

CEDA KEYNOTE ADDRESS MELBOURNE

17 August 2016

Melbourne

Prime Minister

E&OE

Ladies and gentlemen, when the Parliament returns on the 30th of August, it will be nearly four months, and a long federal election, since we last met. And now that the dust and the votes have settled, the Australian people will expect all of us - Government, opposition and crossbenches - to make the Parliament they have elected work for them.

The big economic challenges and opportunities we faced in May are still there. And central to them all is this - how do we ensure Australia remains a high wage, first-world economy with a generous social welfare safety net?

How do we ensure that we advance a fair Australia, a just society, where all share in our prosperity, at the same time as we drive strong economic growth?

Now to be fair, we must tell the truth. We know that the times in which we live are ones of economic change unprecedented in both its scale and pace. And while we recognise that these times offer extraordinary opportunities for Australians, the changes they bring with them will not always be welcome. Yes new jobs are being created, but old ones are being lost. New firms are being established, but some old ones are shrinking or closing.

Our economy continues to grow well, by any measure, but there is hardship too.

So with success and prosperity comes responsibility, to ensure the most vulnerable among us, the least advantaged in our society, are not left behind.

As Robert Menzies said more than 60 years ago: "We believe in free enterprise; not enterprise free of social obligation." We cannot assume that the rising tide of economic growth will lift all boats - we have to make sure that it does. We don't do this with populist politics that denies reality - hiding under the doona, hoping the real world will go away.

We have seen in our country a massive mining construction boom rise and subside. We have seen commodity prices rise over a few years to the highest in our history and then decline almost as rapidly.

The world in which we live is more competitive, more connected than ever before. With half of the world's middle class soon to be living to our north in East Asia, the opportunities for the full range of our exports are immense - from Tasmanian wine and lobsters to higher education, from advanced manufacturing to financial services, from design to tourism.

And while mining construction has declined, we are today exporting record volumes of coal and iron ore and will soon be the world's largest exporter of LNG.

But those opportunities - including for resource and energy exports - exist for many other nations too.

In these times of challenge and opportunity, we need a clear economic plan to secure our future. We took our positive economic plan for investment, jobs and growth to the election and now returned to Government, we will work to deliver it.

[Interruption]

Our plan includes our Innovation and Science Agenda, our historic investment in defence industry, our export trade deals, a tax system that encourages investment, growth and jobs, a strategy to get the budget back into balance and guaranteed funding for Medicare, health and schools.

The composition of the new Senate is now clear and I and my Ministers are engaging with all the crossbenchers with the aim of securing support for a sound and responsible policy approach that will better secure Australia's economy. This is not, and should not be about ideology.

The objects of our plan should be supported by all parties. But the critical test is not whether you say you believe in a balanced budget, or more investment and more and better paid jobs, or whether you believe in guaranteed funding for health and education, but whether you are prepared to support the measures that will deliver those goals.

Nobody should underestimate the importance of this moment as a test of the capacity of our political system to make the right calls on the nation's behalf.

An increasingly competitive global economy puts pressure on every country to be the best it can. As the Intergenerational Report in 2015 showed only too clearly, if we had stayed on the course set by the former Labor government we would be facing net debt of 122 per cent of GDP by 2055, or some \$5.6 trillion. By comparison, net debt in Greece today is 176 per cent of GDP, and Italy it is at 111 per cent. It was a dreadful prospect. Now, we have significantly improved that situation already.

But the ratings agencies have, since the election, sent unambiguous signals that there is still much to be done in getting the nation's finances in order. Moody's only today has stated that any deterioration in fiscal consolidation - budget repair in other words - would put downward pressure on our AAA rating.

Now we sing Advance Australia Fair - but there is nothing more unfair than saddling our children and our grandchildren with mountains of debt that we have created because our generation could not live within its means. If we aren't prepared to make the tough choices today - younger Australians, future generations, will be forced to pay back the debt through a combination of higher taxes and a lower quantity or diminished quality of government services. In short, through lower living standards than they would otherwise have enjoyed.

So as we work to secure the future of the next generations, we look out on a global economy perhaps more fragile than at any time since the financial crisis almost a decade ago. Growth is slowing across the international economy and uncertainty is rising. Protectionism and inward-looking policies are starting to gain a foothold. Political divisions in advanced economies - particularly where there is high unemployment or a high risk of unemployment - are feeding on a sense of disenfranchisement among many people who feel the rapid economic changes of our time, have left them behind.

