

Phil Lowe, Chair of Future Generation Australia (ASX: FGX)

Video with Nadine Blayney, Head of Content ausbiz

**PHILIP LOWE:** It's great to be with you. Thank you for the invitation. Future Generation brings together two things I'm really passionate about, and that's finance and helping kids. During my time at the RBA, I saw lots of people in the finance sector who are really committed to making a difference to people's lives. You know, good people who want to do the right thing. And the team at Future Gen is a really great example of that. We've got people there who give their services for free. The fund managers do things for free and the service providers do things for free. And the reason they do that is they want to help make the society a better place. So I really want to be associated with people who were driven by making the society a better place. And while they're doing that, they're providing a great investment return to people. You've got a really good investment product that's delivered a higher return than the ASX with less variance, more routine, more return and less variance. Fantastic. And on the other side of the equation, money goes to kid's charities. Every year, millions of dollars helping kids in need.

So being involved with people who want to make the world a better place, offering good financial products to people and helping kids. Why wouldn't I want to be involved?

**NADINE BLAYNEY:** When it comes to kids, though, is there any particular reason or is there any particular problem that you would hope could be solved here in Australia?

**PHILIP LOWE:** Well, there are a lot of problems, but all the research is that your start in life is the most important thing for your future success. And unfortunately, there are too many kids who don't have a really great start in life, either because of housing or financial problems with their families, or for learning problems or for health problems. So, the charities we're involved in are really helping address kids who don't get the best start in life and help them get on a better track. That's what the research shows is important, and I'm really proud to be part of a group of people who want to give kids the best start in life.

**NADINE BLAYNEY:** Maybe you're starting to get a sense of this, but Australians are often criticized for being less philanthropic than, say, our American counterparts. What's your take on that?

**PHILIP LOWE:** Well, this philanthropic in terms of dollars. But Australians, we have warm hearts, and we want to help. We're good volunteers. And in a crisis, we step up and we really help people. So, we want to help others. But on the financial side, we don't do as well as United States. But the Future Generation funds are one way that people can help. And rather than the fees going to fund managers, they go to kids. So, if people are thinking about their investment portfolio, I'd encourage them to look at the Future Generation funds good returns and helping kids.

**NADINE BLAYNEY:** We'll get back to Future Generation. But one way to lift kids out of poverty is to lift the overall economic output of Australia. And one of the things that you were most focused on when you were the chair of the RBA, or a governor of the RBA, was, of course, productivity. I feel like sometimes we talk about productivity and people don't fully understand where the starting point is. In your view, where is the starting point to improve productivity in Australia?

**PHILIP LOWE:** Well, just to go back a step, because productivity can often sound like a dry economic term that people don't understand. But what it means is getting better at doing stuff, and the only way that we can pay ourselves more in real terms over time, or the value of assets grow, is to get better at doing stuff as a society. Use the same amount of inputs to get more out, and if that's the case, then we can all be better off. So, we've got to get better at doing stuff. If we don't, then our living standards will stagnate, and it will be a problem. We've had a very strong growth in living standards for 30 years on the back of strong productivity growth, favourable demographics and higher prices. Our exports going forward, productivity growth was weak. The demographic dividend is behind us, and the price of exports have kind of stagnated and will probably not go up again. So, it really comes back to productivity growth and getting better at doing stuff. And there are lots of opportunities out there and we need to seize them, if our kids are going to have a higher living standard than we do.

And does that come down to innovation? Are we good enough at innovation? Are we encouraged enough to be innovative? There are lots of reports on how we can lift productivity growth. Skills development and education is key, but so is the tax system. Our tax system still taxes land in a very inefficient way. And it doesn't give enough incentive for wealth generation, and probably too much and doesn't tax some consumption enough. So, the balance between wealth generation and consumption isn't right. Land tax is kind of screwed up. The way we plan, develop and price infrastructure needs work and energy. So, your kind of skills, taxation, energy and infrastructure, they're the areas that should be our focus. And I think the government is focused on each of those areas. And if we're going to get better at doing stuff, we need to get that stuff right. And if we don't, then our living standards will stagnate, and it'll be hard for our kids.

