Speech

Speech by Senator The Hon Penny Wong
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PW 142/12
18 June 2012

CEDA – State of the Nation

Hotel Realm – National Circuit, Barton
Canberra

Thank you for that introduction.

And thank you for the invitation to speak today.

The focus of this year's event – as always – is timely, and properly recognises the right policy questions that confront this nation.

Balancing the structural reforms that will prepare us for the demographic challenges we know Australia will face, against short-term fiscal and political pressures, is front of mind for this Government.

And it is front of mind for me in the role of Finance Minister.

It is advantageous for this event to be held in quick succession to the Prime Minister's Economic Forum that was held in Brisbane last week.

The recurrent theme from the Forum was a shared understanding that realising our opportunities requires greater collaboration.

Collaboration between governments, business, unions and the not-for-profit sector.

And I hope that it is an approach that will be continued through today's event and into the future.

Underpinning a collaborative approach is the recognition that all sectors have a common interest in the success of the economy. And, although not everyone agreed on everything at last week's Forum, what I think was most beneficial was that people talked *to* each other, not past each other.

People from different industries, from different sectors, from different points of view, listened, discussed and acknowledged the wide-ranging important economic questions facing Australia today and tomorrow.

This is not to be taken lightly.

All too often today, we find public discussion defined by divergence, not convergence. Additionally, dialogue focussed not just on identifying the priorities that need to be addressed, but also how we go about implementing them in the most efficient manner.

While some might attempt to minimise the importance of such events, this Government believes that it is through collaboration that long-term reform is both created and delivered.

In responding to the question about how we finance our future, we need to be cognisant of the dilemma that will face future governments. That dilemma is defined by our demographics.

Our population is ageing.

And managing this inescapable shift is central to the financing task of future governments, not just state and federal, but also internationally.

This significant demographic change will re-shape our labour market and our community. Because in each decade to come a further cohort of workers will shift from employment to retirement.

Consider that in 1970 there were 7.5 people of working age to support every person aged 65 and over. In 2010, this ratio fell to five to one. By 2050, it is projected to decline to 2.7 working age people to every person aged 65 and over.

This statistic is telling, and it points towards a personal income tax base that is reducing relative to the population, particularly the non-working population.

This shift in demography also serves to magnify existing pressures that are present in the Commonwealth budget.

Take health spending as an example.

The current budget estimates show spending on the Pharmaceutical Benefits Scheme increasing by 5 per cent per annum over the forward years, from 2013-14. This increase – well in advance of the broader economy – is underpinned by improvements in medicines.

And these existing health spending pressures will only be amplified as the population ages. It is a matter of fact that, as we age, the greater our need for health care services becomes. And with this need comes greater expectations on government-provided services.

This should not be surprising.

For over forty years, the ideal of universal basic healthcare has been central to the social contract between governments and citizens. And, for a Labor Government, this is particularly true.

But we need to ensure that it is sustainable – in health, in social welfare, in all facets of government spending. Because it is only through a sustainable budget that future generations are able to enjoy the level of services available today.

But to do this, there needs to be sufficient recognition of the problem. In the day-to-day of politics, the long-term challenges rarely make it to the fore.

Achieving bipartisan agreement to act is even rarer still.

The current political climate heightens the political axiom that the short-term overshadows long-term considerations. The long-term financing task of governments is no different.

This Government has made a number of structural changes to the budget – changes that over time increase the sustainability of government services and payments.

More often than not, these changes have been opposed. But the importance of the challenge means that we cannot be sidetracked by such politicking.

The challenge reinforces the need for today's politicians to put the interests of future generations above their own political ambition.

Because future generations will not thank us for dodging the tough decisions today.

Central to meeting this challenge is economic growth.

As a Government, we understand that financing our future needs to be underpinned by a strong and growing economy. This is fundamental to the budget position, the number of jobs created, and the services government can provide to support citizens.

And while this statement may sound like a truism, it is crucial to understanding the task of government, and the aim of policies. It is this long-term frame that should guide decision making.

We need to be more productive to retain our current standards of living over the decades to come and to provide the services and support that are expected by the community.

As the number of workers relative to those out of work declines, the productivity of our economy needs to increase.

The equation is simple.

We need to up-skill our labour force, and continue to raise the level of participation. We need to invest in infrastructure and reduce red tape. We need to be more efficient; we need to work smarter.

