory quality contribute significantly to economic growth. Effective, fair, and accountable governments increase public confidence, and, ultimately, result in higher levels of life satisfaction among citizens.

The decline in the scores of a number of indicators in the governance pillar indicate falling confidence in public institutions in Australia. Only 26% of respondents to a 2016 survey expressed confidence in the current political establishment in Australia.³¹ Of particular concern, the Prosperity Index illustrates that public confidence in the government has consistently fallen from its highest point of 64% in 2009 and 2010 to 48% in 2016.

Australian politics has seen a lack of transparency in leadership changes, policy development and MP's expenses. In the Edelman Trust Barometer in 2017, Australia has shown one of the sharpest

falls in trust of the government of any developed country over the previous year.³² There have recently been changes in federal leadership disconnected from the electoral process. Although trust in government can be impacted by several factors, the opaque nature of the Rudd-Gillard and Abbott-Turnbull changes is a major source of the disillusionment with the political establishment.

Adding to this, the widespread problem of MPs over-claiming expenses, leading to the resignations of senior politicians, has exacerbated public distrust. The effects of these findings are still being felt with 74% of respondents to a recent survey believing politicians are 'too often interested in looking after themselves,' the highest ever level.³³ This disillusionment may be also due to state level concerns, with a recent example being the recent findings of businessmen and MPs evading election funding laws when donating to the New South Wales Liberal Party.³⁴

All of this is reflected in the voter turnout. Despite compulsory voting, turnout at the 2016 federal elections was the lowest recorded since 1925.³⁵ An improvement in government transparency could help restore trust and confidence in government. Initiatives such as the Open Government Partnership (see spotlight) improve this.

OPEN GOVERNMENT PARTNERSHIP

Australia is one of 75 countries participating in the Open Government Partnership. This is an initiative shared across a number of countries that aims to make governments commit to promoting transparency, empower citizens, fight corruption and use new technology to improve governance.³⁶

Australia's first national action plan was released at the end of 2016. It is being implemented throughout 2017 and 2018 and contains 15 commitments to improving transparency, accountability, public participation and technological innovation in Australia.

As part of this initiative, it is implementing a number of changes to improve transparency and access to information across government. Two changes in particular could improve confidence in government.³⁷ First, Australia aims to improve confidence in the electoral system and political parties. This involves working with the Australian Parliament to identify issues, particularly around the application of new technology to the electoral process; and options available to Parliament to monitor donations to political parties. Second, Australia aims to enhance public participation in government decision making. This will be done by designing and adopting a whole-of-government framework that embeds meaningful, open, public and multi-stakeholder participation into Australia's business of policy development and service delivery.

Rule of law and judicial appointments

A well-governed society is grounded in the rule of law, which builds trust in institutions and between citizens. Australia's judicial independence ranking has fallen from 6th in 2007 to 13th in 2016. This variable measures the opinion of Australian business on the independence of the country's judiciary. With the more subjective nature of this measure in mind, although there have not been any major changes to the process of judicial appointment to cause this decrease. Recent studies indicate the relative lack of transparency in the Australian process and the potential for the politicisation of appointments, possibly influencing opinions. Indeed,

for the appointment of federal judges, advertising of vacant positions, formal interviews or qualified selection panels are not required.³⁸

Additionally, although the Attorney-General must consult state-level government members before naming somebody to the High Court bench,³⁹ there is no obligation to listen to their advice – limiting the check on who sits on the federal judiciary. Further, out of 48 independent Commonwealth jurisdictions, Australia is one of nine where the executive has sole responsibility for making appointments to superior courts.⁴⁰ This process could affect judicial independence, or at least perceptions of judicial independence.

Education

4th

The Education sub-index ranks countries on access to education, quality of education, and human capital. Education, and the skills it gives a country, is an essential part of that country's ability to deliver prosperity. Better-educated workforces can generate greater wealth per head to drive up living standards.

Rank 4th (down one places since 2007)

- 1st Switzerland
- 2nd Netherlands
- 3rd Finland

4th Australia

- 5th Norway

Australia has stayed near the top of the global education rankings overall. It has made progress on improving the satisfaction with education quality,

technical/vocational education per worker, and tertiary education per worker. It also performs strongly on the Education Inequality Index, perception that children are learning, and tertiary education quality.

Despite this good progress, there is still significant room for improvement. The aggregated nature of the variables masks some significant inequalities for poorer groups and indigenous Australians. On youth and adult literacy, Australia could improve literacy outcomes for those often left behind

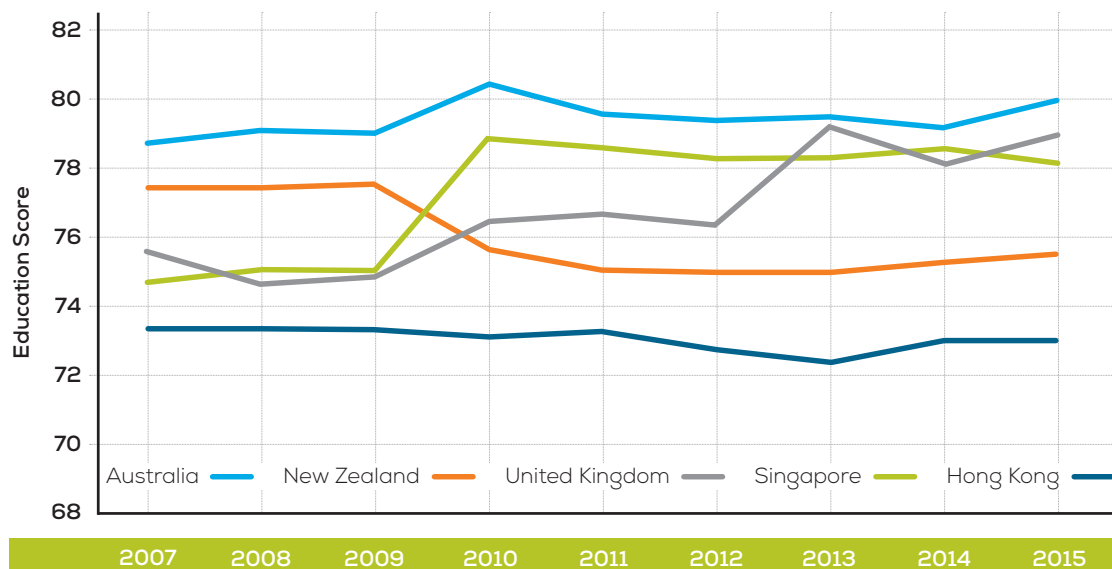










Figure 6: Change in Education Performance 2007-2016.

Scorecard









Access to education

Australia has remained competitive on the Education inequality index and the girls to boys enrolment ratio. Although the boys-girls ratio has decreased, it is still relatively close to a ratio of one boy for every one girl.

Variable	Rank	Competitiveness	Progress
Education inequality index	7 (-)		
Girls to boys enrolment ratio	29 (-21)		
Youth literacy	15 (-9)		
Adult literacy	21 (-5)		









Quality of education

Australia sits near the top of the distribution for the question of whether children are learning and the tertiary education quality variable (based on the average number of years of tertiary education completed per worker).