Political responses to this mood of disaffection can have the potential to destabilise global growth, perhaps even reversing some of the spectacular gains that we have made over recent

decades, through open markets and free trade. The best way to foster economic inclusiveness is through participation in the labour market, via strong jobs growth. We need policy settings in place so that the private sector can flourish and generate the jobs that people value and which will provide economic security for them and their families.

To deliver this kind of inclusion, we need to make sure students receive a great education that sets them up with the skills they need. But we also need to make sure that we have the right tax and regulatory settings to ensure businesses back themselves by investing and creating jobs. It isn't a binary choice. We need both and that is precisely what my Government's plan will deliver.

The International Monetary Fund has revised down its growth projections for both 2016 and 2017 - a pattern of downward revisions we have seen repeatedly since the Global Financial Crisis. The IMF has made it clear that if governments want to put growth back on a stronger and more sustainable path, they need to do more to support growth in the short-term and, crucially, they must deliver on structural reforms that support a rise in living standards over the medium-term.

Now, we approach this uncertain global outlook in Australia from what is fundamentally a position of strength. We are going through a period of economic transition from a huge mining construction boom.

This transition was inevitable. Once those gigantic mining construction projects were complete, after capital outlays running into hundreds of billions of dollars, there was inevitably going to be a downturn in business investment. This was predictable and it was predicted.

The question was whether Australia would have a hard or soft landing? Would the economy be able to adjust and adapt? Australia has answered with resilience. Despite the greatest terms of trade shock in our history, brought about by the fall in global commodity prices, we are continuing to see strong business conditions and robust consumer confidence, with real GDP growth running at 3.1 per cent and 225,000 new jobs created in the past year. This is a standout growth performance in a fragile global economy – stronger than any of the largest advanced economies.

So we are a resourceful and resilient people; we have built a stable democracy and the world's most successful multicultural nation. We have demonstrated the skills, the enterprise and ingenuity to adapt to the global volatility of our times. But we have to keep working hard to sustain that impressive performance. In a rapidly changing world, the keys to a successful 21st century economy are investment, technology, innovation, good infrastructure and open markets.

The Coalition's economic plan will ensure that Australia is more productive, more competitive, more innovative. Now, we know that one of the reasons why growth has been more subdued has been weak investment. It stands to reason then, that the way you ensure that strong growth continues is to make sure that every lever of government economic policy is pulling in the direction of encouraging investment. Everything our Government does is focused on powering economic growth – more investment, a strong and vibrant business sector and hence more jobs.

That's why we took to the election, and set out in our budget, business tax cuts. If you reduce the tax rate on businesses, the return on their investment increases, business will invest more, and you will get more jobs and higher wages. That is the right policy response for the conditions we face. Chris Murphy - who led the modelling exercise for Labor's Henry Tax Review - has said that lowering the company tax rate is the top priority for tax reform. And the IMF has recommended we cut the company tax rate to international levels, to make sure Australia is a competitive place to invest.

I want to emphasise however, that while we believe in lower taxes, paying them is not optional. That's why we introduced the diverted profits tax so that firms who shift their profits overseas will have a 33 per cent increase in their tax bill. We want to reduce the tax burden for businesses that do the right things and pay their share, and ensure there are strong penalties for those that do not.

A stronger economy - a tax system with integrity, means we can afford to support world-class education and health services, including guaranteed funding for Medicare, without weighing down our children and grandchildren with a mountain of debt.

Everything we seek to achieve, all of our hopes, hinge on strong economic growth. Economic success, remember, is all about people - their lives, their future, their security, their capacity to realise their dreams.

That is what we are working for in our Government today.

Now, good budget management is a vital component of our economic plan. We set out in the May budget a carefully-considered roadmap for the responsible fiscal management that will deliver future economic security and we will proceed with our budget commitments. In the upcoming sittings, we will introduce an Omnibus Bill that puts together all the Government's savings measures that we understand from the election campaign the Labor Party is prepared to support.

The budget bottom line that Labor outlined during the campaign relied on over \$6 billion in Coalition savings that they have not reversed, including \$3 billion in measures that they previously opposed. And this is after Labor's earlier multi-billion dollar backflips - \$3.6 billion on the pension assets test and \$4.5 billion on the Schoolkids Bonus.