And to achieve these improvements, we need to act now.

Because it is the investments we make today that will define the future economy.

So, what is the economy we want to see in the future?

It is useful, I think, to start at the end point. What economy do we want in 10 or 20 year's time? For this Government, the future economy is one defined by a high skilled, high knowledge labour force.

An economy where the incentives are shaped to encourage participation, but with the support in place to see every Australian reach their potential.

An economy where the opportunities of the Asian Century are realised through increased links with our region.

A clean energy economy, where innovation drives a transformation away from carbon dependency.

A digital economy that underpins productivity gains across all industries, and redefines the way we interact and communicate.

An economy built on productive infrastructure delivering goods efficiently around Australia and the world.

An economy with best fit regulation to reduce the drag on productivity and output.

And, from a strong economy and good fiscal management , comes a strong budget.

We're returning the budget to surplus in 2012-13, which is the right thing to do when the economy is growing around trend. Returning to surplus also puts us in the strongest position to respond to future challenges.

With a strong budget, the Government will be able to best provide the services and support that we expect in Australia.

A dignified safety net that supports those most in need.

The best start for all children through education.

A National Disability Insurance Scheme, high quality aged care facilities and a sustainable health care system.

Targeted assistance to families.

As a Labor Government, the values of social justice and fair go are central to our task, and central to our way of governing. But to deliver the economy we want, and to finance the future we want to see in the decades to come, we need to make the right investments now.

This requires a reform platform across the economy that strengthens the resilience and adaptability of business, our workers and our industries.

Improving productivity is key to managing an economy that is constantly changing. The settings for today will not necessarily be applicable in the next decade, just as the last decades' reforms are not sufficient for today.

Reforms need to be forward looking. That is why our Government has focussed on building capacity. Because with capacity comes flexibility, and the ability to adapt and grow when circumstances change.

Building capacity and flexibility provides the framework for our approach across government. Because we know that the future productivity of our economy depends on it.

So, today I'd like to briefly touch upon three areas of reform that I see as crucial to our future productivity and economic growth.

The reforms that will finance our future.

The first is skills and participation. A productive and highly skilled workforce is fundamental to a strong economy. We know that investing in skills improves productivity and participation. It is vital to our long-term prospects. And it is the central response to the demographic changes ahead of us.

As the number of those able to work increases, and the demands on government increase, it is only through a more productive economy that the tax base can be maintained.

That is why this Government has made substantial reforms across the skills and education sectors to increase the human capital base in Australia.

One of the key reforms has been uncapping university places – increasing the number of students in tertiary education and the knowledge base for our economy. By freeing up the supply of places so that universities can respond to student demand, we have seen student numbers grow to 540,000.

Significantly, the number of students from low socio economic backgrounds that are now enrolled has increased to 40,000. Over time, this reform will improve the productivity of our labour force, and underpin the high knowledge economy we want for the next generation.

These reforms are supported by our reforms in skills and apprenticeships which are providing an avenue of training for those choosing not to pursue tertiary education.

The mining and building sites across Australia will be worked by Australians that have been through a TAFE or technical college.

The Government's introduction of a HECS-style loans scheme for these courses now removes the barriers to Australians improving their skills. Recent work by the Productivity Commission indicates that the COAG agreed reforms to the VET sector are projected to increase labour productivity by 0.35 per cent by 2020, and increase GDP by close to 2 per cent.

These investments in skills and training sit against a broader strategy of participation that brings more who are able to work, into work.

Removing the obstacles and disincentives to participation has seen significant cohorts of Australians re-join the labour market.

The last Budget increased funding to the Jobs, Education and Training Child Care Fee Assistance program by $225 million to meet increased demand. Essentially, the program subsidises childcare to supports parents – mainly single mums – back into employment.

This will see thousands of parents re-enter employment over the coming years and encourage a significant cohort of Australians into employment.

In an economy of low employment and an ageing population, improving participation is a key reform for continued growth.

For instance, a recent study by the Grattan Institute put the increase in the size of the economy from removing the disincentives to female participation at $25 billion. The same study estimated the increasing participation of older Australians would increase our GDP by a further $25 billion by 2022.

Now, how we unlock these types of outcomes is not settled – far from it – but the quantum of economic potential does demonstrate the benefits of greater economic participation.

In improving the productivity of our labour force, continued up-skilling and education, combined with increased participation rates, will be crucial to our long term economic growth.

