

Financial Worldwide Crisis: The Anti-Counter Cycle of Australia

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Abstract

If Australia has been subject to major influences by the United States and European countries, why is its economy healthier than their counter partners? What are the economic foundations that underline this anti-counter cycle of financial worldwide crisis from Australia? What are some of the lessons that countries from Europe that have not fared during the current financial worldwide crisis should learn from Australia? The purpose of this paper is to review the present Australian management system. Four changes are identified including embracement of corporate governance, a shift to adopt more R&D activities, a shift to adopt environmental sustainability practices and emerging corporate social responsibility. On the conclusions settings, a recap and recommendation on how Portugal, a member of the PIGS (Portugal, Italy, Greece and Spain) Southern European Countries club forgot to embrace directives that have been applied in Australia, to avoid the actual financial and identity crisis.

Keywords: Financial Worldwide Crisis, Australia, Corporate Governance, Corporate Social Responsibility, Portugal.

JEL Classification Codes: G01, G34, H52, M14, O3

Küresel Finansal Kriz: Avustralya'nın Karşı Atak Döngüsü*

Özet

Eğer Avustralya, ABD ve Avrupa devletlerinin yoğun nüfuzu altında ise neden diğer partnerlerinden daha sağlıklı bir ekonomiye sahiptir? Küresel finansal krizin Avustralya'nın karşı döngüsünün önemini vurgulayan ekonomik kaideleri nelerdir? Günümüz küresel finansal krizinin üstesinden gelemeyen Avrupalı devletlerin Avustralya'dan öğrenmesi gerekenler neler olabilir? Bu makalenin amacı günümüzde Avustralya'nın yönetsel sistemini incelemektir. Kurumsal yönetişimin benimsenmesi de dahil olmak üzere, daha fazla R&D aktivitelerinin benimsenmesi için gereken değişiklikler, çevresel sürdürülebilir uygulamaların benimsenmesi için gereken değişiklikler ve ortaya çıkan kurumsal sosyal sorumluluk olmak üzere öngörülen uygulamalar toplam dört başlık altında tanımlanmıştır. Sonuç bölümünde ise, Güney Avrupa Devletler kulübü PİYİ (Portekiz, İtalya, Yunanistan ve İspanya)'nin bir üyesi olan Portekiz'in finansal ve kimlik krizinde kaçınmak için Avustralya'nın başvurmuş olduğu yöntemleri nasıl unuttuğu tavsiyelerle birlikte özetlenmiştir.

Anahtar Kelimeler: Küresel Finansal Kriz, Avustralya, Kurumsal Yönetişim, Kurumsal Sosyal Sorumluluk, Portekiz.

JEL Sınıflandırma Kodları: G01, G34, H52, M14, O3

* The English title and abstract of this article has been translated into Turkish by the Editorial Board.
Bu çalışmanın İngilizce başlık ve özet kısmı, yayın kurulu tarafından Türkçe'ye çevrilmiştir.

1. The Strange Case of Australia (or maybe not...)

In the 17th century, the first Europeans arrived on Australia and the formal territorial claims were made in 1770 by James Cook from Great Britain. In 1901, the Commonwealth of Australia was established as a federation of six self-governing British colonies and two territories. The colonies include New South Wales, Queensland, South Australia, Tasmania, Victoria, and Western Australia. The two territories include the Northern Territory and the Australian Capital Territory (Commonwealth of Australia, 2009). Politically, the party with the majority of the House of Representatives forms the government. The members of the House of Representatives are elected to represent local districts, whereas the Senate is a house of 12 members from each state and two from each territory. Analogous to the USA, Senators are elected by proportional representation of each state, and also from the territories.

Since the early 1970s, Australia's economy began to experience a downturn due to the global economic oil crisis and military expenditure during the Vietnam War, while Britain gradually relocated their investment to European countries due to their participation in the European Union (Commonwealth of Australia, 2008). In order to dramatically stimulate the Australian economy and further expand their international trade to the Asia Pacific region, Australia first deregulated its financial system. In 1982, the government had set up the Campbell Committee of Inquiry to study the reforms of the Australian financial system. One of such changes was the radical deregulation of the banking industry which was opened for foreign banks to establish their branches in Australia (Borland, 2001). Regarding taxation, the government has significantly reduced the rate of private company duties whilst introduced Goods and Services tax in 2000 (Borland, 2001). As a result, Australia's real economy had begun to grow by an average of 3.3% per annum and its unemployment has fallen to below 5.3% in 2011 (Australia Bureau of Statistics, 2011).