**NADINE BLAYNEY:** What on the energy front do you think needs to be done? What do you mean when you say energy?

**PHILIP LOWE:** Well, everyone needs a kind of cheap, reliable energy to run businesses and for us all to live without too much cost-of-living pressures. So globally we're going through a transition to clean energy. And Australia is replacing the existing energy capital stock that produces energy with a new capital stock. And we can do that transition well or not so well. And people will have different views on where we are on that spectrum. But if we don't do it well, then our living standards will suffer.

**NADINE BLAYNEY:** One of the points on that list I think that politicians can help with at least is housing. You know, you mentioned land tax. One of the things that happened when you were at the helm of the RBA was, of course, we've seen this exponential growth in Australian house prices. Knowing what you know now, do you think that there's any levers that haven't been talked about already that the government should be able to pull or should be pulling to make housing more affordable? Because it's something that I think, I don't know if you agree, threatens sort of social cohesion to some extent here in Australia, the fact that this idea of home ownership is becoming one that is for the wealthy. I think the high cost of housing is the biggest economic and social problem we have, because if people can't have affordable housing near where their jobs are, then it brings a lot of stress both to their finances and their personal situation. And it makes it really hard for people.

**PHILIP LOWE:** You ask whether there are other levers that haven't been talked about. I don't think so. But there's been a lot of talk and there's a lot of talk about adding to supply, and that's the solution we've got to add. Dwellings on well-located land, close to transport, close to jobs. So adding to supply. And this is not rocket science. And I think you learn this in first year economics, maybe even in high school, if demand is strong and supply is not forthcoming, what happens? The prices go up. Not surprisingly, rents have gone up very strongly in the past year and so have house prices. So we've got to add to supply to meet the needs of a growing population. If we don't, then house prices keep rising and it's going to make life difficult for everybody. So there are plenty of levers, but they're not being pulled sufficiently. Well, in my view.

**NADINE BLAYNEY:** We have to talk about inflation just briefly, there's so much consternation around inflation. First of all, shot up more than anybody had thought. It's proving a difficult beast to get under control. But the RBA has said that it's got until 2026 to get within that target band. Is that reasonable and is it reasonable to expect that we will be in within that target band in that time frame?

**PHILIP LOWE:** Well, I learnt that economic forecasting is difficult, and things often don't turn out as you expect, but the path that inflation comes back down that they've published in their recent forecasts, I think is eminently reasonable. A lot of things can happen between now and then, but that is a reasonable projection. The strategy when I was there, I think this is continuing in one form or another is to make sure inflation comes back down. And you don't need to get it back down straight away, because it was better to preserve these gains in employment that I talked about before. So that brings a lot of social benefit. But we do need to get inflation down. And you can't take too long because if you take too long then people start to worry whether you're really serious. And if I can get it back kind of in the time frame that they've articulated, I think that'll be acceptable. But if you take longer than that, inflation will have been above target for too long. So let's hope they succeed.

**NADINE BLAYNEY:** At the core of everything that we've talked about today, you were at the RBA. Correct me if I'm wrong. I believe it was 43 years at the institution. What have you sort of learned? And it could be about people. It could be about the economy. It could be about life. I don't know, since you've left that institution because that's a big deal.

**PHILIP LOWE:** Well, I was there for 43 years. I joined the central bank just after I'd had my 18th birthday and left just after in my early 60s. So, I was there for a long time. What I saw when I was there, was a group of people at the institution who are really committed to making the society a better place, and that's why I'm very passionate about Future Generation as well. And I've seen that kind of desire in Australians to make the place better, not just for themselves. People are not just motivated by their own financial situation; they're motivated by the collective good. And I worry sometimes that there's a reduction in the society with kind of this focus on the collective good and too much focus on the individual. But I really valued during those years there and my new role about being with people who are associated with the collective good, because we have tremendous advantages in this country, and we can all have a kind of fantastic standard of living and reasonable equality in the society. That's what makes Australia great. And I love being associated with people who are motivated by that.