Investing in physical capital – in the enablers that underpin business and the production of goods and services – is inherently a long-term proposition.

By the time trade slows because of infrastructure bottle necks, or band width crowding, it is too late. Productivity suffers. That is why rigorous planning in anticipation of these needs is fundamental to continued and uninterrupted growth.

Under Minister Albanese, we established Infrastructure Australia to identify the infrastructure prioritise across the economy, whether they be rail, road or ports.

All projects from the first priority project list have now been funded, with many already complete. These investments expand our capacity as an economy, and reduce the costs associated with transporting goods across the country and internationally.

And, while our investments in traditional physical infrastructure will improve our productivity, it is our investment in the National Broadband Network that is likely to unleash the greatest gains.

Connecting Australian businesses to each other and to consumers at home and abroad via a high-speed broadband network will open up opportunities and innovation that we cannot yet imagine.

Across all areas of business, it is likely to transform operations and the way business is transacted.

Importantly, the NBN is an open access network that provides the perfect platform for innovation and entrepreneurship.

An example of this change being embraced is the recent announcement by Australia Post of the introduction of digital mail boxes. This decision serves to highlight the advantages of ubiquitous broadband access across Australia over the decades to come. In a sector that is suffering from the decline in standard mail, Australia Post is adapting to technological change.

This approach – an approach to embrace the future – is also being canvassed by providers of health and education services.

It is an approach that is fundamental to productivity growth in the decades to come. In fact, with the roll-out of the NBN, a 2011 report by Deloitte Access Economics found that the direct contribution of the internet to the economy will increase to $70 billion by 2016.

In addition to the investments in human and physical capital, we also need to pursue a better regulatory agenda.

On this issue, we need to have clarity of what we mean when we speak of deregulation. For me, and for our Government, this means regulation that is fit for purpose and which is as efficient as possible.

All regulation that doesn't meet this test should either be reformed, or removed.

Getting this right is vital to long run productivity.

But, unlike our investments in skills and infrastructure, delivering on the deregulation agenda requires a different type of investment.

Many deregulation reforms are delivered through political capital, rather than financial capital.

Some of the most beneficial deregulation reforms that can be delivered in Australia require harmonisation of approaches across all jurisdictions. Achieving these requires the willingness of all parties – state governments, the business sector and unions.

Deregulation exemplifies the need for collaboration across all sectors of the economy.

The COAG reform process in relation to environmental approvals had its genesis in the Business Advisory Forum that brought together state and Commonwealth Governments with the heads of business earlier in April this year.

Regulatory reform is grinding work.

But so far we have seen 17 of the 27 Seamless National Economy reforms become operational, including a national consumer credit regulatory regime, standard business reporting, and a national business names register.

These reforms will have a real impact.

The Productivity Commission recently estimated that full implementation of 17 of the 27 regulatory reform priorities could reduce business costs by $4 billion per year and increase GDP by over $6 billion annually, or around $250 for each Australian.

Side by side with our deregulation agenda is a focus on ensuring the Government is efficient and effective.

The principle of scarcity is highly relevant to Finance Ministers; it defines our job inside the Cabinet room. It doesn't necessarily win too many friends either.

But the imperative to drive taxpayer dollars further is one that cannot be forgotten. And, while reducing spending, and improving efficiency will always be central to this task, we also need to be smarter in how we fund government services.

One area our Government is focussing on is improving the arrangements between government and the not-for-profit sector.

Hundreds of millions of dollars of funding flow into the not-for-profit sector to deliver services and support for those most in need in our community.

And yet the current model of funding is duplicative, and involves significant red tape, diverting funding from essential services.

That is why we are in the process of introducing standard contracts for low risk grants and contracts, streamlining the processes across government.

Reforming this sector will see government dollars being more effectively spent, ensuring that funding is applied to the task at hand, rather than focused on filling in forms and contracts.

The key to financing our future is economic growth, underpinned by strong productivity growth.

And key to achieving productivity reform is a collaborative approach, one that sees buy-in from all governments, the business sector and the union movement.

As a nation, we need to be more prepared to honestly discuss the challenges we face, and exhibit a greater capacity to bring others with us.

We need a national discourse that sees leaders talking across the Australian community with each other, not past each other.

We need to recognise that the task before us cannot be delivered by governments on their own.

Because it is only through working together that we can achieve the reforms to secure Australia's future.