

ADDRESS TO THE GROUP OF 100

MELBOURNE

28 JULY 2009

Good evening.

Thank you for your kind introduction.

It's good to be with you again, continuing our association and building the relationship between Government and business leaders.

The Rudd Government places a high premium on discussion, debate and consultation with the business community.

I appreciate the important contribution the G100 makes to corporate Australia and, in particular, value your commitment to improving the competitiveness of Australian businesses.

As we are all aware, a great deal has changed since my address last April.

The global recession has changed the lives, plans and expectations of all Australians.

Tonight, I am speaking to you in my new role as Assistant Treasurer and part of the Rudd Government's economic team responding to the worst global recession since the Great Depression.

My new portfolio responsibilities centre on assisting the Treasurer, in particular with taxation matters, aspects of our international engagement, foreign investment, the Productivity Commission and the broader economic debate.

All of these responsibilities, as with my previous role as Minister for Superannuation and Corporate Law, must be seen in the context of the global recession.

Economic outlook and the impact of the global financial crisis

From the households of Australia, to its boardrooms, to the Cabinet Room, there are few decisions not being determined by the harsh realities of the global recession.

The global economic outlook continues to be a difficult one - the United States is set to complete two years of continuous recession by December.

I was in New York and Washington just last week and the US economic situation is indeed serious.

The United Kingdom has just recorded fifteen consecutive months of downturn – with the UK economy contracting by 0.8 per cent in the June quarter.

These figures released just a few days ago, were worse than expected. They brought the annual output contraction of the UK to 5.6 per cent, the biggest decline since records began in 1955.

The forecast contractions for the major economies are sombre reading - 6 per cent in Japan, 4 per cent in the euro area and 3 per cent in the US.

The advanced economies as a whole are forecast to contract by 3¾ per cent in 2009.

And eight out of Australia's top 10 major trading partners are also forecast to contract.

The impact on Australia of this global contraction can be seen on demand in our economy, with the June quarter recording the lowest annual inflation rate for 10 years.

The impacts on the Australian economy still have some way to run.

Real GDP is expected to contract by ½ of a per cent in 2009-10, which will cost jobs and lead to higher unemployment, even as a recovery unfolds.

This is something the Prime Minister, was upfront about in his essay published at the weekend, *The Road To Recovery*.

The Treasury forecast for unemployment is still for a rise - to a peak of 8½ per cent during 2010-11. But we should remember that without the decisive action of our stimulus packages, the unemployment forecast would have been 10 per cent.

On this point, I would also like to congratulate you and your organisations, and those Australian employers as a whole who have recognised the dangers of this downturn and have minimised labour shedding.

As the Prime Minister put it in his essay:

"Throughout this crisis, part of Australia's success has been built on our capacity to come together as a nation. Workers, employers, unions, small business people and governments ... We have all made tough choices."

We need to continue to make these tough choices if Australia is to remain among the world's top performing economies at this time of global economic turmoil.

Despite the difficult forecasts facing the world, Australia is well placed to benefit when the global recovery takes hold.

The Australian economy grew by 0.4 per cent in the March quarter.

Policy action is helping to cushion the impact of the global recession.

These actions, which I will touch on shortly, are one of the reasons Australia remains the only advanced economy not in recession.

OECD and IMF economic outlook

In dealing with this crisis we cannot view ourselves in isolation. This crisis is set in a global context; we need to stay well informed and engaged with the international economy.

The IMF has recently revised growth forecasts upwards for the world economy in 2010, even while cautioning that the global recession still has some way to run.

The IMF forecasts the world economy to contract by 1.4 per cent in 2009, before a return to growth in 2010, with the world economy growing by 2.5 per cent.

The IMF has confirmed Australia has the strongest performing of any major advanced economy. The IMF has strongly commended the Government's three-stage stimulus strategy.

This swift and decisive policy response to the crisis from the Rudd Government and the Reserve Bank of Australia is having the desired effect.

The Government put in place the first of our stimulus packages, the Economic Security Strategy, last October - only a month after the collapse of Lehman Brothers.

The policy started with direct payments to people likely to spend and inject money into the economy immediately, such as pensioners and working families.

The Government followed these up with the \$42 billion Nation Building Plan – a stimulus package designed to fund shovel-ready infrastructure, followed by major nation-building projects to support jobs and strengthen the economy for the future.

Seven out of every 10 dollars from the Nation Building Plan are going to projects designed to enable speedy construction and maximise the impact of the stimulus across Australia.

The Australian economy is working at a faster rate than other advanced economies because of the impact of the Government's \$77 billion stimulus strategy.

This strategy, Nation Building for Recovery, is equivalent to 6.4 per cent of GDP over the next four years.

The Government also knew that if it was going to embark on a program of fiscal stimulus it had to make it count.

The evidence suggests the Government's stimulus packages are supporting the economy.

