

The Australian Economy in Transition: Building a new National Competitiveness Agenda

THU 11 JULY 2013

Prime Minister

Canberra

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ACKNOWLEDGEMENTS OMITTED

I am, without apology, an optimist about our nation's future. Our national strengths are formidable. Our weaknesses, compared with the rest of the world, are few.

And, if our policy settings are right, the challenges we face for the future are entirely manageable.

My optimism therefore is not based on some sort of feel-good factor. Instead it is based on a cold, hard analysis of the facts – including our ability to manage change when change is necessary.

And the core fact is this: Australia is seen around the world as one of the strongest economies, one of the most stable societies, as well as a nation underpinned by a robust national security.

For these reasons, it is just plain wrong for anybody in our national political debate to be talking Australia down.

Of course there are things we need to reform.

The process of reform is never-ending. But that is different to a daily diatribe of negative politics whose single objective is to cause the Australian people to feel that our national economy and our national security is on the verge of falling apart – if not now, then certainly by next Thursday afternoon.

Mr Abbott is a formidable politician. He is the most conservative politician to become leader of the Liberal Party in its history. He is particularly formidable in the art of negative politics.

But a 100 per cent diet of negative politics is bad for our nation. It is bad for national confidence. And the truth is that it is a lazy substitute for the hard work that is needed to develop, argue and implement real policies that will change Australia for the better.

That is why Mr Abbott has so far publicly stated that he does not want to face the public scrutiny of an economic policy debate here at the National Press Club of Australia. Today's debate was to be about the economy.

My core argument to you today is that given the new economic challenges that Australia is now facing, what the Australian people now want to see is a debate about a clear, positive economic policy direction for their future.

Given the significant and recent decline in our terms of trade, a critical influence on jobs and on the living standards of our people, substantive economic policy debate is no longer just an option for our nation. It has now become a necessity.

Because if we make the wrong decisions now – we will be living with those decisions for the decade ahead.

So how do we best define this core new economic challenge for the nation? And how do we best define the most appropriate policy response to this challenge?

When I was first elected Leader of the Opposition, I argued long and hard that Australia had to prepare for the day when the resources boom was over. You will remember I was ridiculed by then Treasurer Peter Costello for even asking the question – as if it reflected a lack of economic patriotism.

The truth is in 2013 – the China resources boom is over. While the export of resource and commodity volumes are up, the prices we receive for them have now fallen almost 25 per cent since their peak and may well fall further. This is reflected in our declining terms of trade from the historic highs we achieved only a year or so ago.

At their peak, our terms of trade were more than 60 per cent higher than their average across the 20th century.

Over the course of the boom beginning in 2002-03, these record terms of trade have delivered Australia around a 15 per cent boost in our national income. Our producers have responded fantastically to these international price signals and have brought about arguably the single greatest investment phase in our history.

But now that investment phase is slowing.

Right now, we find ourselves at a cross-over point for our national economy.

A transition from an investment-intensive phase in our minerals and energy sector which has understandably pulled resources away from other sectors of the economy.

And a transition to a new phase of investment in other sectors of the economy, including the traded sector, that will now also be advantaged by a lower dollar.

Managing this economic transition is now a core task of Australian economic policy.

Critical for jobs. Critical for infrastructure.

When I was elected Prime Minister in 2007 I said the best policy response to any future change in our economic circumstances was to lift our national productivity.

I have never changed my view.

We then took action by radically increasing investment in human capital (early childhood education, school standards, school infrastructure and school funding and uncapping university places); a radical new investment in economic infrastructure (road, rail, ports and for the first time urban transport and the NBN) and a third program of regulatory harmonisation between the Commonwealth and the states.

Nine months into office, while implementing these productivity based reforms, we, together with the rest of the world, were hit by the GFC.

This was no small thing.

This was the largest financial and economic crisis faced by the international economy since the Great Depression three quarters of a century before.

We continued to implement our productivity reform agenda. But our core economic priority, understandably, became national economic survival as we watched bank collapses around the world, depositors lose their savings and economies crash into recession with massive job losses.