Variable	Rank	Competitiveness	Progress
Secondary education quality	12 (-)		
Perception that children are learning	8 (+1)		
Satisfaction with education quality	14 (+7)		
Tertiary education quality	13 (+1)		

Human capital

Australia performs well on technical and vocational training, and tertiary education per worker. Its low rank on the primary school completion rate should not be a major concern, as it sits very close to the top performing country. Australia has also made progress on improving access to post-secondary education but is still some distance from the top performing country.

Variable	Rank	Competitiveness	Progress
Primary completion rate	31 (-9)		
Secondary education per worker	19 (-7)		
Technical/vocational education	9 (+1)		
Tertiary education per worker	8 (+2)		

by the schooling system. Further, ensuring equitable access to education at all levels should remain a priority for Australia, while it continues to raise overall standards.

Challenges for Australia's future election performance

A prosperous society ensures access to high quality education, which contributes to economic and social development. Over the last ten years Australia has performed strongly in education, finishing fourth in 2016. Despite this strong showing, Australia faces a significant challenge in up-skilling its workforce.

Across all subjects, there appears to have been little improvement in core skills. The OECD's Program for International Student Assessment (PISA) scores show that reading and mathematical skills of Australians aged 15 have slipped in relation to their counterparts, and are declining in absolute terms. The National Assessment Program - Literacy and Numeracy (NAPLAN) was introduced in 2008 to implement annual assessments in Year 3, 5, 7 and 9. It tests the types of skills that are essential for every child to progress through school and life. However, there has been little progress since 2008 and the programme appears to be failing to drive improvements in literacy and numeracy.⁴¹

This is particularly concerning, as Science, Technology, Engineering and Mathematics (STEM) skills are becoming increasingly important in a globalised digital economy. In 2015 PwC identified that 44% of current Australian jobs

were at high risk of being affected by computerisation and technology over the next 20 years.⁴² Overcoming this requires people to have skills that are applicable in a range of contexts. The Australian Industry Group has argued that a major focus should be on teaching STEM skills in schools as well as in higher education⁴³, so as to drive innovation and productivity, and promote economic growth. This approach has been supported by the government, with recent investment into a number of STEM subjects including mathematics and coding.⁴⁴

Educational inequality

A further challenge is that some groups of students are not achieving as well as they should. PISA noted that Australia's most disadvantaged children were lagging three years behind their advantaged counterparts. This compares to two years within the United Kingdom, according to a report by the Education Policy Institute 2017.⁴⁵ The Melbourne Graduate School of Education has found that 'Australia has one of the widest gaps of all developed nations between the achievements of our highest and lowest performers'.

Indigenous students, in particular, have some of the poorest educational outcomes. Given the high-level view the Prosperity Index takes, and the fact that Aboriginal and Torres Strait Islander people make up just three per cent of Australia's population, these poor outcomes are not directly reflected in the overall Prosperity Index score.

In early childhood education, indigenous Australians sit well behind their peers. In

2015, 83.4 per cent of indigenous four-year-olds were enrolled in early childhood education, compared with 98 percent of non-indigenous four year olds.⁴⁶

In terms of school achievement, indigenous students fall well behind their peers. Across reading and numeracy at years 3, 5, 7 and 9, there was improvement in year 3 and 5 reading, and years 5 and 9 numeracy. However, year 9 numeracy was the only variable on track to meet the Council of Australian Governments (COAG) target to halve the

gap for Indigenous children in reading, writing and numeracy by 2018 (from 2008). Attendance rates are also poorer for indigenous students: 83.4 percent in 2016, compared to 93.1 percent of non-indigenous.⁴⁷

However, there is some good progress: the proportion of indigenous 20-24 year-olds who achieved Year 12 (or equivalent) increased from 45.4 percent to 61.5 percent. This means that the goal set by COAG to halve the gap in Year 12 attainment by 2020 is on track.⁴⁸

Health

8th

The Health sub-index measures a country's performance in three areas: basic physical and mental health, health infrastructure, and preventative care.

A population that is healthy, both physically and mentally, is important for both the economic and social development behind rising prosperity.

Rank 8th (up five places since 2007)

1 st Luxembourg	7 th Hong Kong
2 nd Singapore	8th Australia
3 rd Switzerland	9 th Israel
4 th Japan	
5 th Netherlands	

Australia has improved its overall health ranking since 2007. It has seen significant improvement or stayed competitive across most variables. For example,

Australia has one of the lowest rates of diabetes prevalence – 6.3% of the population over 18 have diabetes. This compares to the average amongst peer countries of 8.7%.

The major health challenge emerging out of the analysis is obesity, which is a problem shared by most peer countries. This poses a significant threat to prosperity. While the financial burden on society of obesity is high, the cost to wellbeing is even more significant.

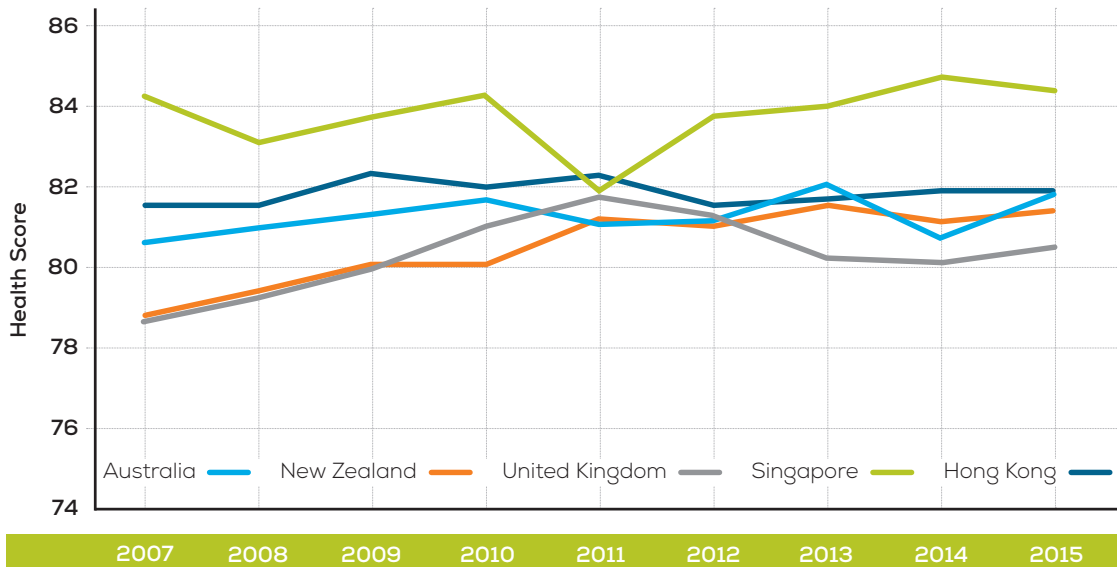










Figure 7: Change in Health performance since 2007.

Scorecard









Basic physical and mental health

Australia performs well on joy, sadness, life expectancy at birth and mortality. However, it has seen little progress in the last decade for each of these variables.

Variable	Rank	Competitiveness	Progress
Joy ^c	15 (-3)		
Sadness ^d	14 (+1)		
Life expectancy at birth	8 (-2)		
Mortality	7 (-1)		









Health infrastructure and prevention

While Australia shows strong competitiveness for two variables, there has been a lack of progress with improving immunisation rates for children.