In the interim, Australia has become more internationally-oriented and focused on the development of knowledge-based technological products to remain competitive in the global market. It reformed its economy by removing the protectionist policy and raising the level of competition. Both of these factors assisted Australia to develop a favourable and liberal business environment in the country. In 2010, Australia ranked as third in the world in the economic freedom index (IMD, 2011). Politically, Australia also plays an important role in world activities through its memberships with the United Nations, G20 (the premier forum for international cooperation on the most power financial countries), Commonwealth of Nations, OECD (Organisation for Economic Co-operation and Development), APAC (Asian-Pacific countries) and WTA (World Trade Organization) (Commonwealth of Australia, 2009).

With the closer and developing ties between Australia and countries within the Asian region, more foreign companies are now investing or planning to invest into Australia, in order to access its abundant natural resources. Its economy has also become more diversified and no longer relies on the export of primary agricultural products. At present, the largest service sectors are tourism, financial services and education; all of which account for 70% of its GDP (CIA, 2011). Australia was also ranked as the fifth largest net recipient of foreign direct investment in the OECD in 2008 (Commonwealth of Australia, 2009). Remarkably, Australia was one of only two OECD countries which were not adversely affected by the worldwide economic crisis in 2008/2009. Both Australia and Korea escaped the economic crisis without a recession. In 2010, Australia was ranked as the third best performance country among OECD countries, followed by Korea and Poland. Its GDP in 2010 was 3.8% higher than its pre-crisis level (OECD, 2010).

If Australia has followed major influences by the United States and European countries, why is its economy healthier than their counter partners? What are the economical foundations that underline this anti-counter cycle of financial worldwide crisis from Australia? What are the lessons that PIGS countries such as Portugal can learn from Australia?

2. Australia's Foundations

2.1. Legal Infrastructure

Australia has a worldwide recognition for its robust and transparent legal infrastructure. This is supported by the findings of the World Competitiveness Yearbook Results 2010 which indicates that Australia's justice system was ranked second in the Asia Pacific region and ninth in the world for its fair administration (IMD, 2011). The laws of Australia follow the common law tradition established by British colonial rule, coming from two major sources such as legislation (enacted by the Federal, State and Territory Governments) and common law arising from judicial decisions (Ville, 2005). The fairness of the Australian justice system is also achieved by the independence of the judiciary system and its separation from the other two arms of the government, namely, legislative and executive. Judges act independently of the Government in applying and interpreting the law. Analogous to other western countries, the final court is the High Court of Australia to resolve appealing cases from the State or Federal jurisdictions. In spite of this constitutional arrangement, each state has its own judicial system and hierarchy of courts headed by a Supreme Court. Its purpose is to deal with the interpretation and application of its own state laws (Invest Victoria, 2011).

In order to effectively deal with disputes of a specified nature arising from its different sectors of the society (Invest Victoria, 2011), the Australian justice system is also comprised of specialized courts, tribunals and government bodies. For example, Victorian Civil and Administrative Tribunal is responsible for dealing with disputes over credit, purchase and supply of goods, land valuations and state taxation, whereas the Administrative Appeals Tribunals responsible for reviewing administrative decision under legislative provision. There are also other government bodies for supervising the licensing and administration of motor dealers, real estate agents, travel agents and finance brokers (VCAT, 2010).

In respect of the needs for consumer protection, Australian Competitive and Consumer Commission was also established for benefiting consumers, business and the community by means of promoting competition and fair trade in the marketplace. It also takes responsibility for ensuring the compliance of fair trading and consumer protection laws by individuals and businesses are in place (Australian Competitive and Consumer Commission, 2011).

Stated by Dias (2013), according to the European Commission for Efficiency of Justice (CEPEJ) report, in 2010, a civil case to run in the Portuguese courts took an average of three years, four times longer than the average of the 27 Member States of the European Union. Yet, in Australia, and consistent with the Annual Report of 2011-2012 Federal Court of Australia (www.fedcourt.gov.au/about/corporate-information/annual-reports/2011-12/ar2012.pdf), the Court completed 94% of cases in less than eighteen months in 2011.

