

**National Press Club**

**Budget Address**

**The Hon. Joe Hockey MP**

**Shadow Treasurer**

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Canberra

It was back in 1969 and I remember my Dad piling all four kids into the car with Mum and we drove across northern Sydney to see his new pride and joy. It was a shop front in Naremburn. It was to be our new family small business – a real estate agency that he and Mum had always wanted to set up.

Like so many small businesses the early days were hard. All the family worked in the business at various times. Although, even to this day, I am never quite sure if my older brothers really did have driver's licences when they drove clients around in their cars!

I vividly remember a moment in 1975 when Dad came home with total despair on his face. He slumped on the family dinner table and shared his fear that he was losing the battle. Business was really hard and the harder he worked the less reward he received. And, he was angry, really angry with the Whitlam Government.

At that time credit was hard to get and people were scared to invest in property. With the cost of day to day living increasing rapidly, it was incredibly hard for tenants to meet the weekly rent.

I do not recount this story at the National Press Club because I want to lay claim to the political cliché of a log cabin upbringing. In fact, as the youngest of four, I was the spoilt one!

But I think Australians do want to know what values my colleagues and I will bring in government to every family dinner table and to every business in our first series of post election Budgets.

That's why in my speech today I am talking about values, policy and an alternate Budget strategy.

# 1. Our Values

I would not have thought it necessary in 2010 to release a document focussing on the principles of enterprise. However to be frank, I have been surprised at the exaggerated rhetoric from the Rudd Government that invokes class war<sup>1</sup> and a return of government as the front and centre of the economy.<sup>2</sup>

My colleagues and I share economic principles that have helped to get Australian businesses and families through the peaks and troughs of the economic cycle.

Sound and sustainable economic policy leads to strong economic growth.

We believe that if markets are fair, open and transparent, individuals should be able to take risk and receive due reward for their effort.

It is the role of government to facilitate confidence and to ensure, through fair regulation, that there is ample opportunity for business enterprises to make profits and flourish.

It is not the role of government to collect taxes for anything more than the need to fund the necessary public services that have the support of the Australian people.

We reject the notion of taxation as a penalty for success.

We do not pretend to be fiscal conservatives – we are real fiscal conservatives.

We do not pretend to believe in markets and then panic at the first downturn – we really understand that markets go up and go down.

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<sup>1</sup> Executive remuneration as discussed by Kevin Rudd, National Press Club, 15 October 2008 and “super profits” was a term coined by Karl Marx.

<sup>2</sup> Kevin Rudd, *The Monthly – The Global Financial Crisis*, February 2009. See also speech by Kevin Rudd to St Paul’s Institute, London, March 2009.

Every building must have strong well-built foundations. This document titled “Rebuilding Sustainable Prosperity” that I am releasing today details the values the Coalition team believes in.

Our economic policies are framed by these values.

## 2. Our Economic Policy

As we release our policies right up until the election we will address a number of key challenges.

The theme that underpins all of our economic policies is our desire to raise productivity.

### *Productivity*

It is the level of productivity in our economy that ultimately determines our standard of living.

Productivity growth, that is growth in GDP per capita, averaged around 1.9% per year in the 1980s and 1990s. It fell to around 1.7% in the 2000s as earlier reforms tapered off and the drought coupled with massive pre-production investment in the mining boom took hold.

The third intergenerational report flags a further fall in productivity growth to around 1.5% over the next forty years.

As a nation, we can do better. We need higher productivity if we are to provide a better standard of living for ourselves, our children and their children.

The federal government can facilitate productivity growth in a number of ways.

## **1. Participation**

Firstly improving participation in work is essential not only to address the potential demographic challenges of the future but to better utilise the existing investment we have made in our own people.

If we want to increase workforce participation we need to make it attractive for people to stay in work or return to work.

The Paid Parental Leave policy Tony Abbott has announced provides significant benefits for those who wish to return to work after having a child. I know personally how hard it is for a mum to return to work. I also know that many mums would rather take on the more onerous task of full time parenthood than return to paid work. To be honest I don't know how they do it. I do know however that our economy needs them to return to work if they can.