Variable	Rank	Competitiveness	Progress
Satisfaction with healthcare	7 (+11)		
Immunisation DPT	31 (-2)		
Immunisation measles	24 (-3)		
Improved sanitation facilities	1 (-)		

Illness and risk factors

Generally, Australia shows good performance on health. However, obesity is a major problem with 28.6% of the population considered obese. This is in line with other countries – 34 of the 35 peer countries have seen the number of adults who are considered obese rise.

Variable	Rank	Competitiveness	Progress
Diabetes rate	5 (+8)		
TB deaths	1 (-)		
Obesity	33 (-)		
Health problems	13 (-)		

c Joy is a composite of three Gallup questions: Did you smile or laugh a lot yesterday?; Did you feel well-rested yesterday?; Did you experience enjoyment during a lot of the day yesterday?

d Sadness is a composite of two Gallup questions: Did you experience sadness during a lot of the day yesterday?; Did you experience worry during a lot of the day yesterday?

Illness and risk factors

A healthy, prosperous society minimises both the wellbeing and productivity cost from the incidence of infectious diseases and chronic conditions. It ensures the health system's coverage and performance are effective at maintaining the health of the population. Obesity is a major problem in terms of illness and risk factors. Australia's plight is not unique with 27 countries out of 35 having populations where more than 20% of the population is obese. Among the OECD countries, more than 1 in 2 adults and nearly one in six children are overweight or obese. However, Australia has one of the worst rates sitting behind the United States and New Zealand with 28.6% of the population considered obese.

Chronic illness like obesity also carries a significant financial cost. A 2015 PwC report estimated that the cost of obesity would be a total of \$8.6 billion of direct (e.g. healthcare) and indirect (e.g. absenteeism) costs in 2011-12.⁴⁹ In children aged 2-4, obese children are 2-3 times more likely to be hospitalised. The annual cost to the Australian health care system is estimated to be around \$17 million.⁵⁰ And the cost is not just fiscal: PwC estimated that the health and wellbeing costs to individuals were \$47.4 billion, based on obesity's impact on the quality and length of life.

In its 2017 Obesity Update, the OECD recommended using a number of communication strategies to promote healthy eating. These were: food labelling in stores and in restaurants, mass media campaigns, social media and tightening regulation.⁵¹

A recent report by Obesity Policy Coalition noted that the Federal Government is meeting best practice on some policies such as food labelling, food prices and regular monitoring of population weight. However, it recommended they develop an overall plan for improving national nutrition, tax unhealthy foods and introduce regulations to reduce marketing of unhealthy food to young children.

Additionally, there is growing evidence of a strong relationship between weight issues and mental health. Often problems with obesity are associated with dissatisfaction with body image, low self-esteem and anxiety.⁵² Further, sexual and physical abuse have been associated with increased body mass index and waist circumference in adults. Therefore, dealing with mental health should also be a part of any strategy to combat obesity.

Safety & Security

19th

The Safety & Security sub-index ranks countries based on national security and personal safety. A secure and stable environment is necessary for attracting investment and sustaining economic growth. People's wellbeing is dependent on having secure living conditions and personal safety.

Rank 19th (down five places since 2007)

1 st Singapore	18 th New Zealand
2 nd Luxembourg	19th Australia
3 rd Japan	20 th Poland
4 th Iceland	
5 th Denmark	

By international standards, Australia is very safe. However, it has fallen five places since 2007. This is largely due to Australia staying static and other

countries becoming safer, rather than Australia's score falling.

On the National Security side, it remains very competitive on most variables, except terrorist attack deaths.

On the personal safety side, there is progress being made on reducing road deaths, reducing theft and improving the provision of adequate shelter. There is still room for improvement under personal safety. Significant progress can be made in reducing road deaths to the peer country average.

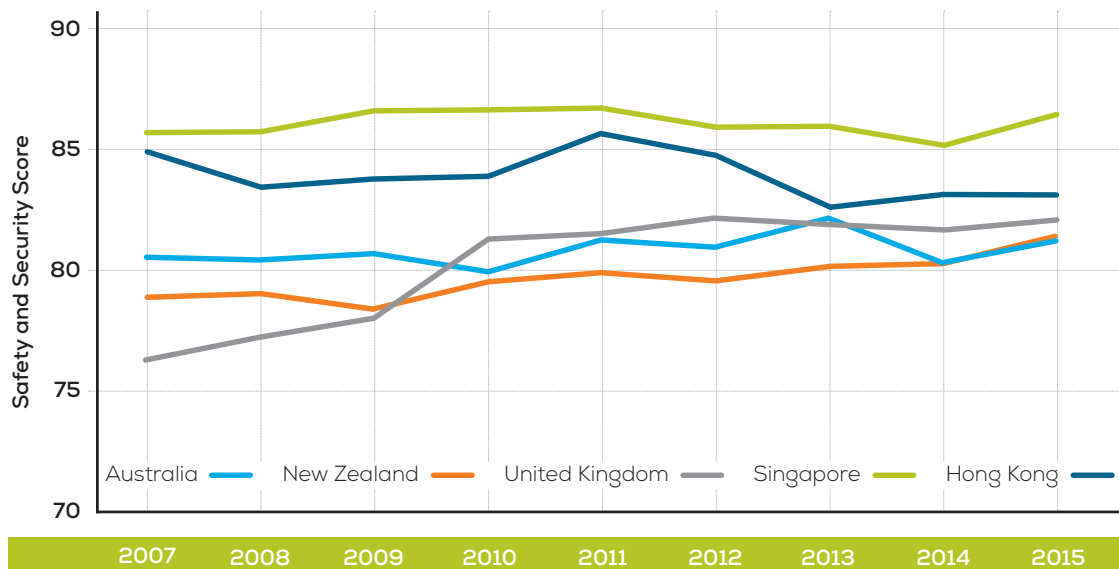












Figure 8: Change in Safety and Security performance since 2017.

Scorecard













National security

The Terror Attack variable is a reminder that Australia remains a target for terrorists. Further, its Political Terror Score has decreased, but is still very close to the top performing countries, which are clustered very close together.^e On battlefield deaths, civil war casualties and refugees Australia remains competitive with peer countries.

Variable	Rank	Competitiveness	Progress
Battlefield deaths	1 (-)		
Civil war casualties	1 (-)		
Political Terror	21 (-20)		
Refugees	4 (+9)		
Terror attack deaths	31 (-30)		

Personal safety

Australia has a good record on personal safety. It has also made good progress since 2007 on providing adequate shelter, reducing theft and reducing road deaths (other countries have made better improvements, hence the fall down the rankings).

Variable	Rank	Competitiveness	Progress
Adequate shelter	1 (+9)		
Food security	12 (+3)		
Homicide	21 (-3)		
Theft	10 (+5)		
Road deaths	20 (-4)		
Safe walking alone	29 (-6)		

^e The Political Terror Score is based on three components. Each component is rated from 1 to 5. 1 is the best score a country can get, and 5 is the worst. The Prosperity Index takes the average across all three. Two of these components show Australia scoring 1. One component scores Australia a 2 in the latest year, while in 2007 it scored Australia a 1.

There also remains room for improvement on homicide and safety with walking alone. While other countries have improved on both variables, Australia has remained stable and therefore fallen down the rankings.

National security

In a secure and prosperous nation, populations are safe from conflict and terror both within and without their borders. Insecure borders and terrorism affect individual and collective security and safety, and hinders economic growth.

