



PRIME MINISTER

PREPARING AUSTRALIA FOR GLOBAL COMPETITIVENESS IN THE 21st CENTURY

ADDRESS TO THE 2008 FUTURE SUMMIT

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SYDNEY**

INTRODUCTION

Thank you for the invitation to address the 2008 Future Summit.

I am especially pleased to be with you tonight because the Future Summit combines two things that I am particularly passionate about:

- A long term view of Australia's economic, social and security challenges.
- And an open, inclusive and consultative approach to addressing those challenges.

I believe that long-term thinking about Australia's future shouldn't be something we do every three years at election time.

It should be an integral, normal and routine part of our democracy.

Australia won't tackle the challenges that face us, nor will we fully seize the great opportunities that lie ahead, if we allow ourselves to drift without an overarching vision for the nation – and a strategy for realising that vision.

I believe Australians want to part of creating that vision and that strategy. They don't want to sit back and wait for government to come up with all the answers. They want to be involved in shaping their nation's future and their own future.

The long term vision for the nation needs to be a shared vision; one that evolves through time; and is continually debated in every corner of the country at schools and dinner tables and backyard BBQs.

The Government held an ideas Summit of its own in Canberra last month – and I'd like to thank Michael [Roux] for his advice in shaping the format of the Australia 2020 Summit.

The Summit was an experiment for the new Australian Government. When we launched the idea of a Summit earlier in the year we didn't know how Australia would respond to this kind of open-democracy. We were just hopeful that we'd get a good turnout and pick up a few good ideas.

But we had no idea that we would be overwhelmed by an avalanche of enthusiasm from every part of the country.

More than 8,000 people applied to attend the Summit.

Participants travelled – at their own expense – from faraway corners of the nation and (in some cases) other parts of the world to be part of the debate.

The Australia 2020 website received more than 3,000 submissions.

And more than 500 schools held summits of their own.

The Summit generated a large number of ideas. But for me, one of the most important things to come out of the Summit was the idea that there aren't enough opportunities like this for open public debate in Australia.

There aren't enough forums in which Australians from government, business and the community can come together to discuss the nation's long term challenges.

And that is why I am pleased to be part of this Future Summit tonight.

ACHIEVING LONG TERM CHANGE

In my view, governments should be judged not just by their longevity, but more by their record of positive and permanent change to the direction of the nation.

That is why I am proud to look back on many of the lasting achievements of the last Labor Government.

Through their wide ranging economic reforms, the Hawke and Keating Governments of the 1980s and 1990s transformed the Australian economy.

They had big ideas and a big vision.

They floated the currency.

They cut tariffs.

They modernised labour markets, by introducing enterprise bargaining.

They introduced competition policy.

They cracked open the hidden protection which had shielded the airlines, the banks, and many other industries.

These reforms helped open the Australian economy to the world.

For that reason, the Hawke and Keating Labor Governments are rightly credited with laying the foundation for much of the prosperity that Australia has enjoyed for the last decade.

The result was higher productivity. Between 1993 and 1998 productivity growth was 3.3 per cent. Between 1999 and 2004 productivity growth fell to 2.0 per cent. And between 2004 and the present productivity growth fell to 1.1 per cent.

By comparison, the period since 1996 has been relatively uneventful in terms of economic reforms.

And more importantly, many gathering economic challenges went unaddressed.

The remarkable period of prosperity in the last decade – principally delivered by the extraordinary mining boom – concealed a multitude of latent economic weaknesses.

Prosperity delivered by the mining boom concealed the fact that our productivity growth is on a steady decline.

It concealed the fact that our infrastructure is inadequate.

It concealed the fact that our skills shortages have become chronic.

It concealed the fact that Australia's microeconomic reform agenda has stalled.

The longer we fail to face up to Australia's economic challenges, the harder it will be to deal with them.

If we do not start acting now, Australia will wake up one morning with the mother of all economic hangovers.

Australian businesses have long been aware of Australia's economic challenges. They have repeatedly called for these weaknesses to be addressed.

The Chairman of the Australian Institute of Company Directors, John Story, said recently:

"We should have been addressing infrastructure issues and skills shortages five years ago. I mean, we talked about it. These issues were discussed around board tables like this for the past 10 years, and the chickens are coming home to roost and there is no short-term fix."

