

# BRINGING VICTORIA'S ECONOMY INTO THE 21<sup>ST</sup> CENTURY

**BUILDING PROSPERITY FOR VICTORIA'S  
ECONOMY, EMPLOYMENT AND ENVIRONMENT**



**THE FUTURE ECONOMY GROUP**

*A call for Government action and survey of each political party's policy*

October 2014



## Introduction

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A strong and vibrant economy is fundamental to Victoria's future and the well-being of all Victorians. To be viable into the future, Victoria's 21st-century economy needs to be smart and sustainable, and to deliver economic, employment and environmental value. This will ensure that Victoria enjoys economic strength, thriving businesses and more jobs for Victorians.

The Future Economy Group was formed to understand the risks of a 'business-as-usual' economy and the opportunities of a '21st century economy'. We sponsored research to quantify the risks of leaving the economy as it is and investigated how the Victorian economy and employment could benefit from the changes we advocate. Our cutting-edge research shows that we do not have to choose between nature and the economy. Not only can Victorian businesses and employees reap economic reward and reduce risk by rebuilding natural capital, but by doing so we will out-perform the old economies of yesterday.

Our vision for the future economy is one of economic and employment prosperity. We believe that we can achieve this through economic innovation that drives public and private investment, reduces pollution, improves energy and resource productivity, and prevents the loss of biodiversity. Crucially, the future economy leaves a legacy for future generations, not a liability.

In June 2014 we formally released our Future Economy Plan. This plan provided information and insights into the research we undertook, our six powerful ideas to stimulate growth and innovation and a call to action for both Government and business alike. The purpose of this supplementary paper is to a) provide further information on the role we believe the State Government should play in stimulating positive economic and environmental results for Victoria's future; and b) seek each political party's response on each of these policy suggestions so that we can provide these responses to our stakeholders in advance of the November 29 State election.



## The Future Economy Plan – Six Powerful Ideas

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The economic research that we undertook through the Future Economy Group project sought to understand natural capital risks and what they mean for Victoria's economy and employment. Our research report quantifies the risks of a 'business-as-usual' economy, which will deplete natural capital, and the economic opportunities of a '21st century economy', which will rebuild natural capital.

The Future Economy Plan, which was developed as an outcome of our research, proposes six powerful ideas that, if adopted in Victoria, could increase economic, employment and environmental value and prosperity for Victorians. These six powerful ideas apply to both Government and business alike, and include:

**First powerful idea:** The first is to replace traditional manufacturing-consumption-discard patterns with a 'circular' system in which products are designed for longevity, remarketing, refurbishing, disassembly and changes of function. Adopting this 'cradle-to-cradle' approach will meet society's needs within the limits of nature and our natural resources. It will also create new markets and jobs.

**Second powerful idea:** Business leaders who understand how nature supports their business often say: 'we use nature because it's valuable but we lose nature because it's free'. Understanding the value nature provides to business balance sheets and placing a price on this value is essential for any shift to a 21st-century economy, and our second powerful idea.

**Third powerful idea:** Our third is to redirect government payments from polluters to problem solvers. It is proposed that we phase out subsidies for activities that diminish natural capital, and provide incentives for those that aim to replenish it.

**Fourth powerful idea:** A 21st –century economy is not possible without well designed regulations that control the most harmful forms of unsustainable behavior – our fourth powerful idea. A smart regulatory framework reduces business risks and increases confidence of investors and markets. And it often does so at least cost and sparks innovation.

**Fifth powerful idea:** Our fifth powerful idea is to measure all prosperity – moving beyond GDP to measure the natural and social capital that underpins every business. Measuring wellbeing is also important as it reflects the true progress and resilience of a society.

**Sixth powerful idea:** Finally, a 21st-century economy will need skilled Victorians who understand how to embed natural capital into our businesses. Accountants, economists, lawyers, managers, designers, builders and plumbers for instance, will have to understand what natural capital is all about and how to rebuild it.

## The Role of Victoria's State Government in the short term

Adopting a new agenda that sets a pathway and plan to transition from a 'business-as-usual' to a 21st-century economy will result in better long-term outcomes for everyone – businesses, governments and all Victorians. But only if we choose this future today.

The Victorian Government has a fantastic opportunity to create the conditions that will make the 21st-century economy a reality. We have summarised a list of activities that we believe the Victorian State Government should undertake to deliver on the six 'powerful ideas' contained in our Future Economy Plan. We ask that you respond to how your party's policies will support each of our six 'powerful ideas' in the table to follow.



## Response from Australian Labor Party Shadow Treasurer Tim Pallas

Note: the ALP did not use the template but sent the email below

**On Behalf Of** [Tim.Pallas@parliament.vic.gov.au](mailto:Tim.Pallas@parliament.vic.gov.au)

**Sent:** Monday, 10 November 2014 5:40 PM

**To:** Michael Dundon

**Cc:** [lisa.neville@parliament.vic.gov.au](mailto:lisa.neville@parliament.vic.gov.au)

**Subject:** Re: The Future Economy Group - Government call to action and survey

Dear Michael,

Thank you for contacting Victorian Labor and for your briefing paper on your Future Economy Plan.