Australia has seen the terror attacks score regress in the last ten years. Between 2014 and 2017, six people (including perpetrators) were killed in terror related incidents. Australian police have also prevented numerous terror plots, the most recent being a plot to bring down a plane departing from Australia.⁵³ The 2016 Global Terrorism Index showed that Australia ranked as the 59th most impacted country by terrorism. Yet, within the OECD, the report stated Australia had the eighth highest number of ISIS inspired attacks in the 18 months prior, with many attacks being thwarted by Australian police.

Australian police have also looked to tackle some of the long-term drivers of terrorism. One method has been for security forces to partner with local communities, which is already happening in Australia (see case study).

Personal safety

A safe and prosperous society is one where the safety of property and person are respected. Peoples' perception of how safe they feel in their home environment is a central component of their overall wellbeing.

Road deaths remain a problem, with Australia's road death toll at 5.4 deaths per 100,000 people per year. However, it is promising to see that this variable has fallen over time. Australia also has relatively few homicides. A 2013-14 report from the National Homicide Monitoring Programme highlighted that Australia had a national rate of one victim per 100,000 people – the lowest since the programme began in 1989.⁵⁴

However, many Australians do not feel safe walking home alone at night, and this variable has not improved over the last ten years. This issue particularly affects women. The 'Right to the Night' 2016 survey highlighted that 30% of young women aged 15-19 felt it was unsafe for girls to be out in public places after dark, with 23% of girls equally stating they felt it wasn't safe to travel alone on public transport. Further a 2017 Human Rights Commission survey on harassment in universities showed that, across 39 universities assessed, 6.9% of students claimed to have been sexually assaulted on at least one occasion within 2015 or 2016. In 2016, 26% of students were sexually harassed in a university setting. Action has been taken to improve this with all universities required to support a '10 point action plan', involving developing respectful relationship programs for students, and providing a 24 hour support line for those affected.

CASE STUDY: VICTORIA POLICE

The Victoria police operate a policing model that seeks solutions to crime in partnership with the local community.⁵⁵ In the context of counter-terrorism, Victoria police seek to engage communities most affected by terrorism. While the police have a duty to investigate and respond to threats against Australian citizens, tackling the longer-term drivers of extremist ideologies requires a cooperative approach.

For example, Victoria police have supported a group called the National Imams Consultative Forum, which allows for collaboration between Imams, academics, and government. The Forum gives these leaders tools and perspectives to identify and manage the influence of extremist ideology in their congregations.

By working with communities, Victoria police are able to empower local leaders with the tools to reduce the threat of violence, and without having to infringe personal freedoms.

Personal Freedom

11th

The Personal Freedom sub-index measures national progress towards basic legal rights, individual freedoms, and social tolerance. Freedom is important for prosperity, with legal rights allowing individuals to flourish and tolerance being particularly vital if a country is to attract talent from all over the world.

Rank 11th (down two places since 2007)

1 st Luxembourg	10 th Norway
2 nd Canada	11th Australia
3 rd New Zealand	12 th Denmark
4 th Iceland	
5 th Ireland	

On most aspects of personal freedom, Australia performs relatively well. It

has a strong protection of civil liberties, no death penalty and no conscription. Individual freedoms are protected; and social tolerance for different groups is high.

However, there is negative progress in measured tolerance for immigrants and for ethnic minorities, based on survey questions. This goes against the average score for peer countries – most countries are seeing an increase in tolerance for immigrants and ethnic minorities.

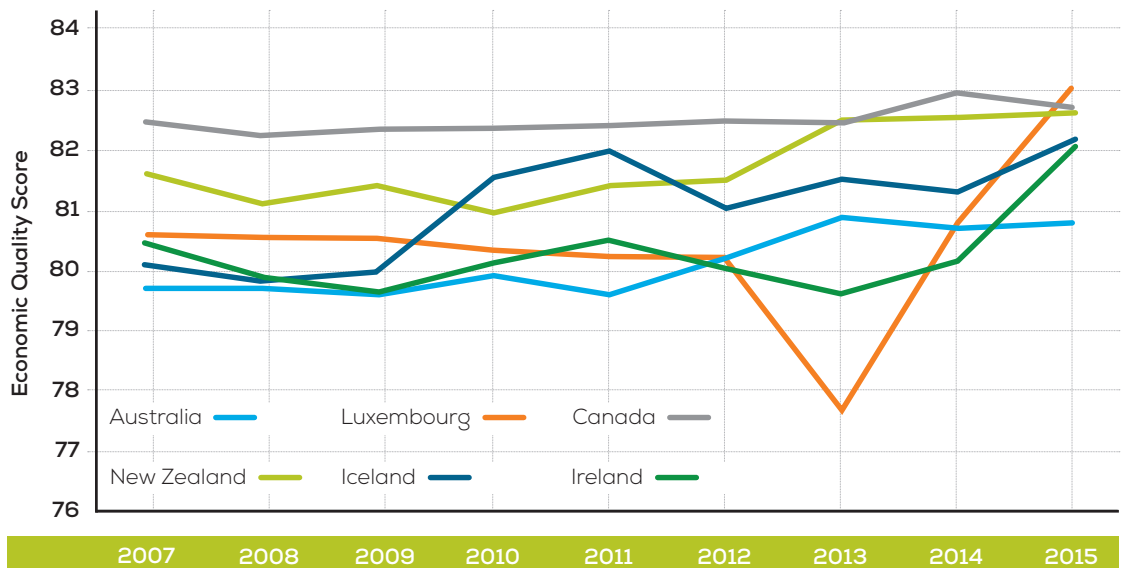










Figure 9: Change in Personal Freedom since 2007.

Scorecard









Basic legal rights

Australia leads the peer countries in many basic legal rights including civil liberties, lacking the death penalty and conscription. However, there is room for improvement on press freedom.

Variable	Rank	Competitiveness	Progress
Civil liberties	1 (-)		
Death Penalty	1 (-)		
Conscription	1 (-)		
Press freedom	18 (+1)		









Individual freedoms

Australia shows progress across government religious restrictions, satisfaction with freedom of choice, same-sex marriage and property rights equality.

Variable	Rank	Competitiveness	Progress
Government religious restrictions	7 (+11)		
Satisfaction with freedom of choice	10 (-3)		
Same-sex marriage	17 (-5)		
Property rights equality	1 (-)		

Social tolerance

Australia has regressed on some of its scores for social tolerance, particularly for ethnic minorities and migrants.

Variable	Rank	Competitiveness	Progress
Tolerance of ethnic minorities	7 (-6)		
Tolerance of LGBT	12 (-5)		
Tolerance of immigrants	5 (-4)		
Social Hostilities Index	13 (+15)		

Falling tolerance

A free and prosperous society recognises, respects, and benefits from a diversity of peoples' talents, values, and religious beliefs. Australia has regressed on tolerance of immigrants and ethnic minorities. A 2016 Monash University survey identified an increasingly hardened attitude towards minorities. 19% of third generation Australians identified 'too many migrants' as their least favourite aspect of the nation. Alongside these statistics, 71% of South Sudanese migrants claim to have experienced verbal abuse, with 17% experiencing physical abuse. Similar experiences have affected several members of the Asian community, with 43% of South Koreans, 30% of Chinese, and 26% of Indians being the victims of verbal abuse.