As you know, here in Australia, we deployed a national economic stimulus strategy, timely targeted and temporary, which helped keep Australia out of recession, kept the economy growing, and kept unemployment with a five in front of it – one of the lowest levels in the world.

And we did so with lower levels of debt and deficit than practically all the major advanced economies in the world. These were our core preoccupations from 2008 to 2010.

In early 2010 with the economy stabilising, as Prime Minister I returned to the theme of national productivity growth. In January 2010, drawing on the third intergenerational report “Australia to 2050: Future Challenges”; I outlined Australia’s triple dilemma of an aging population; static to declining workforce participation rates; and slowing multi-factor productivity growth.

Just to recap: in 2010 one in seven Australians were over the age of 65, whereas by 2050 that ratio will fall to one in four.

This aging of the population is also expected to reduce the workforce participation rate from around 65 per cent to around 60 per cent by mid-century.

And third, average labour productivity growth, which had risen to 2.1 per cent per annum during the 1990s, had fallen to 1.4 per cent in the decade just past, although it has risen to 1.6 per cent over the year to March.

Three years later, the three Ps (population, workforce participation and productivity) continue as the core economic agenda for the future.

However in prosecuting this agenda, we now face the new global and national economic circumstances which I outlined earlier, demanding that we implement a new national competitiveness agenda with a new sense of national urgency.

These global factors frame the new economic challenge that Australia faces today: how to protect our jobs and living standards given that global growth is sluggish and now the Chinese resources is slowing.

I am optimistic that we can rise to this new challenge with a clear-cut policy direction that puts productivity first, driven by a new sense of partnership between government, business and unions.

My confidence in rising to this challenge is underpinned by our economic fundamentals which we have kept strong, despite the pressures of the Global Financial Crisis.

If anyone seriously doubts this, they should ask why we were one of the few countries in the world to have a triple-A credit rating with a stable outlook from all the ratings agencies that analyse minutely Australia's and every other country's debt and deficit profile.

But strong macroeconomic fundamentals are not sufficient themselves to meet the urgency of the new challenge that now confronts us.

The Government will maintain a prudent approach to fiscal policy, returning the budget to surplus across the economic cycle – and as the Treasurer has recently confirmed. We will continue with our plan to return the budget to balance in the medium term.

But other economic reforms (what the economists call microeconomic reform) must also be prosecuted with a new urgency.

Because the China resources boom is coming off, Australia's core economic strategy for the future must be one which diversifies our economy, by creating more jobs in manufacturing, food production, infrastructure, construction, and our many other services industries, rather than having all our eggs in just one basket – the resources and energy sector.

Relying on the lower dollar alone to boost competitiveness is insufficient for the great economic task that lies ahead.

That is why Australia must embrace today a new national competitiveness agenda.

If we fail to do so, in the years ahead there is a danger that Australia will begin to price itself out of international business.

The core of this new national competitiveness agenda must be a common agreement among us all that we must lift our annual productivity growth rate to 2 per cent or better for the future.

Our population should continue to be supported by a strong migration policy designed to mitigate the effects of our ageing population.

Our workforce participation policy must continue to embrace positive reforms in paid parental leave, flexible forms of childcare, as well as increased female participation in the workforce in order to keep our participation rate as high as possible.

But of the three P's, our most critical task remains lifting our national productivity growth rate on the back of a new national competitiveness agenda.

Over the last two weeks I have met now on four occasions with the Business Council of Australia and the Australian Council of Trade Unions.

I have done so because I have never believed in class warfare. I have done so because I have always believed that Australia at its best is both a nation of equity and opportunity – a nation that values enterprise, because it is enterprise that creates the jobs, as well as being a nation that values a fair go for all.

The truth is if we are to drive a new national competitiveness agenda we need to have government, business and unions working as much as possible together – pushing in the same strategic policy direction for the overall wellbeing of our national economy.

I do not have a pie in the sky attitude to all this. There will always be disagreements.