The work of the future economy group makes a significant contribution to these important issues for both the public and private sectors. If elected, an Andrews Labor Government would consider exploring these ideas further.

The Napthine Government has put Victoria backwards on jobs, the economy and the environment. Three year of procrastination followed by six months of panic has left us worse off. Our unemployment rate has increased from 4.9 per cent in December 2010 to 6.7 per cent in September 2014, and jobs growth is not keeping up with population.

For the first time in decades, Victoria is also going backwards on the environment, as the Napthine Government has abandoned key policies such as energy efficiency targets and investment in wind and other renewable energy.

Victorian Labor is committed to growing our state's economy and supporting jobs, and prioritising our environment. Labor believes that Governments have a real role to play, working with business, experts and workers to grow our traditional industries and invest in emerging sectors. Labor also believes that the Government also has a role to play in cutting emissions, encouraging innovation in energy, and supporting the natural environment.

Victorian Labor's Back to Work Policy will help give direction back to our economy after four disastrous years under the Coalition Government. Labor has identified six sectors that have potential for extraordinary economic growth - six areas in which our state is ready to lead the world.

- Medical technology and pharmaceuticals
- New energy technology
- Food and fibre

- Transport, defence and construction technology
- International education
- Professional services

Labor will work with business, experts and workers to invest in and grow these industries through the establishment of a \$200 million Future Industries Fund.

Labor has also committed to take Victoria forward with new jobs and new investment in renewables, including by keeping the Victorian Energy Efficiency Target scheme running, removing the Coalition's anti-wind farm regulations. We will also protect important natural spaces, such as by respecting and protecting our green wedges and stopping cattle grazing in the Alpine National Park.

Labor believes that it is critical that the environmental impact of all policies should be a key factor in government decision making, along with the economic and social outcomes.

More detail about all of our policies can be found at <http://www.danielandrews.com.au/policies/>.

Tim

**Tim Pallas MP**

**Member for Tarneit**

Shadow Treasurer | Shadow Minister for Employment

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	Examples of suggested Victorian Government action	Your party's policies which support this powerful idea:
<p>1 Build a circular system of production and consumption</p>	<ul style="list-style-type: none"> <li>▪ Product stewardship schemes (e.g. electronic waste, tyre recycling and container deposit legislation schemes).</li> <li>▪ Support for a services-based, dematerialised economy and low environmental impact industries (e.g. Australian Centre of Financial studies- aims to drive financial services centre for Victoria and investment in knowledge-based economy).</li> <li>▪ Reduce and ultimately phase out landfill by increasing landfill levies and making recycling more economically competitive.</li> <li>▪ Set new standards for products by supporting consumer labelling and certification schemes and leading the way through government procurement (energy efficiency, Greenpower purchase, life-cycle assessment of products, Forestry Stewardship Council certification, and organic certification of food).</li> <li>▪ Invest in research and innovation in circular material flows across industry sectors to assist businesses to shift to a circular economy (e.g. funding for Sustainability Victoria to run new programs).</li> </ul>	
<p>2 Place a value on nature</p>	<ul style="list-style-type: none"> <li>▪ Provide resources for the Commissioner for Environmental Sustainability's office adequately to undertake and support research on valuing nature and its impacts on the Victorian economy.</li> <li>▪ Continue to measure the state of natural capital in Victoria through the State of the Environment Report.</li> <li>▪ Require the Treasurer and Minister for Finance to disclose the environmental costs of Victoria's economy through annual budget papers.</li> <li>▪ Support product labelling which discloses the environmental costs of products.</li> </ul>	

	Examples of suggested Victorian Government action	Your party's policies which support this powerful idea:
	<ul style="list-style-type: none"> <li>▪ Strengthen the protection of protected areas such as national parks and marine reserves and invest in their management.</li> </ul>	
3 Redirect government payments from polluters to problem solvers	<ul style="list-style-type: none"> <li>▪ Conduct a government audit of subsidies which diminish natural capital or encourage pollution.</li> <li>▪ Develop criteria for subsidy programs to determine their public good for nature or otherwise.</li> <li>▪ Remove State level subsidies which are found to have a negative impact on the environment.</li> <li>▪ Establish subsidies and incentives to support the transition to the future economy and that rebuild natural capital e.g. direct subsidies, feed in tariffs, loans for sustainable investments, market-based instruments such as tradable permits and options and tax reform such as accelerated depreciation of sustainable infrastructure.</li> </ul>	
4 Create smart governance and regulation	<ul style="list-style-type: none"> <li>▪ Introduce standards to achieve environmental objectives e.g. standards for consumer products and efficiency standards for home energy and water use for our housing stock.</li> <li>▪ Government commitment to and delivery of sustainable procurement practices across all areas.</li> <li>▪ Mandatory sustainability reporting (and/or integrated reporting) for all of Government and companies over a certain size or whose operations have an environmental impact above a given threshold.</li> <li>▪ Encourage the development of alternative business models e.g. cooperatives, which allow businesses to have other objectives in addition to sustained financial returns.</li> </ul>	