There can be some short-term costs to migration, such as increased pressure on infrastructure. However, the majority of migrants are high skilled, and contribute a significant amount to the Australian economy, adding to its prosperity. For example, the Migration Council of Australia argues that by 2050, migration will have added 15.7% to the workforce participation rate, 21.9% to "after taxes real wages" for low skilled workers, and 5.9% in GDP per capita growth. Hostility and intolerance towards migrants threatens to undermine the incentives for high skilled migrants to move to Australia, reducing the economic benefits these migrants would have brought to Australia.

Social Capital

2nd

The Social Capital sub-index measures the strength of personal relationships, social network support, social norms, and civic participation in a country. A strong society is an important part of prosperity. Trust is linked to higher economic growth, and communities do plenty to drive social development and improve wellbeing. Strong social capital is also one of the most important aspects of the ability of nations to turn the wealth created by the economy into prosperity for citizens.

Rank 2nd (down one place since 2007)

1st New Zealand

2nd Australia

3rd Canada

4th United States

5th Iceland

Second only to its neighbour New Zealand, Australia performs strongly on social

capital. With the exception of one variable, Australia has either remained steady or improved its score on all major social capital variables over the last 10 years. Strong personal relationships, good social support networks, good social norms and civic participation all help make the social capital score high. Australia has also seen improvement in some variables, such as volunteering or helping a stranger.

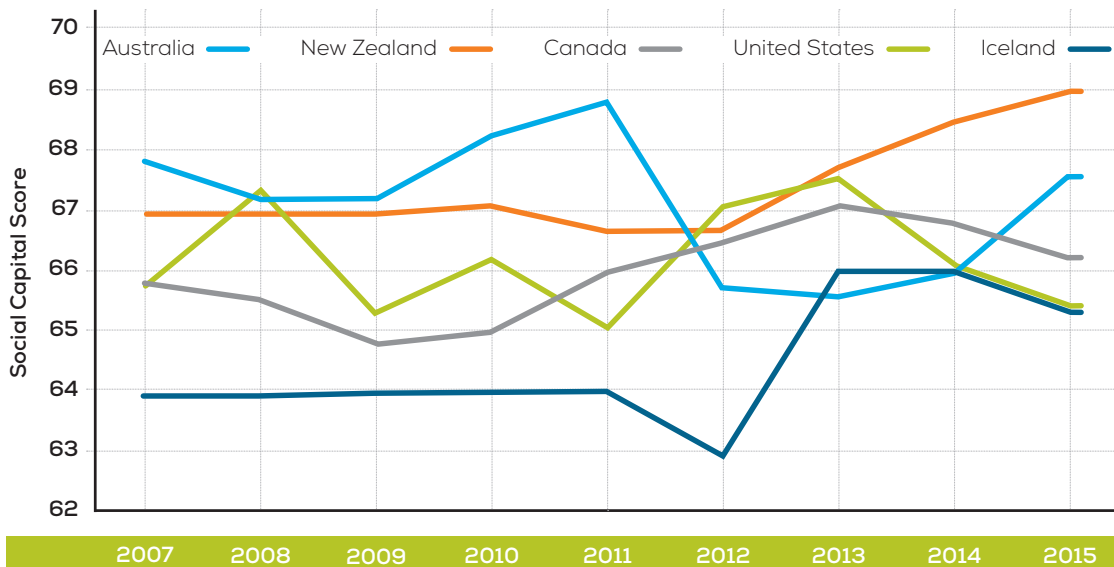






Figure 10: Change in Social Capital performance since 2007.

Scorecard





Personal relationships

Under personal relationships, Australians have people they can count on to help and the opportunity to make friends.

Variable	Rank	Competitiveness	Progress
Count on to help	5 (-)		
Opportunity to make friends	4 (+1)		





Social network support

There is a decline in informal help, but this is in contrast with the high ranking for donations and increase in volunteering score.

Variable	Rank	Competitiveness	Progress
Help a stranger	2 (-)		
Informal help	11 (-6)		









Social norms

There is strong respect and trust in local police.

Variable	Rank	Competitiveness	Progress
Respect	22 (-9)		
Trust in local police	9 (+3)		

Civic participation

Australians show a strong commitment to civic participation. The major area for improvement is in improving the last variable on voicing an opinion to an official.

Variable	Rank	Competitiveness	Progress
Charity donations	1 (+1)		
Volunteering	3 (+2)		
Voter turnout ^f	1 (-)		
Voiced opinion to public official	20 (+3)		

^f This is a different measure to the governance measure. This is the voters as a percentage of everyone enrolled.

Social norms

A prosperous society exhibits strong bridging social capital such as civic norms, social cohesion and engagement. When citizens are treated with respect and believe they can rely on others, economic growth is facilitated. There is also a strong link between institutional trust, (e.g. trust in the police), and economic growth and wellbeing. On the other hand, the erosion of social capital tends to undermine public support for the provision of social welfare and other public goods.

Although Australia performs strongly on both trust in local police and respect, there has been a fall down the rankings for the respect variable. However, this is indicative of other countries moving up rather than Australia falling in real terms. The number of people saying they have trust in local police has improved over time from 78% to 84%.

A 2016 Scanlon Report looks at levels of trust in Australian Institutions.⁵⁶ It shows trust in police is high, ranking just behind trust in the Health System, and above trust in public schools. Like the Prosperity Index data, it shows trust increasing over time. However, delving deeper the data also indicates varying levels of trust between different social and ethnic groups. For example, only 26% of those born in South Sudan said they had a lot of trust in police, versus 81% of those born in Australia, and 90% for those who had emigrated from Afghanistan. This shows that trust is not the same across different groups of Australians, and that trust often depends on communication between institutions and citizens. For particular groups, ongoing communication with the police can help to improve the trust people have in police.⁵⁷

Civic participation

A strong society exhibits close and effective links between people through participation in communities and politics. Australians show a strong commitment to participating in public life, particularly through volunteering and donations.

According to the Gallup poll results that are used in the Prosperity Index, 40% of respondents said they had volunteered for an organisation in the previous month (compared to an average of 24% across peer countries).

There is a significant economic benefit to this volunteering. In 2014, volunteering for organisations contributed 743 million hours to the Australian economy. Australia also performs strongly on donations to charity. A report by Giving Australia estimated that 14.9 million Australians (80.8%) gave \$12.5 billion to charities and non-profit organisations in 2016. This is an increase from \$10.1 billion (in 2016) in 2005.

Volunteering and giving has a strong positive effect on wellbeing, particularly life satisfaction and a sense of control over life. The top three motivations for respondents to volunteer in Australia were to give something back to the community, a personal belief in a cause or issue, and to make a difference. Like volunteering, reasons for giving include personal values and identity, personal satisfaction, and giving back.

There has been little progress voicing an opinion to a public official. This may be related to the disillusionment we saw in the governance section. While it is positive that the score has not regressed, initiatives that increase trust and confidence in government should also increase the number of citizens who are voicing opinions to public officials.

Natural Environment

14th

The Natural Environment sub-index measures a country's performance in three areas: the quality of the natural environment, environmental pressures, and preservation efforts. The ability of a country to secure economic progress without causing environmental harm is critical if that wealth creation is to drive better economic and social outcomes.