That is normal in a market economy.

And we all have a huge interest in growing the size of the national economic pie together.

The discussions I have had in the last couple of weeks with both business and the unions have been useful in elaborating the possible content of a new national competitiveness agenda for Australia. Thus far we have agreed on seven broad areas of necessary policy work together.

Number one: Domestic electricity price regulation in Australia, and the impact of the current carbon price as well as the future availability of competitively priced domestic gas supplies are high on the agenda.

Australian electricity prices are too high by global standards.

This affects the competitiveness of all firms large and small. Of course it also affects individual consumers. But before you all start reaching for your revolver on the carbon price, let's be rational about this: the carbon price at present contributes less than 10 per cent to national electricity prices.

The primary reason for the hike in electricity prices appears to be the current system of national electricity regulation which has allowed excessive rates of return for publicly-owned transmission and distribution utilities which have become cash cows for various state and territory governments.

Furthermore, reforms are needed for the supply of competitively priced gas for Australian businesses and households.

Number two: We must continue to examine any unintended rigidities arising in the labour market. And before anyone gets too excited here, let me record as a fact that under the Fair Work Act, labour productivity in the market sector is running at nearly 2 per cent per annum – one and a half times the pace during the WorkChoices era.

Wage growth has been moderate —the Wage Price Index has grown 3.2 per cent through the year. Industrial disputes are low – under Fair Work the rate of industrial disputes is around one third the rate in terms of days lost compared to under the Howard Government.

The Government believes the Fair Work Act represents a reasonable balance for the future. The Government nonetheless believes some businesses are not making the most effective use of the Act to drive the productivity outcomes that they need for the future of their businesses.

What I have discussed with the BCA, the ACTU and Minister Shorten is how we can harness a greater spirit and practice of industrial cooperation to produce better outcomes for us all. Nobody has an interest in a business going bust.

A good place to start could be in respect of large greenfields projects where large numbers of Australians are employed and which represent significant levels of investment. These projects reflect to the world the broader industrial, regulatory, and investment circumstances existing in this country – we need to make them work, and work well.

Number three: Business productivity.

The BCA itself has recently reported on problems in Australian business productivity, competent project management as well as the most effective use of capital by management.

The future of the productivity agenda therefore does not in any way lie exclusively with the labour market.

In fact some bad industrial outcomes for some major projects can be the result of bad management decisions rather than union hostility. Business might say this is exclusively a problem for business.

I would argue, as does the BCA, that this is also a problem for the nation. I am also concerned that if you went through our business elites, you would not find a whole lot of the top 25 executives in each of our top 100 firms who have spent any of their career time serving in Asia – the engine driver of the global economy through until mid-century.

Remember, this is the Asian Century.

The truth is Australia is much under-done in Asia beyond the resource and energy sector.

Indonesia is a classic example – an economy which by 2050 is on track to become the fourth largest economy in the world after China, India and the United States.

But at present, Indonesia does not fall within our top 10 trading partners or our top 20 investment destinations.

This is a problem of Australian enterprise. Not a problem created by Australian unions.

Number four: We need a new approach to the regulatory impost on business from all levels of government. This particularly applies to multiple and conflicting environmental assessment requirements for state and federal governments. Surely it lies within our wit and wisdom to begin by integrating the assessment procedures and reports at present separately mandated by the Commonwealth and the states. Surely we should aim at having one single integrated assessment system.

I have already discussed this with Premier O’Farrell in particular and I want to take this discussion further.

Number five: Education, skills and training.

Our national objective must be to build the best educated, best trained, best skilled workforce anywhere in the world. Progress has been made. We now have universal pre-school education supervised by teachers for a minimum of 15 hours a week emphasising pre literacy, pre-numeracy skills. We now have NAPLAN to make publicly transparent the literacy and numeracy performance of all schools.

The Government’s Better Schools policy plans to invest a further \$10 billion over the next six years to lift school standards and education outcomes through transparent school performance plans.