	Examples of suggested Victorian Government action	Your party's policies which support this powerful idea:
5 Measure all prosperity	<ul style="list-style-type: none"> <li>▪ Introduce new measures of the Victorian economy into the State Budget papers that better reflect well-being than Gross State Product.</li> </ul>	
6 Invest in capacity building and skills	<ul style="list-style-type: none"> <li>▪ Review the industries and jobs expected to be the largest contributors to the future economy to understand the types of jobs and skills that will be required in the future.</li> <li>▪ Audit jobs and skills on a region-by-region basis to understand which communities are most vulnerable and need most supporting during transition.</li> <li>▪ Commit to clear schedules and transition plans for the industries most affected by change to give them time to re-adjust, re-skill and avoid hardship and commit government resources to assist this transition process.</li> <li>▪ Establish centres of excellence for skills needed in the future economy.</li> <li>▪ Explore the potential for expanding Victorian expertise and knowledge in clean economies to become a new export opportunity.</li> </ul>	

## The Role of Victoria's State Government in the short term

Governments have a crucial role to play in stimulating the future economy. They create the conditions that can make it happen. They can foster technologies and innovation oriented towards sustainable, inclusive development. And they provide frameworks within which sustainable decisions can be made. Of all the activities critical to the future economy, The Future Economy Group considers the policy recommendations outlined in the table below as the most immediate. In addition to adopting the six 'powerful ideas' that are outlined in our Future Economy Plan, The Future Economy group recommends that in the next two years the government of Victoria works with business on each of these areas. We ask for your responses to each of these Future Economy Group recommendations in the table below.

What we are asking the Victorian Government to do	Actions that we would like the Victorian Government to commit to an undertake	Your party's response to these suggested actions:
Build on the work of The Future Economy Group and undertake economic modelling to get a clear picture of the relationship between Victoria's economy and its natural capital.	<ul style="list-style-type: none"> <li>▪ Commit to funding detailed modelling of sectoral and regional vulnerability and opportunities. This commitment should be progressed in the first year of the next term of government.</li> </ul>	
Develop a plan to move towards an economy that reduces carbon emissions and pollution, stops the loss of natural capital, and improves productivity.	<ul style="list-style-type: none"> <li>▪ Establish a process and strong governance model to develop a Future Economy Plan for Victoria. This plan should be publicly released in the first two years of the next term of government. The plan would articulate short, medium, and long term possibilities and:               <ul style="list-style-type: none"> <li>– Review the industries and jobs expected to be the largest contributors to the future economy to understand the types of jobs and skills that would be required in the future.</li> <li>– Audit jobs and skills requirements on a region by region and sector by sector basis to understand which communities are most vulnerable and need</li> </ul> </li> </ul>	

What we are asking the Victorian Government to do	Actions that we would like the Victorian Government to commit to an undertake	Your party's response to these suggested actions:
	<p>most supporting during the transition to a new economy.</p> <ul style="list-style-type: none"> <li>– Commit to clear schedules and plans for the industries most affected by a change to the new economy to give them time to readjust, reskill and avoid hardship.</li> </ul>	
<p>Measures and discloses the environmental costs of Victoria's economy through annual budget papers.</p>	<ul style="list-style-type: none"> <li>▪ Prior to the delivery of the 2016-17 Victorian Budget: <ul style="list-style-type: none"> <li>– Conduct audit of government programs and funding to understand environmental impact and economic implications.</li> <li>– Treasury project/research into how natural capital could be incorporated into Budget papers.</li> </ul> </li> </ul>	
<p>Expand the State's knowledge on pollution reduction and clean technologies through trade missions and international collaborations, with a view to positioning Victoria as a global knowledge leader and broker.</p>	<ul style="list-style-type: none"> <li>▪ Position Victoria as a knowledge broker in clean economies by: <ul style="list-style-type: none"> <li>– Investing in education and training skills development.</li> <li>– Establishing centres of excellence for skills needed in the future economy.</li> <li>– Exploring the potential for expanding Victorian expertise and knowledge in clean economies to become a new export opportunity.</li> <li>– Establishing centres of excellence and innovation for particular trades/industries (e.g. Plumbing Industry Action Centre).</li> </ul> </li> </ul>	
<p>Continue to measure the state of Victoria's natural capital through the State of the Environment Report.</p>	<ul style="list-style-type: none"> <li>▪ Establish a clear and long term commitment to undertaking State of the Environment report and adequately resourcing the Commissioner for Environmental Sustainability's office.</li> </ul>	