Rank 14th (down nine places since 2007)

1 st Slovenia	13 th New Zealand
2 nd Finland	14th Australia
3 rd Luxembourg	15 th Spain
4 th France	
5 th Norway	

Australia's geography and relatively low population means that its citizens enjoy clean water and clear air. It is

also positive to see strong scores for freshwater withdrawal and wastewater treatment.

However, like its neighbour New Zealand, it has slipped down the ranks on many variables because of poor environmental policy. Australia has seen an increase in the over-exploitation of its fish stocks, from 42% of fish stocks being exploited in 2007 to 62% in 2016. There is also room to improve the regulation of pesticides that contain pollutants in them.

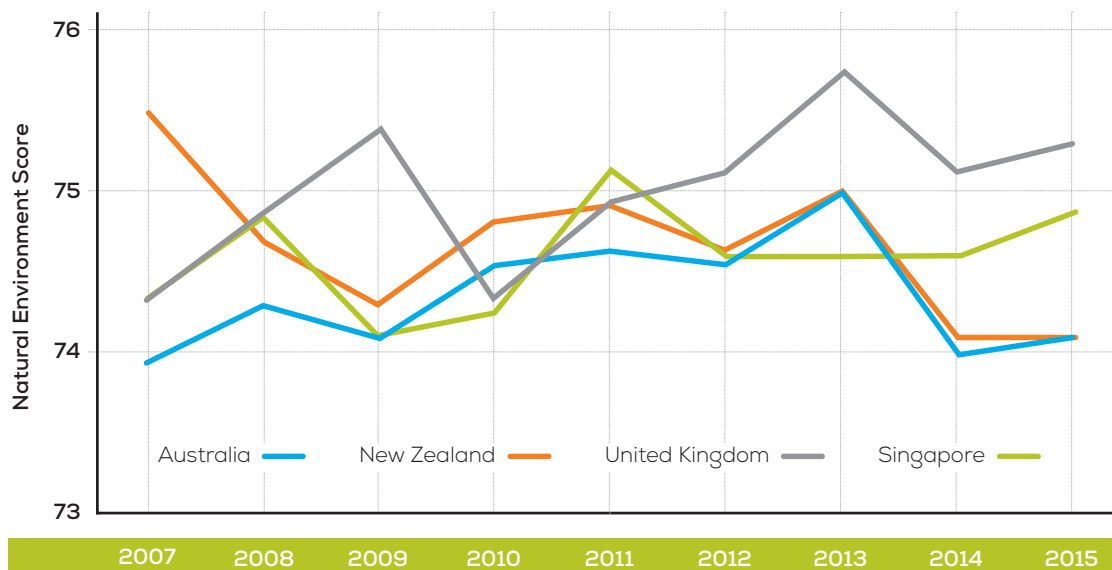






Figure 11: Change in Natural Environment performance since 2007.

Scorecard



Environmental quality

In terms of the quality of its air and water, Australia is at the top of its peer group.

Variable	Rank	Competitiveness	Progress
Air pollution	1 (-)		
Clean water	1 (-)		











Environmental pressures

Australia has seen an increase in the proportion of the fish stocks overexploited in the last ten years. It remains competitive on freshwater withdrawal.

Variable	Rank	Competitiveness	Progress
Fish stocks overexploited	26 (-12)		
Freshwater withdrawal	10 (-)		

Preservation efforts

While Australia lags behind in a number of areas, it is heading in the right direction; and it is making progress on marine protected areas, terrestrial protected areas, and satisfaction with preservation efforts. It lags behind other countries most significantly on terrestrial protected areas.

Variable	Rank	Competitiveness	Progress
Marine protected areas	7 (-5)		
Terrestrial protected areas	32 (-6)		
Pesticide regulation	33 (-1)		
Satisfaction with preservation efforts	18 (+2)		
Wastewater treatment	7 (-3)		

But there is some improvement. While Australia has one of the weakest scores among peer countries for terrestrial protected areas (meaning land areas that are protected such as reserves or national parks), it has improved over the decade. It is also seeing real progress in the number of marine protected areas and satisfaction with preservation efforts.

The cost of environmental degradation

Maintaining the natural environment of a country matters for its impact on wellbeing and economic benefits for the country's population. A prosperous nation refrains from the over exploitation of natural resources, which damages the natural environment and restricts its ability to support biodiversity. Australia has fallen in the rankings over the last ten years, primarily due to changes in environmental pressures and preservation efforts. There are significant costs to environmental degradation; and Australia's natural resources are being placed under pressure due to overfishing, change in land use, invasive species and climate change.

Levels of overfishing provide a useful indication of a country's resource use. The less overfishing, the more the country avoids degradation of their natural resources, impacting on prosperity. With 15% of Australian fish stocks still being classified as either

subject to overfishing or overfished in 2015, Australia has gone backwards since 2007. Although Australia has a well-managed system to monitor fishing compared with other countries, Australia's fish are generally older and slower growing, meaning they have lower resilience to fishing. On top of this, the general difficulty in assessing the fishing mortality level for overfished stocks⁵⁸ suggests that Australia's situation might actually be worse than the current measurements indicate.

Efforts to save the country's most iconic environmental area, the Great Barrier Reef, are especially noteworthy. The importance of the reef is reflected in a recent paper by Deloitte which, taking into account the economic and social benefits of the reef, gives it an asset value of \$56bn.⁵⁹ The government's Reef 2050 Long-Term Sustainability Plan set targets in areas such as wildlife protection, shipping routes and dredging to help ensure the reef's maintenance and improvement, helped save the site from being put on UNESCO's 'in danger' list in 2017.

Land use change is also threatening local habitats and agricultural land. Although Australia has improved the amount of territorial protected areas since 2007, it remains uncompetitive. There are still significant pressures resulting from changes in land use and this has major impacts on ecological diversity and the use of arable land. In particular, the expansion of cities and other urban areas threaten the natural ecosystems.⁶⁰

Habitat loss and fragmentation are responsible for the extinction of 11 Australian mammals and threaten a number of other species. Further, there has been the loss of high value agricultural land due to urban expansion.

Finally, extreme climate events are causing changes to the environment that are also having a wider negative impact on Australia's prosperity level.

For example, the estimated impact of increasing coastal erosion from rising sea levels alone on the housing market is \$88bn, based on destroyed houses, property damage and falls in house prices.⁶¹ Although the government can put in place preventative measures to limit this damage, the impact cannot be fully mitigated.

03

Future prosperity in Australia





Australia is one the most prosperous countries measured by the Legatum Prosperity Index. Among peer countries, it ranks at sixth out of 35. Australia has a strong healthcare and education system, and has the second highest level of social capital in the world. However, there is still room for improvement as Australia is one of only a few top ranked countries to experience a decrease in its prosperity over the last decade. Australia's performance in the Prosperity Index over the last decade points to four challenges that Australia is facing as it seeks to grow prosperity for future generations:

- 1. A less open economy in a competitive global environment**, which means Australia may miss out on the benefits of a globalised economy and on the benefits of trade and competition.
- 2. A lack of trust in political institutions** that might limit the effectiveness of government, reduce the willingness of citizens to participate in public life, and reduce certainty for businesses about the government's regulatory agenda.
- 3. A lack of economic opportunities for some Australians** that mean they do not share in the outputs of the economy.
- 4. Environmental pressures that reduce** economic growth and damage Australia's environment.