Our policy is an incentive to return to work. After twelve months nearly half of all mums taking maternity leave do not come back to work. This is a significant workforce loss.

Similarly I say to older workers we would like you to stay connected with work even if it is not at the pace that you have kept for 40 or 50 years. I do not begrudge anyone a well earned retirement, but I do recognise that working life does not end at 65.

Before the election we will deliver a further initiative that will help older workers remain in the workforce. Naturally these initiatives will be financially modest, but it is essential that we invest in skills and ability regardless of age.

This brings me to a further area of participation reform involving younger workers. Mobility of labour is one of our great challenges as we witness the expansion driven pain of labour shortages in various parts of Australia.

Many young Australians have sought new work and life challenges by travelling overseas. Others have been prepared to uproot and move to work across town or new

towns. We must have a more mobile workforce and we need to invest in this process. The Coalition will be announcing before the election a major initiative that encourages young Australians to take work where it is available.

By way of background, I am mindful of the approach that was made to me in a Kalgoorlie pub by a teenager earning more than \$100,000 a year driving a ute around the local mines. He boasted that he didn't want his mates to find out that he was earning so much money. Well I want his mates to find out!

I don't want anyone stuck on welfare while they are job ready and whilst jobs are available. Be it working on a mine in the Pilbara or working in a Whitsunday Island hotel; it is no longer a life of pain and isolation to travel for work. This change in patterns of work will be defining for Generations X, Y and Z.

## **2. Labour Force Productivity**

There are a number of factors that will improve labour force productivity.

### *Education and Training*

Throughout life the greatest investment people will make will be in their brains. It is a little odd that there is a significant financial incentive for business to buy new equipment or for an investor to renovate an investment apartment, but for many who chose to invest in their brains through extended education and training they often find they are out of pocket.

Government expenditure in this regard is sometimes clumsily directed, particularly in training. The Rudd Government admitted this in last week's Budget when it announced the abolition of their Workplace Productivity program.

Our long term goal is to find a way for people to have a greater incentive to invest in themselves. Whether it is in health care or in education, from an economic perspective the spending of additional investment dollars on people will be best spent by the individuals themselves. Of course a major incentive from the government would help

and when the Budget returns to surplus and the debt is paid off, this is a major opportunity for productive investment by the federal government.

Of course the public sector must deliver a minimum world class standard of education. All Australians must have access to this system regardless of wealth or birth. Remember it is a key Liberal value to provide equality of opportunity for all, to raise the tide for all. Our education and training policies will emphasise improving educational standards that will lift productivity.

### *Workplace Relations*

Workplace relations is an obvious area that helps to generate productivity improvement.

No one should forget the difficult waterfront reforms we undertook in government that helped to improve crane rate movements from 17 movements an hour to 27 movements an hour in a short period of time.

Tony Abbott has indicated that our new policy will work within the existing Fair Work framework. It is essential that a flexible workplace is preserved and where possible enhanced. You will recall that job creation and real wages grew significantly under the previous government – in a harmonious way we can grow jobs and real wages again.

More will be said about this, but there is one key aspect of the Budget which I want to vigorously dispute. The government identifies an unemployment rate of 4.75% as full employment. I do not accept that at all. When I was Minister for Employment in 2007 I left Labor with an unemployment rate of around 4%.

We never gave up on people even at significant cost to the Budget through Welfare to Work and Work for the Dole programs.

Full employment in Australia from my perspective, is solely defined as the level where everyone who wants a job can get a job.

### *TPA and Competition*

To maximise productivity growth, we must address weaknesses in our competition policy and regulatory frameworks. We should encourage private sector investment so that markets are more competitive and efficient.

There may not be a need to dramatically change our competition policy and regulatory frameworks, but there is a need to consider what changes could be made so that market efficiencies and productivity enhancements are maximised.