2.2. The National Competition Policy

In response to the growing competition from the industrializing countries of the Asia Pacific region (Hong Kong, Korea, Singapore and Taiwan), in 1992, the Australian government established the National Competition Policy Review Committee with the aim to investigate and suggest any appropriate amendments to legislations and other measures in relation to the application of the competition policy principles (Commonwealth of Australia, 2008).

The result was referred to as the Hilmer Report, which was prepared by a series of meetings and discussions amongst various state governments (Commonwealth of Australia, 2008). Its major recommendations included (A) extension of the scope of the Trade Practices Act to include all commercial activities in Australia and (B) establishment of a new regulatory framework preventing firms' natural monopoly characteristics from abusing their market powers. All these approaches were focused on a public sector reform and were based on policies adopted in the United Kingdom

(Quiggin, 2000). Through these reforms, which minimize restrictions on competition and promoting competition, the establishment of the National Competition Policy also ensure the most efficient provision of publicly provided goods and services are in place (Commonwealth of Australia, 2008).

According to Wikipedia (2013), productivity is the efficiency with which an economy transforms inputs, such as labour and capital, into outputs, such as goods and services (Australian Bureau of Statistics, 2012). When a nation achieves productivity growth, it is able to produce more goods and services from the same quantity of labour, capital, land, energy and other resources. In turn, improved production efficiency can generate higher real incomes and lead to long-term improvements in any country living standards. While education and training improve the quality of the labour force over time (a key input into productivity growth), lack of innovation, research, development or investment in assets can reduce productivity growth and, thus, the country ability to compete in the international market (Australian Bureau of Statistics, 2012). Based on this assertion and in accordance with the research of the Australian Bureau of Statistics (2012), for the Australia growth cycle between 1998 and 2004, the real output growth (3.6%) exceeded growth in inputs (2.7%), resulting in a positive growth in multifactor productivity (0.7%). In the most recent productivity growth cycle, 2003-2008, growth in inputs (4.5%) exceeded growth in outputs (3.7%).

One of the PIGS countries, Portugal's GDP per capita stagnated for the last ten years since it has suffered from a declining contribution from both employment and productivity (OCDE, 2013). In particular, trend productivity convergence to Euro zone levels has slowed substantially. With wage growth outpacing productivity, unit labour costs increased faster than in large Euro area countries in the run-up to the crisis and, hence, Portugal steadily lost external competitiveness (OCDE, 2013).

2.3. Educational Infrastructure

Speaking at a conference on Universities and Knowledge Economy, Marginson (2002) pointed out that knowledge rather than labour has become the key resources of the current knowledge economy created by globalization due to the rapid development of information and communication technologies. Thus, he suggested that there is a need for a strong, progressive and highly-quality education system for accumulation and distribution of knowledge for the support of knowledge economy growth. As such, the Australian government has conducted the Review of Australian Higher Education (Bradley Review) for the purpose of developing a knowledge economy in the country (Bradley, 2008). It was suggested that the Government has to adopt a framework for higher education accreditation, quality assurance and

regulation. And the framework is featuring an independent national regulatory body responsible for regulating all types of tertiary education (Bradley, 2008). The recent Gonski report on funding of schools in Australia, confirms this view. Its main consideration is to provide an innovative student-based approach to recurrent funding for both non-government and government schools. The Government schools would continue to be fully publicly funded while indigenous and remote sole provider schools may be eligible for full public funding (Daniels, 2012). Non-government schools would receive a minimum of 10% as a fund based on the SES (Social Economical Status) scores (Daniels, 2012).

This has always been the case in Australia where the National government provides the funding for universities in all states. Each university is independent, having its own governance and permitted to set their course structure by providing their own funds and regulation for their schools. While the curriculum taught in each state or school may vary from one state to another, their learning areas are largely similar (Premiers, 2011). Meanwhile, the Vocational Education and Training (VET) or Technical and Further Education (TAFE) provide technical education, vocational training and other life-long learning to the public. VET is especially established for those people who want a career that does not require a tertiary education background. The credits earned from VET are transferable between all states, meaning that the education obtained from in one state obtains the same status in another state. As a result, Australia has been able to provide a sufficiently skilled workforce to the labour market to support the development of the manufacturing and services industries.