1. A less open economy in a competitive global environment

Over the last decade, Australia has become a less competitive and less open economy. A number of indicators reveal a lack of progress, or even regression. A competitive economy is critical to Australia's prosperity, because it creates economic wealth that can be used to purchase the goods and services that help to create prosperous lives and drive social wellbeing.

Based on our analysis of Australia's performance and competitiveness relative to its peers, there are three areas worth prioritising to improve economic competitiveness. First, Australia ought to remove barriers to trade and improve the quality of its exports. Second, there should be a focus on investing in the skills that Australian businesses will need. Third, it requires businesses and government to promote innovation.

Removing barriers to trade

Australia has a number of trade agreements and export partners. Nevertheless, it can do more to remove unwieldy regulation or non-tariff barriers to trade. As stated earlier, since 2012 there has been just one trade facilitation change for every 209 new technical barriers to trade. This has the effect of removing international competition and also makes it more difficult for free trade deals to go ahead. While Australia has a number of free trade deals being negotiated that should reduce the number of barriers to trade, there is room for the Australian government to take action to reduce these barriers. Increasing the ability of Australian companies to participate more freely in global supply chains will provide benefits to both consumers and producers.

Further, strengthening existing trade deals is especially important given the rise in anti-trade rhetoric globally.

There is also a need to broaden the export mix, particularly towards services. Services will make up a growing part of future exports, and technology will continue to allow for service exports.⁶² Australia should capitalise on this, for two reasons. Firstly, to reduce the impact of a fall in demand (or increase in supply) of a particular good or service. Second, to ensure that Australian businesses and companies are focusing on producing high value exports, so that future prosperity is not just secured through natural resources.

Education

Australia performs strongly on providing a good education system. However, more action is needed to ensure that Australia continues to invest in the skills it needs to compete in the 21st century. A WEF Report stated that in 2020 the most sought after skills, alongside social skills and basic skills like ICT literacy and critical thinking, would be cognitive abilities (abilities such as logical reasoning, mathematical reasoning, and creativity), systems skills (judgement, decision-making and systems analysis), and complex problem solving skills.⁶³ These require changes from both educators and employers.

Australian students are not performing as well as many peer countries on basic core skills in maths and science. In an automated world, employers increasingly require these higher-order skills. Many have argued for an increase in investment in STEM skills. But it will be just as important to equip Australians with skills that are adaptable and

flexible in a global environment.⁶⁴ This may require, for example, rethinking the distinction between humanities and sciences. Employees that can draw on skills and content from a range of disciplines will be at an advantage in the future workplace.

There is also the need for greater alignment between the requirements of employers and the output of training institutions. An example is in ICT, where there is a shortage in the number of people required. Yet despite this, many IT graduates do not get a job in the field they trained for, because of skills mismatches.⁶⁵

Further, employees need to be prepared to learn and adapt in a changing environment. As noted in the *Future of Work* paper, there is widespread concern that technology will negatively affect job prospects.⁶⁶ However, there will also be significant opportunities and new jobs created. Employees need to be prepared to adapt their skills to a more automated economy. They also need to be supported and equipped by policy makers and businesses to build adaptable skills.

Innovation

Australia underperforms in supporting innovation and needs to do more to promote innovation. The World Economic Forum (WEF), in its 2016–17 Global Competitiveness Index, argues that “innovation represents Australia’s challenge and imperative in the face of low commodity prices and China’s slowdown.”⁶⁷ Given the need to continue to diversify the economy, government and businesses can ensure that Australian firms are better equipped to compete domestically and

internationally, by supporting innovation and entrepreneurship.

As already stated, the Australian government has shown a commitment to supporting innovation in Australia. Nevertheless, the WEF Index shows Australia performs poorly in Government procurement of advanced technology products. As noted earlier, the government is doing this to an extent with supporting cyber-security innovation, but more could be done to expand this to other areas.

Compared to other countries, research and development could deliver more for the economy. Australian business expenditure on research and development is low relative to expenditure in other countries.⁶⁸ This is offset partially by higher than normal spending by Australian not-for-profits and tertiary education institutes,⁶⁹ and that Australia has high-quality scientific research institutions.⁷⁰ However, Innovation and Science Australia note that the knowledge transfer between these institutions and the business sector is poor. Therefore, as well as increasing funding, businesses can make better use of existing research.

In *Improving Collaboration and Innovation between Industry and Business Schools in Australia*, Tim Fawcett argues that the biggest barrier to collaboration between business and higher education is the issue of trust. Successful collaboration requires ways of building this trust as well as finding common goals between higher education and business and ensuring

leadership engagement.⁷¹ For example, the company Cisco in Australia has created relationships with the research community to set up “innovation centres”. In this model, Cisco is just one player in a management committee and doesn’t have control of the centre. While this model means the business loses some decision making power, Cisco also stands to reap significant rewards of the partnership.

Considerations for government:

- Remove barriers to trade and strengthen trade agreements;
- Focus on building core skills into the education curriculum skills (including STEM); and
- Support innovation through funding and procurement decisions.

Questions for business:

- How can you work better with universities to produce the research you need to be world-leading?
- How do you collaborate with learning institutions to ensure graduates have the skills needed for employment?
- Can you predict which roles will be automated and which will be created?
- How can you prioritise investment in research and development?
- Can your business accept the higher levels of risk that comes with innovation?

2. Falling trust in political institutions

Australia has seen falling trust and confidence in political institutions and needs to arrest this decline. Confidence and trust in institutions is essential for prosperity. The Prosperity Index reveals that confidence in Australian government has fallen since 2007. The repeated change of prime ministers outside of elections has given the impression of unstable government and a lack of transparency in MP's expenses may have contributed to this decline. Additionally, the survey results in the Prosperity Index also showed a degree of distrust in Australian institutions themselves, for example the legal system, the judiciary, and government departments.

This is problematic for a number of reasons, but primarily because it affects the ability to make decisions that affect the long-term prosperity of the country. As well as government decisions, it also affects business investment decisions, because of uncertainty about a government's economic and regulatory agenda.

The challenge for policy makers and politicians is to rebuild trust in institutions. There are two ways in particular of doing this. First, by building on commitments made in the Open Government Partnership, there should be an improvement to the transparency of government policy

making. In particular, the Partnership proposes that there should be a focus on engaging Australians in decisions that have long-term consequences. An example is greater visibility over long term budget pressures. Chartered Accountants Australia and New Zealand have argued that there needs to be greater transparency over the long term implications of public spending. This is so that public debate can move on from a simplistic view of public debt being a bad thing, to deciding whether borrowing should fund long term investments that support the welfare of Australians. One way of doing this is to create a role (either in a new agency or in the Parliamentary Budget Office) to report on long term pressures on the Budget.⁷²

Secondly, Australia could enact a stronger anti-corruption and bribery regime to address the growing threat of corruption in the region.⁷³ Chartered Accountants Australia and New Zealand have advocated for the relevant government agencies involved to be properly resourced and given clear mandates to tackle corruption. Examples of particular policies include increasing transparency for awarding public sector contracts and improving cross border cooperation on bribery. Additionally, businesses can focus on building a workforce that is trustworthy, and values transparency and integrity.

