



The Hon Josh Frydenberg MP

Treasurer

Federal Member for Kooyong

SPEECH

ADDRESS TO THE SYDNEY INSTITUTE

SYDNEY

22 JANUARY 2019

CHECK AGAINST DELIVERY

CREATING OPPORTUNITY AND ENCOURAGING ASPIRATION: THE KEY TO A GROWING ECONOMY AND A STRONGER AUSTRALIA

“Aussie Rules: what Australia can teach the world”, screamed the headline of The Economist last November. An in-depth analysis of the Australian economy and our remarkable 27 years of uninterrupted economic growth.

A growth story which both sides of politics have contributed to.

It has been on the Coalition’s watch that the GST was introduced, the waterfront reformed, the Future Fund established and a decade of budget surpluses delivered.

Labor oversaw a reduction in tariffs, the floating of the dollar, started key privatisations and moved away from centralised wage fixation in favour of enterprise bargaining. Critically, key Labor reforms had the support of the Coalition in Opposition.

It’s in this spirit of progress that the Coalition has continued to carry the baton of economic reform since our election over five years ago.

Bearing in mind that, with half the population being born after 1980, the majority of Australians have never experienced a recession in their working lives.

As Australians, we all realise how ‘lucky’ we are to live in this country. But of course it is not just luck that got us here and it is no time to be complacent.

What is needed is hard work, good policies and the right values.

So today, as Treasurer, I want to share my thoughts on three important areas:

First, Australia's remarkable record of uninterrupted growth and the importance of this strong performance continuing in light of emerging global economic risks;

Second, the values and beliefs that drive and underpin the Coalition's approach when it comes to managing the economy;

Third, our economic plan which has aspiration, productivity, growth and fiscal discipline at its core.

Coalition's economic record

In politics as in life, you will never get every call right. What matters is getting the big calls right.

For the Coalition, reforms to the tax system, competition policy and workplace relations, along with red tape reduction and budget repair, have all been key features of our economic record over the past five years.

But one of the most significant for the long-term benefit of the country has been our achievements on trade.

In 1991 we had only one free trade agreement, it was with New Zealand. Today, we have eleven and counting. When we came to Government, Australia's free trade agreements covered around a quarter of our total two way trade, today it is 70 per cent and rising to 88 per cent when current negotiations are completed.

We have secured agreements with our biggest regional partners, China, Japan and Korea, who between them account for around half of our exports worth more than \$175 billion per year. More recently the eleven-nation Trans-Pacific Partnership (TPP) was finalised.

Global growth is being driven out of the emerging markets of Asia and the region's rising middle class, which is estimated to grow to 3 billion by 2030.

The centre of global economic activity has never been closer, leading some to observe that the tyranny of distance has become the power of proximity.

This is good news for the economy as a whole, with 1 in 5 Australian jobs now related to trade.

Whether it is the lobster fishermen in Geraldton, the wine maker in the Barossa or the apple farmer in the Derwent Valley, the biotechnology firm in Rockhampton, the precision engineer outside Melbourne or the fund manager here in Sydney, they are all winners from the trade agreements the Coalition has secured.

But it is important to recognise that these trade agreements just don't fall into one's lap. You have to believe in them and the opportunities that they open up, often staring down vested interests that seek to weaken your resolve.

It is no secret that our political opponents equivocated on the China FTA and gave up on the TPP, saying it was "dead in the water". They are now threatening to open-up settled agreements and outsource negotiations at the behest of the unions.

It's through our commitment to free trade, together with our other policy reforms, that sees the Australian economy in better shape today compared with what we inherited.

Growing faster than any G7 country, except the United States, Australia's GDP growth is at 2.8 per cent compared to 2.1 per cent when we came to Government.

Over 1.2 million new jobs have been created, driving unemployment down to 5.1 per cent compared to the 5.7 per cent when Labor left office.

Importantly, more than half of the 1.2 million jobs created have been filled by women, with a record number of females now in the workforce. They are also being joined by growing numbers of young people, with over 100,000 young people getting a job last year, the highest number on record.