We have uncapped university places for Australian students so that we now have 190,000 more kids at university than five years ago. We do, however, need to do more with vocational education and training, particularly given the recent withdrawal of effort by many of the states.

Number six: Infrastructure.

Infrastructure Australia is doing great work.

For the first time in the nation’s history, a national infrastructure priority list has been developed on the basis of a rigorous cost-benefit analysis. Major projects are underway across road, rail and ports and urban transport. More projects should be underway such as the Cross-River Rail project in Brisbane.

The NBN is being rolled out – the new infrastructure of the 21st century which of itself becomes a massive productivity driver for firms.

We do however need to embrace new forms of infrastructure financing and this forms part of an important agenda of work.

Number seven: We must improve the operating environment for small business in this country. And we want to work with the Council of Small Business of Australia to achieve this. This involves access to capital.

It also involves other productivity drivers such as the effective take up of the NBN. As Prime Minister I am passionate about the future of small business.

During the course of next week, key cabinet ministers will sit down again with the BCA and business groups, and with the ACTU to hammer out agendas of work in these areas (COSBOA in the case of small business) to work out where to go next with each of these agendas.

I say again - as Prime Minister I want to bring the nation together in this new national competitiveness agenda. It is the only way it will work.

Mr Abbott's alternative economic agenda

I have outlined the Government's definition of Australia's core economic challenge; to manage the economic transition that lies ahead by maintaining macroeconomic stability and at the same time implementing a new national competitiveness agenda.

You might well ask, at least in his absence, what Mr Abbott's alternative economic diagnosis is. And based on that diagnosis, what his alternative policy prescription for the national economy is. Mr Abbott says that Australia's core economic problem is that we are suffering from a debt and deficit crisis.

He said: '... there is now a budget emergency.' (Budget Reply speech, 16 May 2013). Mr Abbott, is a formidable politician – he is the nation's most formidable exponent of negative politics, and negative politics above all designed to induce feelings of worry, anxiety and fear in the community.

He and the Liberal Party have concluded that fear is a far better political bet than engaging on a debate on the facts. Which is why once again Mr Abbott refused to debate the economic facts here today.

Fact one: Despite Mr Abbott saying every day the economy is in crisis, since we have been in office the Australian economy has in fact grown by 14 per cent.

Whereas over the same period of time the economies of the United Kingdom, France and Japan have actually shrunk in size. And those of Germany and the United States have only grown about one fifth the rate of the Australian economy. While Canada has grown by around half our rate.

Fact two: Australia has one of the lowest levels of government debt as a percentage of our economy in the OECD.

Fact three: Australian government debt per capita is one of the lowest in the OECD.

Fact four: Australia's budget deficit as a proportion of the size of our economy is also one of the lowest in the OECD.

Fact five: Australia's unemployment rate is lower than almost every major advanced economy.

So this is the factual economic report card for Australia that Mr Abbott does not want to debate today. Let's go to debt and deficit levels in particular – because this is what Mr Abbott has banged on about for three years now, and it will dominate Mr Abbott's negative message for the election campaign.

Our debt level is scheduled to peak at 11.4 per cent of the size of our economy. Of course we should always be concerned if we have a debt. And we should always repay our debts responsibly. But Australia has one of the lowest debt levels in the world.

Because Mr Abbott's exaggerated claims on debt and deficit are based on a falsehood the whole house of cards he has constructed against the Government's economic credentials, resting on the flimsy foundation of his debt and deficit attack, comes tumbling down.

Mr Abbott's economic policy for the future is even worse. His prescription is to implement a slash and burn austerity drive across the nation.

Well we have seen how that works in Queensland under Campbell Newman where business and consumer confidence has been shaken by the sacking of thousands of people, and the shrinking of critical government services. We have also seen the impact of austerity drives by conservative governments in the United Kingdom which nearly produced a double dip recession, and has continued to plague growth.

Just this year, the United Kingdom recorded the largest quarterly decline in household living standards in a generation.

And please note this core fact: the British economy today is smaller than it was back in 2008. In summary, Mr Abbott just doesn't understand economics. Don't take my word for it. That is what former Treasurer Peter Costello said about Mr Abbott.

