



# **FEDERAL LABOR LEADER KEVIN RUDD MP**

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**SPEECH TO THE  
AUSTRALIAN INDUSTRY GROUP  
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## **PROSPERITY BEYOND THE MINING BOOM**

Tonight, I want to focus on Labor's approach to economic management and our plan for maintaining Australia's prosperity beyond the mining boom.

From the moment I became Federal Labor Leader, I made it clear that engaging with the business community was essential. Business is the engine room of the economy and the driver of long-term prosperity. I understand that we need to build a long-term partnership – a partnership for national prosperity.

The Ai Group and its members have a long term stake in the economy and in our long-term prosperity.

The Ai Group represents around 10,000 employers in key sectors of the economy such as manufacturing, construction, automotive, telecommunications, transport and labour hire.

You have played an important role in the policy debates affecting each of these sectors. The partnership between Labor and the Ai Group and its predecessors in the 1980s and 1990s, was instrumental in the reforms that revitalised Australian industries in those years.

Once again, you are stepping up at a time when the government has stepped back from long-term reforms that will ensure that Australian industries stay competitive in Australia's global economy.

Of course we won't always agree on all areas of policy, but it is important that we have a fruitful and constructive dialogue on these important issues. My door is always open to new ideas and new policy proposals.

So it is a great pleasure to be here tonight. I acknowledge National President Trevor Carroll, CEO Heather Ridout and National Executive Members.

Labor is proud to support our manufacturing industry. And all Australians are proud when they travel the world and see the Australian Made logo – now 20 years in existence – stamped with confidence on our locally made products. We need to do more to celebrate our success stories and use these to spur more innovation, more creativity and more investment. It is part of our nation-building history.

We are a country of innovators. We believe that innovation and manufacturing are inexorably linked. We want Australia to continue to be a strong and vibrant manufacturing country with a knowledge-based manufacturing industry making the most of research, innovation, creativity and hard work. Innovation and manufacturing will be critical in dealing with Australia's most important challenges: from climate change and water, to our export sector and our ability to remain globally competitive.

In the next decade, Australia faces a number of critical economic challenges.

These challenges will provide threats to our long-term economic stability and our prosperity. These challenges include increased competition from China and India, an ageing of the population, falling workforce participation rates and the world entering a new carbon-constrained age.

But these challenges will also provide opportunities. The resources boom has given us an unusual opportunity to tackle these challenges. But we now have to make the critical decisions in order to maintain our prosperity and deliver better economic and social outcomes.

Labor's approach is to deliver a new direction which will prepare Australia for the challenges of the future and maintain our long-term prosperity.

### **The Macroeconomic Consensus**

As sound economic management is the foundation for continued economic growth, it is important to get the macroeconomic framework right.

Today, there is widespread agreement on the best goals and instruments of macroeconomic policy.

This was noted recently by the former Reserve Bank Governor, Ian Macfarlane, who said in his Boyer Lectures that:

'... the macroeconomic policy proposals of the two major parties are almost identical ...'

There is a bipartisan approach to monetary policy, acknowledged by Macfarlane, who said that:

‘... both major parties support an independent Reserve Bank making interest rate deductions based on a 2-3 per cent inflation target. The current policy framework for inflation targeting and Central Bank independence has met with considerable success during its period of operation, and now enjoys public approval and bipartisan political support.’

There is an academic debate that the government wants to open up about who set up this inflation targeting framework. Peter Costello says he set it up in 1996 as Treasurer. Former Governor Ian Macfarlane says it was begun by the Reserve Bank in 1993. But the debate about who did what in the past is largely an academic one.

The debate we need to have is not about the past, but how we’re going to build future prosperity. On the future conduct of monetary policy, we don’t have an argument. We all agree on the 2-3 per cent inflation target, and this consensus lends stability to Australia’s economic outlook.

Further, this bipartisanship, to a large part, extends to fiscal policy.

Labor is committed to strong fiscal discipline in the Budget Rules which we released last year:

‘... Labor will keep the budget in surplus, on average, over the course of the economic cycle. Labor will not increase taxation as a share of GDP, delivering budget surpluses through disciplined spending, not higher taxation.’

So the real battleground of economic policy is not in macroeconomic policy, but in microeconomic policy.

And this is where the government has let us down. Instead of seeing the mining boom as an opportunity to tackle long-term challenges like the needs of tomorrow’s workforce, it has allowed the boom to feed its complacency. It defends the status quo. It fails to understand the challenges of the future and how to prepare for them.