Annual average growth in government spending has been reduced to 1.9 per cent, the lowest of any government in fifty years and half what it was under Labor. Spending restraint and good economic management are making possible a return to surplus and an end to the decade of deficits.

In the words of Standard & Poor's, the Government has been recognised for its "fiscal prudence" and "better budget performance".

As MYEFO indicated, the cumulative surpluses over the next four years will be \$30.3 billion, with surpluses rising to 1 per cent of GDP in 2025-26.

Net debt as a percentage of GDP will fall from around 18 per cent today to 1.5 per cent in the medium term.

This is important because as Reserve Bank Deputy Governor Guy Debelle has said, "In terms of government, public debt is sustainable until it is not."

The strength of the economy is not only helping us deliver record spending on the essential services people need without increasing taxes, but provides the flexibility and resilience to respond to challenges as they arise.

Just as Howard and Costello's strong budget management prepared the nation for the unexpected shock of the Global Financial Crisis, the Coalition is again rebuilding the buffers that will mean Australia can better absorb the impact of any future economic and financial shocks.

As the Prime Minister has warned, there are storm clouds hanging over the global economy.

Persistent trade tensions, high global debt levels and a contraction in growth in several key economies have changed the global outlook.

The German and Japanese economies recorded negative growth in the September quarter, while China has seen its growth slow through the year to its lowest rate since 2009.

Overnight, the International Monetary Fund updated its forecasts, downgrading growth from 3.7 to 3.5 per cent, noting the "global expansion is weakening and at a rate that is somewhat faster than expected" and saying "the risks to more significant downward corrections are rising" as investor sentiment has deteriorated, assets have been repriced and debt burdens have increased.

Domestically, the drought is having an impact, the housing market has softened, there are signs that credit growth is being constrained and the pick-up in wages growth remains gradual.

While the RBA in its most recent monetary statement in December said that "the Australian economy is performing well", they did point to some uncertainty in the outlook for household consumption.

This is where confidence in the housing market is key. Economists and credit rating agencies have raised the potential adverse impacts to the economy that would flow from a hard landing in the housing market.

While regulatory interventions to date have put the housing market in the words of Governor Lowe "on a more sustainable footing", what the economy can ill-afford right now are punitive tax policies that would hurt both supply and demand and are completely inappropriate in the current environment.

Coalition's values

It's against this backdrop that our economic plan with its focus on growth, productivity, aspiration and budget repair, takes on even greater significance as we navigate the currents ahead.

Our values are key:

- Encouraging the individual and their enterprise;
- upholding personal responsibility;
- maximising choice;
- supporting families;
- backing entrepreneurship and small business;
- rewarding effort and hard work;
- upholding the rule of law;
- ensuring a safety net which is underpinned by a sense of decency and fairness

These are all values that go to the heart of what the Liberal and National Parties are all about.

These values are as relevant today as they were when Sir Robert Menzies founded the Liberal Party more than seventy years ago.

They are in our DNA, they define our national purpose and they are what motivate people to join the Liberal Party and run for office.

These values underpin our core beliefs.

- That the invisible hand of capitalism delivers far more than the dead hand of socialism.
- That Government is not the solution to every problem.
- That fairness is achieved through equality of opportunity, not equality of outcomes.
- That Government has no money of its own. It's the people's money and every dollar of tax is a dollar less in their pocket.
- That we should be optimistic and outward looking, confident in the knowledge that our people are our greatest competitive advantage.
- That communities work from the ground up, not the top down.
- That intergenerational equity requires fiscal discipline as the next generation should not have to pick up the tab for the last.
- That people should be encouraged to be self-reliant, but be absolutely assured that that if they need it, the safety net will be there.

Coalition's economic plan

These values and beliefs are reflected in our policies and drive our economic plan.

Our plan, recognising that the private sector employs nine out of every ten workers, is focused on making sure that businesses stay competitive, keep investing and continue to hire more workers.