Today, I wanted to debate the future of our economy. Mr Abbott's absence has made such a debate impossible. Therefore, whenever you hear Mr Abbott, Mr Hockey, Mr Robb or anyone else try and run the lines on an Australian debt and deficit crisis, remember this was the day for Mr Abbott to defend his case. Instead, Mr Abbott decided to cut and run. Run away from the facts.

But keep pumping out the fear.

In Mr Abbott's absence, what I have done today is outline our framework for tackling Australia's future economic challenges.

Australia is now an economy in transition.

A transition from the previous decade of the China resources boom.

To the decade ahead where we must now diversify our economy so that we don't have all our eggs in one basket.

The challenge for the Australian Government is to accelerate a new national competitiveness agenda that boosts our long term productivity growth.

We need to aim for a productivity number with a "2" in front of it.

And to get there we need to bring the nation together, not pull it apart.

Australian Labor Governments know how to manage the great transitions in our economy.

We did it with the Hawke and Keating governments when they transitioned Australia from the old, closed, post-war economy to the new internationalised economy that sets us up for the future – producing 22 years of sustained economic growth and an underlying inflation rate of 2.5 per cent – a world record.

We did it again under this government when we transitioned Australia through what Paul Keating recently and eloquently described to me as the "valley of death" of the 2008-09 Great Global Recession.

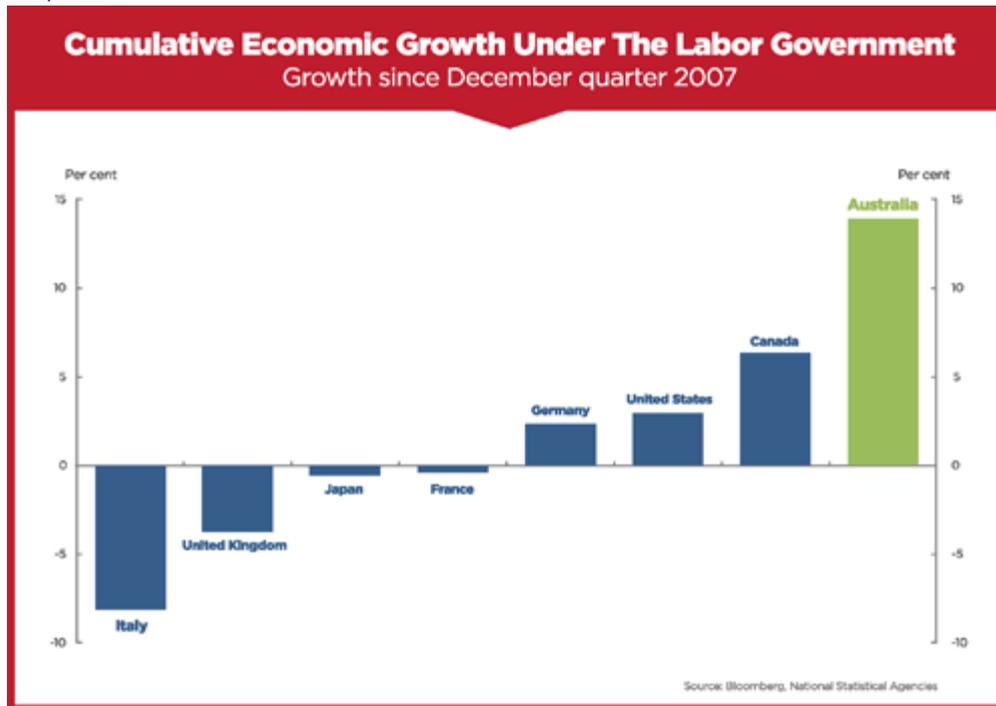
And I believe we can transition Australia again, capturing the gains of the Asian Century while diversifying the Australian economy so that in the future we have all sectors, all our cities and our regional centres lifting their economic performance.