The March quarter National Accounts showed that gross domestic product rose by 0.4 per cent, with household consumption rising by 0.6 per cent. Treasury estimates suggest the economy would have contracted by around 0.2 per cent without the stimulus packages.

In addition, growth in the value of retail trade was subdued over 2008 until the introduction of the Economic Security Strategy and Nation Building Plan cash payments. Payments to households under both initiatives have made a decisive impact. Retail sales were 5.9 per cent higher in May 2009 than November 2008. Elsewhere in the world, retail sales have all but collapsed.

In its Article IV Consultation with Australia, the IMF has revised Australia's growth forecasts up from its April World Economic Outlook.

Consistent with the IMF, the OECD has reaffirmed that it expects Australia to outperform every other advanced economy in the face of a savage recession, with lower debt and lower deficits than any major advanced economy.

The OECD forecasts that the Australian economy will contract by 0.4 per cent in 2009, which is the mildest contraction of any of the 30 OECD economies and 10 times smaller than the contraction expected across the OECD.

The Government's exit strategy

Although the need was overwhelming, entering into a temporary deficit was not something the Government did lightly. We were determined to have an exit strategy from the outset.

The Government has outlined a clear fiscal strategy to return the Budget to surplus.

It involves allowing the level of tax receipts to recover naturally as the economy improves, while maintaining our commitment to keep taxation as a share of GDP below the 2007-08 level on average.

The Government will also hold real growth in spending to 2 per cent a year, in order to expedite the Budget's return to surplus, once economic growth is above trend.

The Prime Minister has signalled the Government is prepared to take the tough, unpopular decisions that go hand in hand with the process of recovery.

There will be Budget cuts and interest rates will rise.

The Australian Government is in a strong position to achieve its strategy of repaying the debt that, so far, has kept us out of recession, saved jobs and is building the infrastructure of the future.

Australia has the lowest net debt of any of the major advanced economies – at 4.6 per cent of GDP in 2009 and forecast to peak at 13.1 per cent in 2014. The collective net debt of the major advanced economies is 70.4 per cent rising to a peak of at 90.7 per cent in 2014.

The collective Budget deficit for all advanced economies this year is almost twice that of Australia – at 8.8 per cent. It's 10.4 per cent for the major advanced economies.

As conditions in financial markets stabilise, the Government will also review the arrangements for providing support to the financial sector.

But, it's important to note that the fee for the guarantee of wholesale funding is such that as market conditions return to normal, there will be less incentive for institutions to access the guarantee.

Going forward – the Government's important reform agenda

It is essential that the intensity of our immediate challenges does not cause us to lose sight of longer-term objectives.

Perhaps the most likely long-term outcome of the crisis is that it will have transformational effects on the global economy.

We need to maintain the momentum of our reform agenda to position ourselves to engage effectively in the emerging environment.

Through the Council of Australian Governments, the Government is implementing a reform agenda that aims to boost productivity, workforce participation and geographic mobility and deliver better services for the community.

The Government is committed to a range of reforms to the regulation of key port infrastructure, nationally significant railways and other important projects.

Other priorities include:

- changing the framework for federal financial relations
- improving the efficiency of markets in transport, energy and water, and
- reshaping the way key services such as health, education and housing are funded and delivered.

One of my key responsibilities is the Australia's Future Tax System Review, also known to you as the Henry Review.

This examination of state and federal taxes, will consider ways of harmonising and simplifying taxes, reducing inefficient taxes, boosting productivity, ensuring a progressive system and addressing negative interactions with the welfare system.

I was pleased to see that the G100 had made submissions to the review panel.

It benefits the development of good policy when stakeholders rich in experience and expertise invest the effort to provide their valuable input.

The three priority areas you have identified in your submission are:

- internationally competitive tax policy
- promoting simplicity and certainty in the tax law
- world-class tax administration

These are also important to me.

These reforms and new investments in human and physical capital will provide business with the right signals to stimulate investment, improve productivity and add even more to the productive capacity of the economy.

Conclusion

Ladies and gentlemen, the impacts on the global economy since I last spoke with you have been severe.

Through early and decisive action we have cushioned Australia from the worst effects of the most significant global recession in 75 years.

But the Government recognises it cannot act alone, nor does it wish to. Our initiatives will be most effective if they are developed collaboratively with industry and other stakeholders.

The G100 has a wealth of understanding of financial and corporate issues and practices that can enrich the policy development process.

We are all acutely aware of the part global financial markets have played in the crisis currently unfolding.

The Government realises it must continue its ongoing dialogue with the G100 and others if we are going to effect positive change together and maintain confidence in the Australian economy.

As Assistant Treasurer, I look forward to working with you to achieve the economic aims we all share for our country in these difficult times.

Hopefully, in a year's time, if I again have the pleasure of your company, we might all be able to toast the onset of an effective and sustainable Australian recovery.