I could not agree more.

THE GOVERNMENT'S LONG TERM ECONOMIC AGENDA

The new Australian Government is committed to renewing the Australian economic reform project.

The last Labor Government had a vision to internationalise the Australian economy.

It delivered on that vision and opened Australia up to the global economy.

Our Government has a new vision for the nation's economic future.

Our vision is to transform Australia's competitiveness in the global economy.

Boosting Australia's global economic competitiveness is the touchstone of that vision.

And to boost our global economic competitiveness we must boost productivity growth.

That is the Australian Government's central narrative on the economy.

The Government is committed to building a modern, competitive Australia capable of meeting the challenges of the 21st century – to secure the nation's future and the future for working families.

You don't achieve global competitiveness with rhetoric.

You don't achieve it with a few controversial reforms.

You achieve it with a comprehensive policy reform agenda which cuts across the entire economy.

The comprehensive long term economic agenda of the new Australian Government has several parts.

We are committed to disciplined macroeconomic management to ensure that the economy has a stable foundation.

We are committed to an active microeconomic reform agenda to boost Australia's lagging productivity performance by making long overdue investments in human and physical capital.

We are committed to creating incentives that encourage work and enterprise – and we are determined to reform the tax system, boost workforce participation and tackle welfare to work barriers.

Finally, we are committed to getting the policy architecture right; and reforming the Federation is key to the success of our broader agenda.

BUDGET PRINCIPLES

The Government's first budget, to be delivered on Tuesday, is one step in our program to transform the future competitiveness of the Australian economy.

For too long budgets have been an annual political give-away in which the government of the day serves up an array of handouts and quick fixes.

That is no longer good enough.

If Australia is to compete and succeed in a rapidly changing world we need a long-term approach to fiscal policy.

That is why I have said that this Budget won't be another "one year wonder".

It will be a budget that sets a platform for long term growth. It will begin to prepare Australia for the future.

It will build a strong foundation of economic stability that will benefit Australia for years to come.

That foundation is based on four principles.

Our first priority is to build a strong economy through responsible economic management – a strong economy that also delivers for working families.

Second, we are committed to honouring our commitments to help working families under financial pressure.

Third, we will deliver on our commitments to prepare Australia for the great challenges of the future – acting on areas of long-term government neglect: in education, health, infrastructure, climate change and water, and the rise of India and China.

Fourth, we will plan and provide for our nation's long-term defence and security needs in a rapidly changing environment.

These are the principles and priorities which have guided us in this Budget process, and they will be reflected in the outcomes on Budget night.

The Budget is a first step in the Government's broader long term economic strategy.

It is an opportunity for us to make a start on our long term vision for the nation.

DISCIPLINED MACROECONOMIC STRATEGY

The Budget will reflect the commitment to fiscal conservatism that I made during last year's election campaign.

I committed to bringing back the fundamental principles of disciplined macroeconomic management.

In the last four years Australia has lost sight of some of these principles.

When we took office in November last year government spending was growing at 6.85 per cent in the four years to 2007/08 – the highest growth rate in more than a decade.

Since then, global economic events— unforeseen by most commentators six months ago – have reshaped the global economic landscape.

These events only underline the importance of a return to fiscal responsibility.

The IMF's recent World Economic Outlook report specifically singled out the need for responsible budget policy to help the Australian economy deal with the global financial crisis.

The report stated that prudent fiscal policies and flexible exchange rates provide Australia with “important buffers against any substantial weakening in the external environment”.

That's a call we hear loud and clear.

And that is why we have found responsible savings in this Budget.

The second principle of disciplined macroeconomic management is low inflation.

Our Government is committed to doing everything in our power to put downward pressure on inflation because inflation is the enemy of the economy and the enemy of working families.

Inflation eats away at the living standards of all Australians.

Inflation hurts the working families struggling to make ends meet.

It took the best part of a decade or more of hard economic reforms to tame inflation and boost productivity.

The Government can't fix these sorts of financial pressures overnight, but there are practical things we can do.

And that starts with fighting inflation because inflation is pushing up mortgage rates and pushing up the cost of living.

That's why in January I set out a five point plan to wage a war against inflation.

Our plan addressed both demand side and supply side pressures on inflation.