In addition, Australian education provides significant economic benefits for Australia. In 2009-2010, the education activity contributed \$19.1 billion in export income to the Australian economy (Australian Education International, 2011). Australia presented a 7.1% of the budget expenditure for 2012 concerning the Education sector (Australian Bureau of Statistics, 2013). As a comparison to Portugal, most recent figures identify that in 2009 expenditure was 5.8% of GDP (IHDI, 2012).

3. Australia's Paradigm Shift

3.1. Shift on Environmental Sustainability

In order to archive green-house gas reduction targets as committed in Kyoto Protocol, the Australian Government introduced the National Greenhouse Reponse Strategy for the purpose of setting up the overall objectives in response to the climate change. Under this strategy, limiting the growth of greenhouse gas emission became the first priority (Commonwealth of Australia, 2011).

In 2003, the New South Wales Government first introduced the New South Wales Greenhouse Gas Reduction Scheme where was recorded the largest carbon emission rate in Australia. Under this scheme, a mandatory target of reducing the greenhouse gas emission was allotted to all electricity retailers in New South Wales. If any of them fails in meeting the target, the companies will be punished by a financial penalty (New South Wales Government, 2010).

In 2010, the Australian Government introduced the Carbon Pollution Reduction Scheme in all states and territories. All of the largest polluters in Australia such as mining companies, coal fired electricity generators and steel and aluminium manufactures had to pay a carbon tax to offset their greenhouse gas emissions (New South Wales Government, 2011).

It was understood that the penalty tax for carbon emissions will increase production costs. This situation escalated the needs for Australian managers to adopt environmental sustainability practices in their companies' operations. Australian companies have been tending to adopt more pollution free technology for the purpose of reducing the greenhouse gas intensity (New South Wales Government, 2011). For example, in 2004, the Australian Gas Light Company expanded its investments into renewable and low-emission energy generation. In 2006, more than 40% of energy supplied by the company came from renewable energy. In 2008, the Westpac Banking Corporation upgraded 8400 personal computers in their branches. This was done to assist them to reduce their energy use by 8.7 megawatts per day. In addition, they installed timing devices on the air conditions units to reduce usage to office hours. They also widely encourage staff to use recycle paper for internal correspondence, which assisted the company to achieve a 30% reduction in paper cost (Westpac Banking Corporation, 2011).

The release of the Corporations Act 2001 further escalated the requirements of Australian companies to adopt environmental sustainability reporting practices, as well. Companies have to disclose their density of greenhouse gas emission and waste handling practices to the public. Mining companies, for instance, have to clearly illustrate the details and performance of their environmental sustainability practices in their annual report (Kathryn & Lou, 2006). BHP Billiton has included provisions in their budget for the restoration and rehabilitation of each mine in its accounting policy since 2007. On the other hand, Gunns Limited, the largest timber and wood fibre manufacturer in Australia, introduced an Environmental and Sustainability Policy in 2006. Under this policy, the renewable energy, such as hydropower, is now required to be used in their company's operations (Gunns Limited, 2011).

As expected, it has been argued that Australian companies might transfer the carbon price to the consumer and that might affect the low income groups. The current government, elected in September 2013 and under the leadership of Prime Minister Tony Abbott, is taking this fact under consideration by clearly stating that “there will be no Carbon Tax under a government I lead” (www.liberal.org.au/our-plan-abolish-carbon-tax, 2013). The issue underlying this statement is no countermeasures are given if Kyoto wants to be respected.

3.2. Shift on R&D

Between 1999 and 2007 Australia slipped from fifth to eighteenth in the World Economic Forum’s Global Competitiveness Index. Since the early 2000s, Australian productivity grew substantially slower than the Organization for Economic Cooperation and Development (OECD) average. In 2007, Australian productivity was only 94% of OECD average. Its capacity for innovation was also lowly ranked at twenty-ninth in the OECD. This fall in productivity and competitiveness in the global market could be explained by two main reasons:

- Government spending on science and innovation had fallen by 22% during the period 1993-2007;
- Spending on research and development by Australian companies had also collapsed since later 1990s. In fact, in 1997, the overall business expenditure on R&D in Australia was down 4%, compared to 1996. Australian mining companies recorded a 24% decrease in R&D expenditure of whilst manufacturers also recorded a 5% fall. As a result, the productivity and competitiveness of Australian industry declined significantly since late 1990s.