This is the pathway to wealth creation, job creation and higher wages. And it can only be achieved by boosting productivity through lower taxes, targeted spending, flexible labor markets, significant infrastructure and opening up new markets.

This is all about expanding the productive capacity of the economy so that we can grow the pie, providing a better future for all Australians.

Our plan, which is working and is being rolled out over the medium term, will deliver:

- Legislated tax relief for 10 million working Australians, which will see a whole tax bracket abolished and 94 per cent of people paying no more than 32.5 per cent in the dollar.
- Fast-tracked legislated tax relief for 3.3 million small and medium sized businesses, employing around seven million people, and providing an instant-asset write off encouraging them to invest in their business.
- Once-in-a-generation reforms to the distribution of the GST, creating more equitable and sustainable outcomes for all States and Territories and all Australians.
- Increased access to finance for small business with a \$2 billion fund, while cutting around \$6 billion in red tape and ensuring that small businesses get paid on time and are not used as a bank by big businesses.
- Enhanced productivity and competitiveness of the construction sector with the reinstatement of the Australian Building and Construction Commission and establishment of the Registered Organisation Commission as a cop on the beat, helping maintain the rule of law.
- Funding for over 500 major projects with a record \$75 billion in infrastructure investment, including a second airport for Sydney after fifty years of indecision; the Melbourne Airport rail-link; the Inland Rail; upgrades to the Bruce Highway in Queensland; the Metronet project in Perth, Road Corridor Projects in Adelaide and the Bridgwater Bridge replacement in Tasmania.

- A \$1 billion Urban Congestion Fund to reduce average commute times and ease the burden on our public transport system as our population grows and the cost of congestion in Australia's capital cities estimated to double between now and 2030.
- An unprecedented \$200 billion defence investment plan, promoting advanced manufacturing and creating jobs across the country.
- A better deal for energy consumers, by removing the ability of networks to game the system; simplifying retail offers; underwriting new generation and expanding the iconic Snowy Hydro project with the largest renewable energy storage project in the Southern Hemisphere.
- Strengthened rules applying to multi-nationals, bringing \$7 billion of sales into the Australian tax net each year.
- An additional 300,000 apprenticeships through a \$1.5 billion Skilling Australians Fund, which will equip young people with the skills necessary to compete successfully in the jobs market of the future.
- Improved affordability and access to housing by unleashing supply, assisting first home buyers to build a deposit through super and incentivising more private investment in affordable housing. Over the last year, more than 100,000 first home buyers received loan approvals, the highest number since 2009.
- Opportunities for people to move from welfare to work, by encouraging mutual obligation and providing incentives for businesses to take on young employees under the PaTH Program, which has seen 70 per cent of young people who participated in an internship be in employment three months later. These programs have helped the Government deliver the lowest number of people of working age on welfare in twenty-five years. We should never forget that, as the Productivity Commission recently reminded us, that the one constant that matters most in tackling inequality and poverty is having a job.
- Much-needed reform to our superannuation system with legislation before the parliament that will boost the retirement incomes of millions of people. This will be done by preventing the erosion of their balances through a cap on fees in low balance accounts, banning exit fees and avoiding the cost of inappropriate insurance within their super.
- Record levels of funding for health and aging programs with a 75 per cent boost for hospital funding and the new listing of 1900 medicines on the PBS, including on the weekend the addition of another life-saving drug, this time for lung cancer.

- A Medical Research Future Fund which is on track to reach \$20 billion by 2021, making it one of the largest medical research funds in the world.
- Choice in education with our \$300 billion School Funding Package, which will see funding per student increase by more than 60 per cent over the decade.

All of these initiatives and more are being delivered through fiscal discipline and while returning the budget to surplus. Importantly, this is being done with a tax-to-GDP speed limit that ensures we live within our means, but which the Labor Party now says serves “no useful economic purpose”.

In addition to continuing to roll out these initiatives across the economy, the Government will soon receive the final report from the Hayne Royal Commission. This follows the recent release of the Productivity Commission’s landmark inquiry into the efficiency and competitiveness of Australia’s \$2.7 trillion superannuation system.