We committed to use all the tools available to us to fight inflation.

First, we said we would ensure the Government takes the pressure off demand by running a strong surplus in this year's budget. This will help make the task of the Reserve Bank easier.

Second, we have committed to examine all options to provide real incentive to encourage private savings.

Third, we will be unfolding our plan for tackling chronic skills shortages in the economy.

Fourth, we will provide national leadership to tackle infrastructure bottlenecks.

And fifth, we will provide practical ways of helping people re-enter the workforce and remove disincentives to working hard, to lift workforce participation.

The Budget will be a core part of this plan.

By exercising restraint, our plan is to do everything we can to ease the pressure on inflation and interest rates.

And for the longer term, the budget will also begin to outline our approach to the chronic investment deficits in the capacity side of the economy.

Not everyone agrees with our focus on responsible fiscal policy and our fight against inflation.

AN ACTIVE MICROECONOMIC REFORM AGENDA

The second pillar of our long term economic strategy is a comprehensive microeconomic agenda.

Whereas we are committed to economic discipline in our macroeconomic policies, we are committed to necessary policy activism in microeconomic reform.

Medium term macroeconomic policies are essential for stability.

Budget surpluses are essential for economic stability.

But real fundamental change to the underlying structure of the economy requires deep and pervasive microeconomic reform.

Productivity growth is not something you achieve with a single broad sweeping policy.

It is the aggregation of efficiency gains industry by industry, market by market, sector by sector.

Australia needs to revive its microeconomic reform agenda if we are to arrest the recent slide in our productivity performance.

Benchmarked against the United States, the global productivity leader, Australian productivity increased from 77 per cent in 1990 to 85 per cent in 1999.

But by 2006 it had fallen back to 79 per cent.

This means that in comparative terms, Australia has now almost completely lost the relative productivity gains of 1990s.

That is why our Government will couple our commitment to new investment in this Budget with a renewed commitment to microeconomic reform after a decade of neglect.

Our microeconomic reform agenda involves several elements.

First, if Australia is to maximise its future competitiveness in the global economy, we need the best possible regulatory environment.

We need to “get the rules right” so that Australian businesses have wasteful regulation taken off their backs and face appropriate rewards for hard work and enterprise.

This means we need to restart the competition policy agenda.

We need to press ahead with deregulation.

And we need to create an environment that supports risk taking and innovation.

In this arena, our goal must be to move towards seamless and competitive national product and labour markets.

Today we are a long way from that goal.

That is why the Government has an agenda for reform of the Federation, including a plan for business deregulation.

In partnership with state governments we have identified 27 areas for deregulation and red tape reduction to improve efficiency and reduce the regulatory burden on the economy.

We also need to modernise our tax, welfare and retirement income systems to recognise rather than penalise hard work, and to enable Australian families to get by and get ahead.

That is why today the Government has announced a comprehensive review of Australia's tax system.

The review panel will be chaired by the Secretary of the Treasury, Dr Ken Henry and will also comprise Mr Greg Smith; Dr Jeff Harmer, Heather Ridout, and John Piggott.

The review will examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

The review will consider whether Australia's tax system contains appropriate incentives for:

- workforce participation and skill formation;
- individuals to save and provide for their future, including access to affordable housing;
- investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and
- reducing tax system complexity and compliance costs.

This review will release an initial discussion paper by Treasury by the end of July 2008. The review panel will provide a final report to the Treasurer by the end of 2009.

The second element of our microeconomic agenda is core investment in basic human and physical capital.

Australian business cannot be competitive if it is hamstrung by poor infrastructure or if it cannot access the skills it requires in its workforce.

For too long the basic human and physical capital needs of the nation have been ignored.

Consider the state of Australia's infrastructure.

Australia ranks 20th out of 25 OECD countries for our investment in public infrastructure as a proportion of GDP.

The Bureau of Infrastructure, Transport and Regional Economics estimate that urban congestion – caused by inadequate infrastructure - will cost families and businesses nearly \$20 billion by 2020.

Australia's broadband infrastructure is not up to scratch, with average download speeds lagging at 27th among all developed economies.

The economic consequences of this underinvestment in physical capital are significant.