As a countermeasure, the Government increased its science and innovation budget by 5% in 2008 and 25% in 2009, leading to a total of AUD 8.6 billion budget. For accounting purposes, any private company can apply a R&D Tax Concession to offset its R&D expenditure as a tax incentive. The Government also supported Australian companies’ innovation by directly investing in communication infrastructure to sustain the innovation process by investing AUD 6.25 billion to upgrade the existing broadband network (OECD Economic Department, 2012).

Arising from the growing importance of innovation, pharmaceutical manufacturing industries have allotted more R&D budget to develop and improve products to remain competitiveness and sustainability. Biota Holdings Limited is a pharmaceutical research example in antibiotic and flu treatments development. In 2009, the company recorded AUD 13 million of R&D expenses in return of AUD 45 million in revenue.

In 2010, the company achieved an AUD 63 million total revenue against 21.7 million of R&D expenses (Biota, 2011).

The adoption of R&D activities can also be seen by companies involved in the Australian mining industry. Rio Tinto, for instance, introduced ‘The Mine of the Future Program’ focused on the development of new equipment and systems for improving the speed of mining activities and mine production. This includes autonomous drills, driverless haul tracks and an intelligent Global Positioning System. By utilizing the new equipment which involved less labour and more automation, the company achieves greater efficiencies and lower production costs in the site construction and transportation activities. In addition, the intelligent Global Positioning System helps the company to identify the exact locations for more mine deposits. These factors really have helped Rio Tinto to retain its competitiveness in the global market (Rio Tinto, 2011).

This is an individual item where Portugal presented good initiatives from the Government side. For instance, the Portuguese collaboration with USA universities (Massachusetts Institute for Technology, Carnegie-Mellon University and the University of Texas at Austin) in research and education is a bold example of an international university-government programme with high-profile science and innovation policy objectives (The Academy of Finland, 2012). According to the same source, Portugal has clearly made a significant effort to boost its R&D activity: the total FCT budget has increased to EUR 366.5 million in 2009. Yet, due to the financial crisis (the round-robin effect), both the overall budget and the relative share of the PT-USA Programmes have decreased since.

3.3. Shift on Corporate Governance

Analogous to other democratic countries, private companies in Australia are under the governance of the Australian Corporation Act (Kobras, 2010). The owners of such companies are called shareholders while companies are managed by directors. Public companies can offer their shares for sale on the stock market for raising money from the public. They are required to have a minimum of five shareholders and three directors. Unlike public companies, private companies cannot raise money by offering their shares for sales to the public (Rule Law Online, 2011). However, Australia law separate its owners (the shareholders) and those who manage the company (the directors). In another words, both shareholders and directors in Australia are generally not liable for the debts of the company (Kobras, 2010). In general, Australian companies only have to ensure that their business activities operate according to law, report their activities to the Australian Securities and

Investment Commission, and maintain proper records in their companies (Kobras, 2010).

There has been an increasing attention paid to the importance of corporate governance in recent years around the globe. The corporate firm's governance includes a set of mechanisms by which the firm's managers or directors can be monitored to ensure the compliance of their activities according to the firm business goals (Fleming, 2003). Certainly, this growing importance of corporate governance largely results from the global impact of the scandals and bankruptcies of large corporations in USA, such as Enron and WorldCom. As a result, the USA had made a swift response to such events by introducing a series of significant legislative and regulative changes, one of which is the enactment of Sarbanes-Oxley Act of 2003 (Robins, 2006). Australia has also experienced a number of factors within a similar vein.

Along with the fabulous economic growth, Australia had also received a number of negative impacts during this trend. In the 2000s, there were a series of corporate failures, such as with HIH insurance that recorded an AUD 5.3 billion loss in 2001 (Lipton, 2003). Unethical business practices caused the One Tel communications company to collapse and 1400 employees lost their jobs (Cook 2001). The Australian government set up a Royal Commission to identify the causes of these major collapses and the report indicated that the Australian scandals share a similar nature to those exposed in the USA, such as fraudulent and legal but unethical accounting deception (Lipton, 2003).