Central to the Government’s thinking in responding to these reports will be restoring trust in the financial system by delivering better consumer outcomes including in retirement.

This requires a culture of compliance and accountability, regulators that are fit for purpose and an acknowledgement by the sector that people must be put before profits. All of this must be achieved without inadvertently strengthening the position of incumbents or unduly restricting the flow of credit or other vital financial services that Australians need and the economy relies on.

In his Interim Report, Commissioner Hayne makes the telling observation that “much more often than not, the conduct now condemned was contrary to the law”. He makes clear that while behaviour was poor, misconduct when revealed was insufficiently punished or not punished at all.

This raises the issue as to whether new laws are required or whether existing laws simply need to be better enforced. Simplification may be, according to the commissioner, a better route rather than adding “an extra layer of legal complexity to an already complex regulatory regime”.

After three years of painstaking work, the Productivity Commission’s report into superannuation has provided some compelling insights into how the current system is failing to advancing the interests of all members.

The health of Australia’s superannuation system is fundamental to the strength of the national economy and the quality of life in retirement of every working Australian, so we must get it right.

Calling out the “anachronistic” design flaw at the heart of the system with default funds a product of our industrial relations system, the Productivity Commission says current arrangements give rise to an unlucky lottery for members.

With a series of changes including more aggressively weeding out underperforming funds, the establishment of an independent expert panel to select “a best in show” short-list and the decoupling of default fund selection from the industrial relations system, the Productivity Commission finds members could be \$3.8 billion better off each year. For somebody entering the workforce today, this could see them \$533,000 at retirement or about double what their retirement balance could otherwise be.

Unlike our political opponents our response will be focussed only on one thing: the best interests of all members.

Conclusion

With our economic plan working and a whole series of significant reforms underway, there is no room for complacency. The IMF have provided a timely reminder of what could be around the corner.

What is absolutely certain is that as a nation we cannot afford to fall for the false prophets who would have you believe:

- that a country can tax itself into prosperity;
- that a government can redistribute what its economy doesn't produce;
- that economic growth can be achieved while punishing aspiration.

For Labor, the pursuit of class warfare is more than just rhetoric. It is at the heart of their policies from tax to trade to industrial relations. It's a dark shadow, not a light on the hill.

Labor and their co-conspirators in the ACTU are promising to rewrite the economic rule book, disrupting the economy as we know it and sending a chill through every workplace. With the ACTU wanting to install their union organisers on every company and government board including the Reserve Bank of Australia, it is no wonder that the Business Council has warned that the ACTU's plans could send Australia “back into the dark ages”.

Blinded by its obsession with class warfare, Labor is ignoring the message from the Productivity Commission that our tax and transfer system has worked well in sharing income growth and reducing inequality.

In the words of the then Chair of the Productivity Commission Dr Peter Harris, “This will be instantly rejected by some, since it is not the popular perception. But it is the unquestionable fact.’

In other words, no political party has a monopoly on fairness or equality.

But what is not fair is Labor’s \$200 billion of new taxes that will hit retirees, homeowners, renters, small business owners and all those aspiring to build a better life for them and their families.

Labor’s tax and redistribution agenda is one of the most radical, aggressive and dangerous Australia has ever seen. Putting at risk our prosperity and harmony and taking us back decades.

No wonder there is now a growing chorus of opposition. Australians are starting to see Bill Shorten’s plan for \$200 billion in taxes for what it really is.

At the next election, Australians will have a clear choice.

Between a Labor Party with its \$200 billion of punishing new taxes and a Coalition that has kept its promise of delivering more than 1.2 million new jobs, cutting taxes, growing the economy, redefining our trading relationships that lock us into the emerging markets of Asia and providing an unprecedented social dividend with record spending on health and education.

We are repairing the nation’s finances and on 2 April will announce a budget surplus, the first in more than a decade.

All of which is possible because we have a strong economy and an economic plan that is working.

The choice for the people of Australia could not be clearer.

Ends