Australian Labor Governments manage transitions. We sketch the future. We harness the energy and ambition of our people. And as the people's government, we put policy to work to put the changes in place that best secures our future.

Graphs

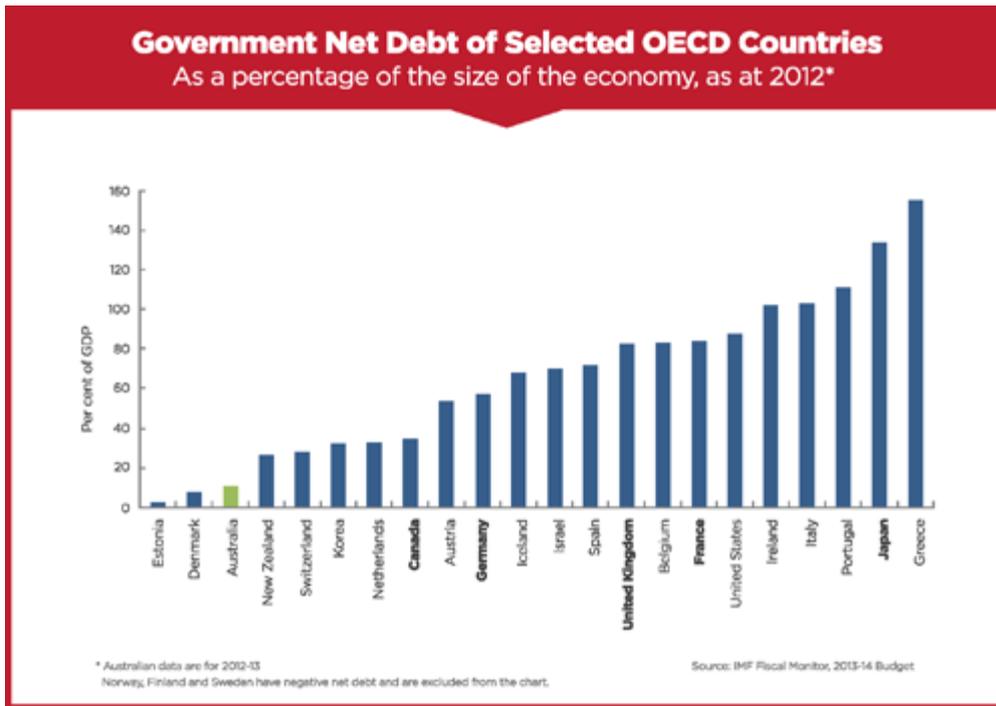
Graph 1 - Cumulative Economic Growth under the Labor Government - growth since December quarter 2007

[Graph 1](#) [PDF 638kB]



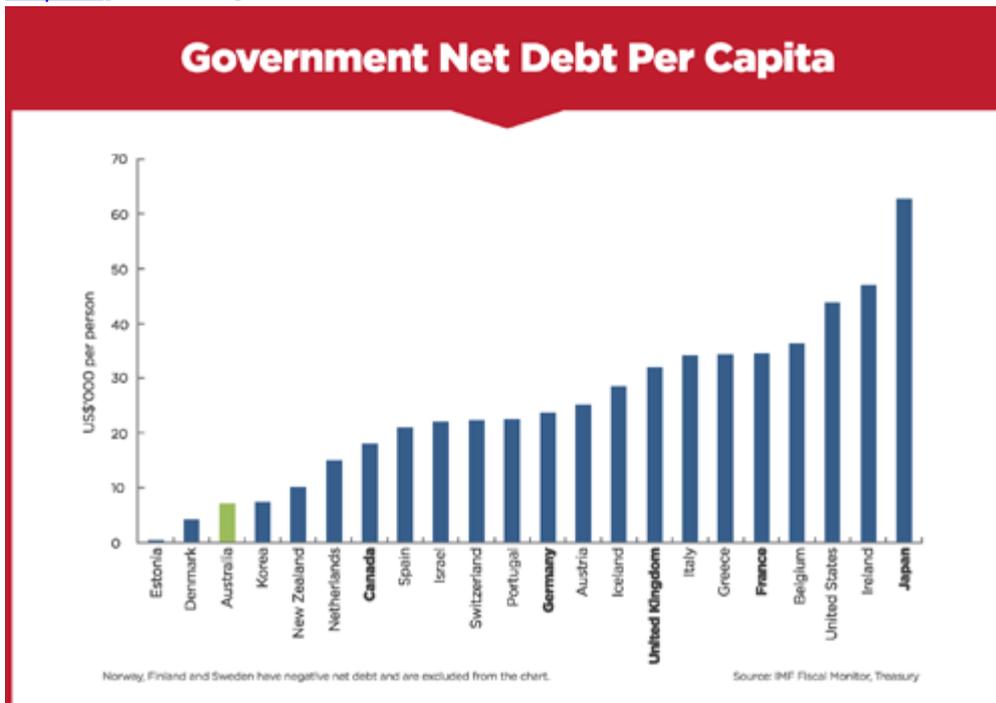
Graph 2 - Government Net Debt of Selected OECD Countries - as a percentage of the size of the economy, as at 2012