We will work constructively with Labor and the crossbenches to pass those measures. Now I note that since the election Bill Shorten has said: "Labor is going to be constructive; we are going to be positive." A genuine commitment by Mr Shorten to bipartisan support for a responsible approach to the budget can help deliver positive results for the broader Australian community. We will take him up on that.

We are ready to reach across the aisle. But Labor must be prepared to bring an open mind and some fiscal rationality to any discussions, as well as a commitment to support spending reductions that they have already said they will back. Australians will not stand for a repeat of the aftermath of the 2013 election when Labor decided, incredibly, to oppose savings measures it had itself proposed. Nor will voters tolerate a repeat of Labor's most recent exercise in fiscal cynicism, where they opposed responsible savings right up until the eve of the election, only to capitulate at the last minute in what was ultimately a futile attempt to make their numbers add up. The time for posturing is over. The reform challenges for Australia are significant and urgent.

Continued economic success requires Australians to be smart, strategic and agile so we can take full advantage of the opportunities on offer in new and expanding markets around the world, especially of course in the fastest-growing economies of Asia.

This is not a time for rigid ideology. The onus is on Labor, like everybody else, to revisit and review outdated policies that present a roadblock to reform. Importantly, as we all know, economic reform is not simply about budget repair.

Measures of Australia's multifactor productivity - which measures output across a mix of capital and labour inputs - have remained stagnant over the past decade, well below the long-term average annual growth rate of 0.8 per cent. The productivity slowdown signals the need for a new era of microeconomic reform.

The double dissolution election was called to resolve the deadlock with the Senate over two vital pieces of legislation which restore the rule of law to the construction industry - re-establishing the Australian Building and Construction Commission and ensuring that registered organisations, unions and employer organisations, have to comply with the same standards of governance and accountability as the company directors.

These Bills will be presented to the Parliament again as soon as we return and we are seeking the support of the Senate crossbench to secure their passage. True to our election campaign commitments, we will also be asking the Parliament to expedite the carriage of amendments to the Fair Work Act to prevent a union takeover of the Country Fire Authority in Victoria. We are committed to protecting the independence of the 60,000 CFA volunteers who put their lives on the line defending Victorians and the property from bush fires. They are community heroes and we stand shoulder to shoulder with them.

The Coalition believes it is vital for our future economic security to make the most of the exciting opportunities for Australians to grow their businesses in the markets of the world, in particular the large economies of Asia.

As one of the great trading nations, we have much more to gain from free trade.

Protectionism offers nothing but declining living standards to Australia. Regional Australia in particular has a vital vested interest in our opening more markets - indeed the agricultural export 'dining boom' has offset, at least in part, the consequences of the downturn in mining construction activity in many parts of regional Australia.

The rapid growth of the Asian middle class is the biggest economic transformation of modern times. And recognising that, we concluded five free trade agreements in the last three years - Japan, Korea, China, Singapore and of course the multilateral Trans Pacific Partnership.

These agreements give our farmers a competitive edge by removing tariffs on their produce.

They provide new openings for our service industries - our architects, engineers, lawyers and planners; our tourism sector, financial services industry and aged care providers. They give our small businesses opportunities to scale up and export - be it a Tasmanian cherry grower or a Geraldton fisherman. Securing even a tiny slice of a market in a single Chinese, Japanese or Korean city can provide a very very healthy income stream well beyond what can be achieved Australia.

The Coalition continues to work hard on free trade agreements with India and Indonesia. We continue to seek to open new doors to trade and investment, because expanding exports to the

large markets in our region or globally will deliver massive new opportunities for stronger economic growth and jobs here in Australia.

It is in that regard vitally important that we keep an unrelenting focus on the policies to re-energise global economic growth. We have to work even harder to maintain the momentum behind open markets and free trade, which is why we will press hard for ratification and implementation of the Trans Pacific Partnership of 12 of the world's leading trading nations. Britain's vote to leave the European Union creates the need for Australia to renegotiate important trade deals with the United Kingdom. Following my discussion with the new British Prime Minister, Theresa May, our respective Trade Ministers have begun exploring avenues and arrangements to increase trade and investment in preparation for Britain's exit from the EU some years hence.

To extend our success as an advanced 21st century economy, we also need to leverage technology to encourage the growth of new business, and to ensure our traditional industries stay at the cutting-edge of technology.