In response to those corporate failures, the government started to review their legislation, rectified the Corporation Act 2001 and introduced the Corporation Law Economic Reform Program Act (CLERP 9) (Carnegie, 2008), pushing the Australian Government to have firms adopt more social responsibility practices. Since this amended legislation, Australian managers have had to review their existing compliance policy, operation practices and company structure. The role and responsibilities of board and management have to be clearly identified. The CEO and CFO of Australian companies now have to sign off on the financial statements. In addition, they have to change their auditors every five years and disclose their social and environmental impact against their business activities (Commonwealth of Australia, 2009). At last, companies have improved their reporting practices for reconciling with the international standards. For example, the ANZ Banking Corporation have implemented the Australian International Financial Reporting Standards (AIFRS) into their accounting department since 2005 (ANZ, 2009), with the aim to increase company transparency.

As a comparison, under the UCP (2012) Portuguese Governance commentary, a low degree of compliance is observed by companies regarding matters of incompatibility and independence of the Managing and Supervisory Boards. Still, it is improving. Under UCP findings, the necessary proportion of independent directors is welcomed by 61.1% of the PSI 20 Index companies and by only 25% of the other listed companies. The same trend can be found on the degree of compliance regarding External Auditor's powers (79.2% of compliance in 2011 and only 62.5% in 2010) and the policy for irregularities reporting (70.8% for the internal communication and 66.7% for the treatment of communications in 2011, against 62.5% of combined compliance in 2010), confirming a positive trend in the degree of compliance with the best international corporate governance practices.

4. Finales

This paper provides some general guidance on a better understanding of the identified factors which influence the managerial style in Australia nowadays, leading Australian managers to become more independent when making decisions for protecting stakeholder's value at the same time. To adopt international reporting standard through the application of Australia standards guide the improvement of investor's confidence in Australian companies. Comparing with Portugal, in 2009, the BPN (Banco Português de Negócios) outrage mafia case showed that not even the Portuguese bank regulator, Bank of Portugal, could track the BPN CEO underground deals which led to a 4 billion Euros rescue plan, at least, by the Portuguese government and paid by taxpayers. After four years, everything is still almost the same.

As a typical representative country of the PIGS, Portugal must carry privatizations as urgent as possible such as TAP Air Portugal, CARRIS Lisbon bus transportation, CTT postal office, CP national trains system or RTP national TV broadcast but conduct within a pre-established pro-competitive regulatory framework to avoid transforming public monopolies into private monopolies ones. The electricity sector is a good example of this statement. This sector has been liberalized over time but competition is still limited and prices remain above the OECD average. According to IEA (2009), this happens due to remuneration schemes, such as power purchase agreement (PPA), guaranteed compensation mechanism (CMEC) and feed-in tariffs, and is highly concentrated in the hands of the incumbent, Energias de Portugal (EDP).

For OCDE (2013), business environment conducive to investment and innovation requires an efficient judiciary system. In Portugal, the judicial system has typically been slow to resolve civil and commercial disputes, resulting in large numbers of

pending cases and a high level of regulatory uncertainty for business. For instance, the World Bank Group's "Doing Business" puts the time needed to resolve commercial disputes in Portugal at 547 days, which is about twice as long as in the five best-performing OECD countries on this indicator (OCDE, 2013).

Economic crises have hit economies almost every ten years during the past two decades. Being aware that we must consider not only economic rescue policies in the short term but also the resilience of infrastructure against frequent economic crises in the long term, it should be emphasized the context of a major paradigm shift from export-led growth to domestic demand-led growth (PECC, 2010). This means a system of efficient social safety nets functions to increase consumption instead of savings and helps boost domestic demand. China, for instance, is following this pattern strictly. Since PIGS countries has been hit internally by the outside financial crisis than Australia, the internal consumption and circulation money on the Portuguese economy has, hence, suffered.

At last, the pay-as-you-go (PAYG) pension structure has been the backbone of retirement for developed countries though governments everywhere have retreated from their unsustainable promises, as they try to balance adequate retirement benefits against manageable tax burdens and fiscal stress. Still, a tension has been triggered with a demographic shift on developed countries. PAYG plans worked well when labor forces were always growing relative to retired populations (PECC, 2010). It happens that there is a cradle crisis in Portugal reflected on the decline to 89841 babies in 2012, a 14% drop since 2008 (Washington Post, 2013). By 2030, the retired population in Portugal, for instance, is expected to surge by 27.4%, with those older than 65 predicted to make up nearly one in every four residents. Compared with Australia, in 2010, there were 297900 births, 0.7% more than on the previous year. On the long run, this present cradle crisis will become a sustainable financial burden for Portugal's future.

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