CEDA reports that as a result of underinvestment, the backlog in infrastructure investment for water, energy and land transport alone is around \$25 billion - and that this is costing us around 0.8 per cent of GDP a year in lost production. That's \$8 billion a year.

The Government is committed to investing in Australia's future and addressing our nation's long-term infrastructure bottlenecks.

We know it is not possible to turn around overnight the long term infrastructure neglect that the nation finds itself with today.

But we are certainly going to make a start.

Infrastructure Australia will work towards ensuring that Australia's infrastructure needs are comprehensively audited and prioritised.

Infrastructure isn't the only area where underinvestment is hurting business.

For a long time Australia has faced chronic shortages of skilled labour.

A business survey released by Grant Thornton earlier this year showed that 58 per cent of businesses identified skills shortages as the biggest constraint to their growth.

That is why we must begin to make the appropriate investments in skills and education for the long term human capital needs of the economy.

That is why we have unveiled substantial initiatives including:

- the provision of up to 15 hours per week for 40 weeks per year of early childhood education for all 4 year olds provided by a qualified early childhood teacher.
- \$2.5 billion over 10 years to enable all secondary schools to apply for funding of between \$500,000 and \$1.5 million for Trade Training Centres.
- providing high speed broadband to schools, computers at school for all students from years 9 to 12
- a strategic focus on vocational training through the Skills Australia expert group and an investment in an additional 450,000 training places over the next four years.
- HECS incentives for students who study maths and science as well as those teaching those subjects, and a comprehensive examination of the future of higher education.
- 1,000 new mid-career research fellowships to help retain and attract the most talented researchers.
- A new national curriculum in Maths, the Sciences , English and History.

- a National Asian Languages and Studies in Schools Program to provide additional Asian language classes in high schools

Australia must make these investments to lift our competitiveness.

The new Australian Government is committed to beginning the process of investing in the nation's human and physical capital.

But we also have a longer term agenda.

We don't want to stop at improving Australia's stock of capital.

We want to take these basic investments to the next level.

This is a long term agenda to go from better skills to a truly innovative workforce.

To go from improved education to a national culture of creativity, innovation and enterprise.

To go from stronger training and skills accreditation to genuine domestic labour mobility.

To go from better infrastructure to dynamic and sophisticated markets for water and transport including pricing and governance reform.

To take our microeconomic reforms and build them into a truly seamless economy by harmonising regulation across the country.

If we are to achieve this we need to fix the governance of Australia's economy and to put in place evidence-based policymaking.

FIXING THE GOVERNANCE ARCHITECTURE

That is why we are acting to reform the relationships between all levels of Australian government – federal, state and local.

We have breathed life into the once fractious COAG process and governments are now working together to drive reform and achieve real outcomes for Australia.

A key part of the COAG agenda, and the Government's approach more broadly, is to strengthen the link between evidence and policy.

This requires us to be more transparent in articulating our goals, monitoring whether we're achieving them and reporting on progress.

For many of our great policy challenges, there is not one 'right answer', and even where there seems to be, policy challenges are rarely stagnant.

To move forward, we need to be extending those ideas that work and disbanding those that don't.

This requires a new culture among policy makers too – supporting experimentation, innovation and learning.

CONCLUSION

Australia faces many challenges beyond the economic challenges I have discussed tonight. Challenges of climate change, challenges associated with water and energy, and challenges associated with the rise of India and China and the broader shift in geopolitical power.

In all these areas, Australia is looking for a long term strategy.

I say this because I hear it from people right around the country.

From business.

From governments at all levels.

From communities.

And from working families.

And I say it because I believe that we won't achieve long term success unless we have a long term vision and a plan.

I want to look back on our period in Government knowing that we didn't shirk the challenging questions.

That we didn't play it safe with the politics of short-term advantage.

We didn't promote quick-fixes over long term investments.

I know that many will say that this is a political gamble for the Government.

Because the benefits of our broader agenda won't be fully realised for many years.

But we believe that our objective of boosting Australia's global competitiveness cannot be achieved unless we have a long term vision and a long term reform program.

You can't change the structure of an economy by giving it a quick coat of paint.

Productivity improvement is a painstaking process involving hundreds of careful, creative and tailored micro-economic reforms.

I want to look back on our time in government and know that we began that process and that we began to change the nation for the better.

Thank you for your attention.