Accordingly I am announcing today that on election the Coalition will undertake a comprehensive and independent review of the Trade Practices Act from 1974 including all aspects of competition arrangements in Australia. Unlike current government reviews this will be chaired by an eminent Australian independent of the public service. My colleague the Shadow Minister for Competition Policy, Bruce Billson, will have more to say about this in the next few days.

The outcomes we want will be focussed on giving small business a fair go. We want farmers to have their concerns about downstream pricing addressed. We want greater clarity around misleading and deceptive conduct. We want a clear market focus that does not leave consumers confused.

We also want the review to deliver a new competition policy framework. In areas like energy supply we want a genuine market based approach. If new markets are to be built we want a clear, fair and transparent framework.

### *Infrastructure*

Good infrastructure delivers good productivity. We can ensure that community infrastructure, both privately and publicly owned is adequate and efficient.

Everything of a major capital nature from roads to rail, sporting and cultural facilities through to transport and utility services should be assessed for better value and better usage. We must extract more value from existing assets.

During the previous Coalition Government, national investment in infrastructure rose from 3% of GDP in 1996 to 5.3% of GDP in 2007. And by the way, GDP more than doubled in those eleven years. I remember at various times when capital investment was so strong that towns and cities were running out of lime for concrete and bricks for housing.

Finding new investments is easy compared with the need to upgrade and better utilise existing infrastructure. We all need to invest smarter to get the most value out of our existing infrastructure.

On coming to government we will undertake a nationwide audit of capital stock with a particular focus on opportunities for upgrades of existing infrastructure. From multi-use sporting facilities through to shared utility infrastructure, I believe we can significantly improve the productivity of existing capital stock without the need to build everything new for a ribbon cutting ceremony by politicians.

We will discuss with Infrastructure Australia a more meaningful role in this process. Sir Rod Eddington has identified that there is a massive looming shortfall of around \$700 billion in capital for infrastructure. This is simply well beyond the capacity of government to fill. It is also wrong for the government to fill.

Currently Infrastructure Australia can only make recommendations on new infrastructure. It has no money and limited resources. Like everything else the government has done, the role of IA has been over sold. We will make it work.

Existing infrastructure must also cope with growing demand. Spending more money is not the only answer. Better regulation also helps.

The architecture of the infrastructure access regime was inspired by government assets moving into private ownership and operation. This framework has generally served Australia well. Its ongoing suitability into the future needs careful consideration.

Today, the private sector meets many and significant infrastructure needs. How we optimise the benefits of existing infrastructure is a contemporary policy challenge along with the competition and access regime's impact on potential new investments. We also need to look at what are the optimum settings that best support the national interest when it comes to export-dedicated infrastructure.

As was summarised from the Australian-Davos Connection Infrastructure 21 summit, *“Australia’s access regimes need to be reassessed to determine whether the balance between promoting the efficient use of existing infrastructure and the efficient investment in new infrastructure has been appropriately struck”*.

The public sector is generally a poor investor. It rarely makes investment decisions based on rigorous cost/benefit analysis. It is very unsupportive of capital maintenance and it is almost never prepared to invest new money in necessary capital raisings. State electricity and water infrastructure is exhibit A in this regard.

The government should not be involved in unnecessary and uneconomic infrastructure projects. The federal government must not punt taxpayers' money on particular technology bets that may become expensive white elephants. Accordingly, we will not be proceeding with the National Broadband Network at a borrowing cost of at least \$26 billion and an interest bill of around \$2.4 billion over the forward estimates.

Even though the interest bill is not in the Budget papers it is clear that someone is going to have to pay for the money borrowed before a commercial return is achieved. Of course under Labor it is always the taxpayer that ends up paying.

### *Government capital spending*

Where capital investment is necessary government should be the last point of call and not the first.

Public servants in Canberra, no matter how well intentioned, do not have the skills or resources to determine what's best for local communities in other parts of the country.

That's why we will restructure the Primary Schools for the 21<sup>st</sup> Century program to give parents and not public servants in Canberra the money and the power to determine what is best for their local community.