3. Ensuring better outcomes for Australians

Australia, like most of its peer countries, faces a significant challenge in ensuring that all citizens participate in economic growth. This paper has highlighted a range of areas where a lack of economic opportunity exists. For example, 14% of people live on less than 50% of the median income (and Australia has a relative poverty ranking of 26th of 35 peers); and the education system does not deliver for all, particularly indigenous students. Although Australia is already acting to improve outcomes for the most disadvantaged, more can be done to support certain groups of disadvantaged Australians to ensure they share in Australia's prosperity.

There is also a need to do more for indigenous Australians in particular. As well as poorer educational outcomes they suffer from higher child mortality rates, lower life expectancy and poorer employment outcomes. The Closing the Gap report notes that progress to align indigenous outcomes with non-indigenous outcomes are mostly not on track with the targets, although it does show there has been improvement over time.

The 'First 1000 Days' Programme⁷⁴ seeks to address the outcome gap of disadvantaged children as early as possible. This programme seeks to improve access to evidence-based family support services, notably for drugs, alcohol and mental health issues, and to ensure vulnerable parents are supported to raise children. Full implementation of this programme will probably be required to deliver meaningful impact.

There is also a risk that globalisation and the changing nature of work leaves behind unskilled workers. Education and training is critical to reducing the impact. Firstly, early childhood education can have positive impact on the lives of children. Australia lags behind other high-performing OECD nations for early childhood enrolment rates.⁷⁵ However, some good progress is being made in extending early childhood education to indigenous communities. There are 100 percent enrolment rates for indigenous (and non-indigenous) children in early childhood education in South Australia, Western Australia and the Australian Capital Territory.⁷⁶ However, this does not mean attendance will be 100%, as noted

by a recent report, many of the most disadvantaged children are enrolled but not accessing 15 hours a week of childcare.⁷⁷ Work needs to continue to ensure that disadvantaged children who need it the most are accessing early childhood education.

Secondly, more needs to be done during schooling years. For example, the government has implemented individual learning strategies to support at risk students and implemented strategies to support indigenous students into higher education. In particular, federal and state education ministers endorsed a National Aboriginal and Torres Strait Islander Education Strategy in 2015.⁷⁸ While schooling policy is the responsibility of State governments, the Australian Federal Government has requirements for schools who receive targeted federal funding to have attendance targets and report on how funding will be used to improve indigenous outcomes.⁷⁹ An example of a specific initiative is the “Flexible literacy for Remote Primary Schools Programme”, which attempts to address the disparity in outcomes for children in remote primary schools (not just focused on the indigenous population, but note that a high proportion of those who live in rural areas are indigenous).⁸⁰

Finally, ensuring there are adequate opportunities for employment is an important way to help those who are disadvantaged. While business will continue to provide jobs that lift people out of poverty, government policies need to ensure that these opportunities are maximised. For young Australians, businesses can provide vocational training that provides a pathway to meaningful and long-term employment. Businesses can build on the Vocational Education and Training programme already underway.

Considerations for government:

- Ensure that all children are accessing adequate early childhood education; and
- Provide better support in primary and secondary school for disadvantaged young Australians.

Questions for business:

- How can you provide vocational training and employment opportunities to young disadvantaged Australians?
- How can you support employees from disadvantaged backgrounds to continue to learn, develop and progress?

4. Environmental pressures

The final challenge identified to Australian prosperity is environmental pressures, caused specifically by over-exploitation of natural resources. The Global Footprint Network estimates that, if the world consumed the same resources per capita as Australia does, it would consume five times what the earth could sustain.⁸¹ This affects prosperity through the economic impacts of environmental degradation, and also because of the reduced ability of Australians to enjoy their natural environment. Australian government, businesses and consumers need to ensure that actions are taken to reduce the resources consumed.

Two key drivers that need to be thought about are economic growth and population growth. One of the major challenges for the Australian government and businesses is to create ways of enabling economic and population growth that do not lead to an increase in environmental degradation.

The State of the Environment Report 2016 confirms that this change is already happening to some extent. Improvements in the efficiency of energy use and greater use of renewable energy mean that the environmental impacts of energy use have lessened. This will need to continue, especially as under the Paris agreement, Australia has committed to reducing emissions to 26-28 per cent on 2005 levels by 2030. The challenge for Australia is to meet this target in a

context of strong population growth, while also driving economic growth forward.

This principle, of “decoupling” economic and population growth from the growth of resource use, extends to land use and protecting Australia’s biodiversity. Firstly, the growth of towns and cities can be managed to reduce the impact on surrounding land and habitats. Indeed, at a macro level, population growth can have some positive impact because it can drive technological and institutional innovation.⁸² Further, Australia needs to be able to adapt to the challenges and manage the risks of an extreme climate, and avoid further damage to coastal land and natural habitats. The National Climate Resilience and Adaptation Strategy 2015 outlines a number of actions, such as changing the use of land, upgrading infrastructure, and upgrading the design of buildings.⁸³ Actions also extend to protecting biodiversity by building up healthy ecosystems across Australia. These steps taken to adapt to and mitigate the effects of climate change are significantly lower than costs of remediation.

More can always be done, and central government is not solely responsible. Business in particular could look to reduce resource use, and identify business opportunities that are presented with the increased global appetite to manage resources more sustainably.

Considerations for government:

- Continue preservation efforts, particularly focusing on land around urban areas;
- Introduce policies that reduce resource use whilst also taking a holistic view towards economic growth; and
- Increase the resilience of infrastructure to the impact of environmental changes.

Questions for business:

- How can you reduce the resource intensity of your business?
- How can you integrate a wider range of issues, including environmental factors, into your decision making process?
- What are the opportunities that arise from better using existing resources?



Conclusion

Building prosperity for the future

Australia's overall prosperity means that it has strong foundations to face the future. Its strong social capital, education and health systems in particular help to give it a strong overall sixth place.

Nevertheless, it faces significant challenges. It is one of only a few highly ranked countries to see prosperity decrease since 2007. **There are challenges to keeping prosperity growing. These are an increasingly closed economy, a loss of confidence in institutions, a lack of economic opportunities for some of Australia's most vulnerable citizens, and threats to the environment.**

These challenges need addressing. More can be done to remove trade barriers. Improving economic performance also requires diversifying exports and looking to export more high value products and services overseas. Further, while Australia has a very strong education

system, it needs to do more to raise achievement in literacy and numeracy. STEM skills are important, as are highly adaptive skills that will prepare Australians for the constantly changing work environment. The Australian government and businesses also need to do more to promote innovation, for example, better collaboration between businesses and universities.

Improving trust in political institutions is also a big challenge. There are a number of things that can improve this, in particular increasing the transparency of government decision-making. This will enhance citizen's interactions with government and allow them to be better able to hold politicians to account.

A number of Australians are also not sharing in the nation's prosperity. Poor education outcomes for the most disadvantaged need to be addressed; and more can be done for the indigenous population. Finally, there are increasing environmental pressures that need to be managed. Economic growth and

population growth needs to occur in a way that does not further degrade the environment. This is possible, but requires innovation and new approaches.

This paper has shown the main drivers of Australian prosperity. It has shown the areas of strong performance and

suggested ways to keep improving. It has also charted the significant challenges to a prosperous future. **Securing future wellbeing will require bold and courageous action. We hope this paper is helpful to those tasked with improving Australian prosperity.**

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