[Graph 2](#) [PDF 661kB]



Graph 3 - Government Net Debt Per Capita

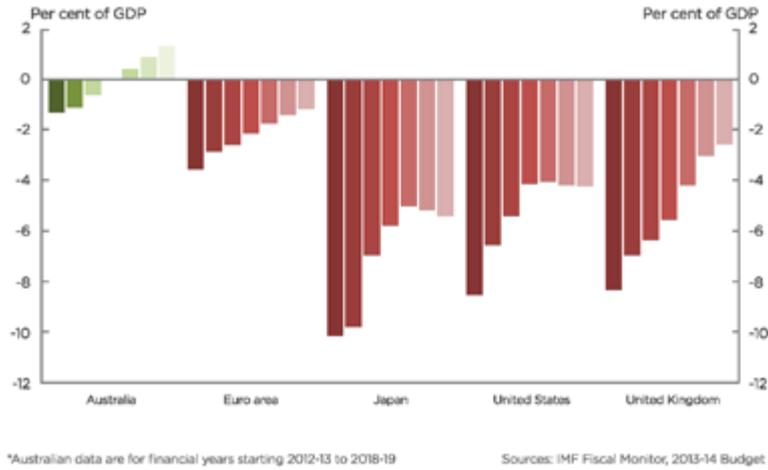
[Graph 3](#) [PDF 605KB]



Graph 4 - Comparison of Budget Balances for Selected Economies - calendar years 2012-18

[Graph 4](#) [PDF 646KB]

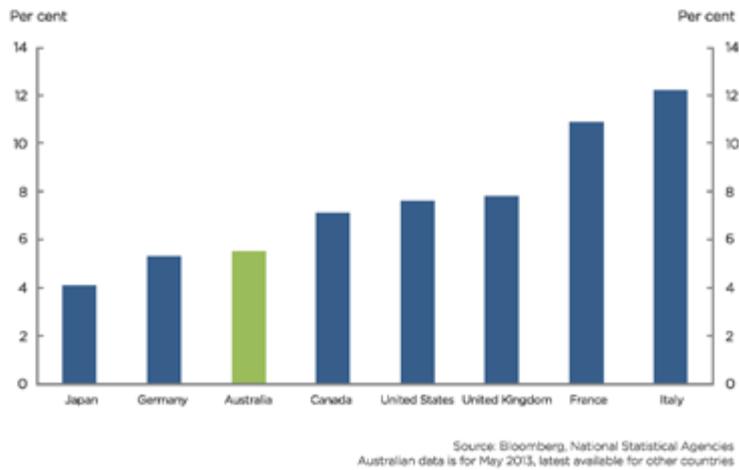
Comparison of Budget Balances for Selected Economies Calendar years 2012-18*



Graph 5 - Unemployment Rates for Selected Economies

[Graph 5](#) [PDF 645kB]

Unemployment Rates for Selected Economies



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