These initiatives will improve capital stock productivity significantly. For example a new school hall has little productive value once complete. But if a school could use available funds to respond to local needs such as upgraded air conditioning, new smart white boards or even better after school care facilities then the productivity benefit rises significantly in that community.

This will be a key theme in our policies – federal support but local control.

### *Sustainability*

Economic progress has involved the use of many natural resources that are finite. These resources cannot be replaced or easily substituted. I am not referring here just to the direct inputs to the economic process of production and distribution, but also to the “forgotten” inputs such as air, water and land. We are gradually realising there are resource and environmental constraints on unbridled economic development.

Sustainability is receiving increasing attention because of a growing sense that the current path of business practice and economic development cannot continue indefinitely.

There is also an appreciation that economic development has social costs in terms of congestion, food security and social harmony just to name a few.

Economic growth can be achieved in such a way so that it does not involve the depletion of non-renewable resources and so that it does ensure socially beneficial outcomes.

The Coalition believes that government policies must lead to a sustainable Australia. Economic, population and environmental policies must take into account social harmony, quality of life and the preservation of the environment.

Our new Productivity and Sustainability Commission will be tasked with giving the government independent expert advice on the kind of population numbers that are sustainable in the short, medium and long term given pressures on our environment and given planned future infrastructure.

The Rudd Government's response has been to appoint a Minister for Population with a brief to conduct a review and report after the next election. That is a typical Labor response to an issue – give the appearance of action without engaging in the public debate or taking the hard decisions.

Of course sustainability and climate change are hand in glove debates. The Coalition has a fully costed direct action plan for moderating carbon emissions. Labor has no climate change policy. Interestingly, it has no money to deliver a climate change policy in the Budget.

### *Financial Services Reform*

Of course almost everything in our lives needs to be funded.

It was not by accident that we had no major financial collapse during the 2008 financial crisis.

The Wallis reforms initiated by the previous Coalition Government ensured that financial institutions were prudentially well supervised. They were also allowed to

avoid the ridiculous criticism of a lazy balance sheet by diversifying into other financial services.

At a retail level the *Financial Services Reform Act I* introduced ensured that competition was fair without the door to door sales of sub-prime like products in the market.

The government in 2008 in a populist move pledged to have more regulation of financial institutions. They have gone quiet since. We rejected more regulation then and we reject it now.

We will oppose Basel initiatives that unfairly discriminate against our financial institutions. We will not under any circumstances support initiatives that drive up the cost of banking in Australia.

Australians instinctively know that banks always end up passing increased costs on to their customers in the form of higher fees and higher interest rates.

But regulation can always be better.

In particular we will revisit the FSR Act and ensure that product disclosure statements are simpler and smaller. In Corporate Law Reform we will ensure that short form prospectuses really are short.

### *Deficit and Debt*

Quality of life is heavily influenced by what you can afford. The Coalition remains deeply concerned about the Rudd Government's deficit and debt strategy. Australia is a significant importer of capital.

The more the government borrows to fund its deficit the more it detracts from national savings.

The best way to improve Australia's national savings in the short term is to get the Budget into surplus. It is also necessary to pay off net government debt as quickly as possible to avoid a crowding out of capital markets.

The government does not believe in crowding out...I do.

If the government with its AAA rating continues to borrow on average around \$100 million every day in competition with small business, mortgage holders and the banks themselves, then ultimately the cost of borrowings for others will be higher.

It goes further. There is a growing anxiety about sovereign exposure to debt markets. Around the world we are seeing what happens when government finances become unsustainable. Greece is struggling to finance its ongoing deficits in the market. That has prompted a trillion dollar rescue package by the European Union and the IMF.

Australia is not in the same camp as many other nations because the Rudd Government inherited a \$20 billion Budget surplus, zero net debt and \$60 billion in the Future Fund. Our starting point was streaks ahead of everyone else.

We need to prepare now for the next crisis. Governments must reduce sovereign debt and we must reduce sovereign risk if we want precious investment dollars for the private sector to come in.