PricewaterhouseCoopers has estimated this has the potential to add around \$1,300 per person to Australia's GDP in 2024, and as much as \$4,300 per person by 2034 – as well as creating more than 540,000 new jobs.

In every element of our national life, every part of our business life, every part of my Government's work, innovation will be a vital driver of growth.

The economies, the businesses, the nations, that succeed in the 21st century are those that move fast, that are innovative, that are adaptive, that are agile.

In December last year, we launched our \$1.1 billion Innovation and Science Agenda to bring more Australian ideas to market, incentivise entrepreneurs and invest more in education and research. Our plan makes it easier for start-ups and innovative small business to access early stage capital and to take great ideas to market.

Key to this agenda will be ensuring our children get the education they need in science, technology, engineering and maths, the skill sets that drive advanced industries and the applications and the skills on which they depend - including machine languages, coding. Innovation must be an economy-wide story; it's not just about start-ups; it's about all firms and industries using technology to improve productivity and competitiveness.

Australia's farmers are among our most innovative using precision technology that provides for better water use, extends growing seasons, and increases crop yield. Our resources sector is anything but "old economy" - remote controlled trains and trucks are just one of the reasons mining recorded a 22 per cent increase in labour productivity last year and a five per cent increase in multifactor productivity.

The Coalition's Defence White Paper invests \$195 billion into defence capability over 10 years, which includes a \$1.6 billion investment to specifically support local advanced manufacturing and high technology jobs in innovative industries. The Defence White Paper is a plan for ensuring our defence forces have the capabilities they need to keep us safe in the 21st century. But it will also serve to ensure that as far as possible, every dollar that can be spent in Australia, in our own advanced manufacturing, innovation and technology, will be spent here. Through this plan, we will make Australia more secure, not just in terms of

military capability but by building up the technology and industry base that will help deliver a stronger 21st century economy.

If we see this plan through over the next three years, I believe Australians will have every reason to approach the decades ahead as they do today - confident, outward-looking, secure and self-assured. If, on the other hand, we falter in our plan to transition the economy, there is a real risk of Australia falling off the back of the pack of leading economies.

We must meet the challenge of getting our budget under control, bringing down debt and deficits -- and ensuring we have the productivity-boosting policies in skills, trade and the workplace that will drive investment and jobs.

This policy prescription is a considered, pragmatic response by my Government to the challenges we face if Australians are to enjoy continued economic success. It should not be as controversial as it is sometimes represented to be.

Is anybody really asserting that a focus on innovation is bad for the economy? That opening up trade opportunities in the wider world is not in Australia's interests? Or, alternatively, that making our industry less open to competition will somehow provide Australians with a magic recipe for economic security? Of course not.

This is no time to pretend, as Labor does, that the good times will just keep on rolling no matter how much you tax, how much you borrow, how much you spend. That is simply not how it works in the economy of the 21st century. Yes, it will be tempting for some to exploit people's fears and insecurities about the rapid pace of change in our world.

But none of the regressive anti-business, anti-growth agenda we have heard from Labor does anything to address the real challenges facing the Australian economy. It is vital that all of our political leaders see the world as it is, not how they might like it to be, or how they fondly imagine it might once have been. Unless we embrace the volatility of a more competitive and interconnected world, we face the risk of economic stagnation that means less investment and less jobs.

And unless we embrace the volatility of a more competitive and interconnected world we face the risk of economic stagnation that means less investment and less jobs. And unless we deal sensibly with the challenge of living within our means, Australians, and our children and grandchildren, will be facing a future of higher taxes, higher public debt and, ultimately, a reduction in the quality of services our society wants and expects.

These questions are fundamental to the future living standards of all Australians. And those who will be hit hardest if we do not sustain a strong economy and the strong revenues that flow from it will be those who are the most disadvantaged, the most reliant on government services, the most vulnerable.

So we will work constructively, cooperatively and creatively with the new Parliament – both the Opposition and the crossbench in both the House and Senate – as well as with state and territory governments.

This is my commitment. But I will be asking for a commitment in return.

I will be asking the Parliament to face up to the fact that Australia's future is and can only be one of confident engagement in the global economy. As a nation, that will mean we need to be as I believe we can be and will be at our innovative and competitive best if we are to secure the successful and prosperous future all of us want for ourselves and our families.

Thank you very much.