The Rudd Government without any need at all has made sovereign risk an issue for investors in Australia for the first time in decades. Firstly, they are neither Arthur nor Martha on a CPRS. Business needs certainty and consistency but Mr Rudd's policy is confused and poorly thought through.

Secondly with a new major tax on an industry that desperately needs imported capital, the government has made our country's political system a necessary risk consideration.

Because the Coalition understands markets and investment, we commit absolutely to stability and consistency in economic policy to once again remove sovereign risk from the Australian investment equation.

### 3. Coalition's Budget Strategy

There is a better way of managing Australia's finances. The Coalition has always taken great pride in the high quality of its economic management and fiscal rectitude.

I remember my dad always saying to me "money doesn't grow on trees". Well when I became the Minister responsible for bank notes in the Coalition Government I confirmed to him that he was right.

The Coalition believes in fiscal conservatism. The Coalition will restore fiscal rectitude. We will run a Budget surplus over the cycle. We will repay Labor's \$93 billion of net debt as quickly as we can.

Labor also claims to return the Budget to surplus, but their record in government suggests it will never be achieved. Our record in government clearly demonstrates that we can restore the Budget to real surpluses and that we have the discipline to sustain those surpluses.

Returning the Budget to surplus will require tough decisions. But making tough decisions is a necessary part of good government. Tony Abbott and our Coalition team are prepared to make the tough decisions.

Today my colleague Andrew Robb is releasing a detailed statement outlining the savings measure the Coalition is taking so far to get the Budget back to surplus as quickly as possible. The combined four year recurrent and capital savings amount to \$46.7 billion.

There are hard decisions there. We like tax cuts and we like savings but we can only deliver what we can afford. In other areas the government's own incompetence is on

show. For example they allocated \$131 million in the Budget to an environmental program that they shut down in 2009.

At the last election Mr Rudd declared the reckless spending must stop. Well even in the first seven years of his declared Budgets at no time does he get government spending down to the level of 23% of GDP which was the level Mr Rudd inherited from the Coalition in 2007.

Instead the government raises new taxes for new spending. God and good luck are doing the heavy lifting of getting Mr Rudd's Budget back to surplus...some time in the future.

The government created huge expectations about tax reform and failed to deliver. When the Coalition undertook tax reform it removed taxes introduced a broad consumption tax, simplified tax reporting and simplified business identifiers.

Before the Henry Review the federal government had 99 taxes. After Henry it has 100 taxes.

Tax 100 is Labor's Resources Super Profits Tax.

The Resources Super Profits Tax is a bad tax. It is a blatant money grab, boosting the tax take from the mining industry by at least \$9 billion a year.

The Rudd Government would have us believe that it will lead to higher investment in the mining sector. It seems odd that taxing an industry so heavily should lift investment and growth!

The new tax applies retrospectively to projects that are already underway. The billions of dollars that mining companies have invested in Australia in good faith are to be hit hard by the Rudd Government.

The government has decided to a de facto part nationalisation of the resources which is building structural risk into the Budget permanently. They are locking in ongoing

and rising spending and foregone revenue against a volatile tax that is made even more volatile by the commitment to pay failed miners around 40% of their losses. This builds a potential structural hole into future Budgets.

We will not support this new tax on Australia's resource sector and we will repeal the new tax should we form government after the election.

There are of course other tax initiatives in the Henry Review worthy of consideration. Sadly the Henry Review is an orphan. Dr Henry and his colleagues are not allowed to publicly discuss and be questioned on all the 138 recommendations in the Review.

Without advocacy and explanation the Henry Review will wither and die.

I call on the government to release all costings and modelling on the 138 recommendations in Henry so that other Australians can display the tax reform courage that Rudd Government does not.

At various times in life you are required to make hard decisions based on conviction and values.

Business people, workers and families do this every day. These are the lessons I learnt in our family small business.

Even though the next generation has taken over from my parents the business thrives and grows based on some fundamental principles.

These principles, of hard work and reward for effort, will underpin the decisions of the Coalition so that all our nation's prosperity will grow.

Thank you

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