Labor’s priorities start with the one thing that will give us a competitive advantage above everything else – the skills and know-how of our people. That’s why I am talking about an education revolution. We need to invest in our human capital to raise the productivity of our workforce and underpin future growth.

We also need to invest in world class infrastructure to provide a platform for economic growth and business investment.

We need an efficient business environment with competitive tax and regulatory settings.

And we need to reform the Federation to end the blame game, and buck passing and duplication in key services such as health, education, climate change and water management.

### **Productivity and Prosperity Beyond the Boom**

We all know the mining boom has brought great prosperity – but if you look under the gloss of the boom, you find that in recent years, Australia’s underlying economic performance has been lagging.

In the first half of this decade, the economy has struggled to grow beyond 3 per cent a year – resulting in the worst growth figures since Joe Lyons was in The Lodge back in the 1930s.

It is the same for productivity growth.

When Labor left office, our productivity was growing at an annual rate of 3.2 per cent. It has now fallen to 2.2 per cent in the most recent productivity cycle, and even lower since then. It is clear that the productivity gains resulting from the reforms of the 1980s and 1990s have now been eroded.

And when we measure Australia’s productivity growth against the United States, the picture is equally bleak – falling from 85 per cent of US levels in 1998 to 79 per cent by 2005.

Australian productivity performance now ranks only 16<sup>th</sup> in the OECD.

This performance must improve if we are to maintain our long-term prosperity.

To stand still in a dynamic and competitive world is to go backwards. The defence of the status quo is the risk to our economic future.

These twin challenges of achieving higher economic growth and higher productivity growth are linked.

Indeed, these twin challenges have been identified in the Ai Group’s 2007 federal budget submission, which says:

‘The lower rates of [Australia’s economic] growth are associated with a distinct slowdown in the pace of productivity improvement; the limited capacity of existing infrastructure; the tightness of labour markets and sharp rises in key input costs.’

To really improve our performance we need to establish a new partnership between industry and government. A partnership that recognises our future challenges and understands the policies we need to ensure our longer term prosperity.

## **The Education Revolution**

The Ai Group recognises this and knows that in the long run, an economy can't reach its full potential unless it continually strives to lift productivity and improve workforce participation.

And to do this, we need to invest in education and skills.

The evidence shows that the best way to boost productivity is to invest in human capital. This is why education is the pathway to prosperity.

OECD research shows that if the average education level of the working-age population was increased by one year, the growth rate of the economy would be up to 1 per cent higher.

Another recent study found that countries able to achieve literacy scores 1 per cent higher than the international average will increase their living standards by a factor of 1.5 per cent of GDP per capita.

The first great wave of reform was the opening up of the economy and the second great wave was the introduction of National Competition Policy in the 1990s.

Last month, I announced that we need a third wave of economic reform – a human capital revolution, an education revolution, a skills revolution.

I have a goal for Australia to become the best educated country, the most skilled economy, the best trained workforce in the world.

We can't just hope the mining boom lasts forever. We won't always be as lucky. I believe in making your own luck and education is the path to future prosperity.

But we need to invest now – at a time when we are already being outpaced by the investment our competitors are making in education.

You have said the same thing. In the Ai Group's federal budget submission, it acknowledges that:

'... preparing for an inevitable peak and decline in the terms of trade ... must remain at the core of the Commonwealth's 2007-08 fiscal and economic strategy.'

We must build our long term productivity by investing in education, skills and training – from early childhood, our schools, the traditional trades, universities and research.

Nothing is more crucial in the long-term to build our prosperity – that's why our competitors from Western Europe to South-East Asia, from India to China, have been ploughing so many resources into training their workforces of tomorrow.

## **Maths and Science**

One of the most important areas – recognised by the Ai Group – is in training more graduates in maths and science.

Labor has announced that we will provide \$111 million over four years in financial incentives for university students to study and teach maths and science.

Labor's *New Directions for Maths and Science* plan provides a double-barrelled incentive for young Australians:

- we will halve the HECS fees for new maths and science students while they are studying; and
- we will then halve the HECS repayments of maths and science graduates if they take up work in a relevant maths/science occupation, particularly teaching.

Australia needs the best maths and science teachers in the world so they can educate the next generation of Australians in the skills required to build our economy and our future prosperity.

But our investment in maths and science training has stagnated while our economic competitors have surged ahead.

Today only 0.4 per cent of Australian university students graduate with maths and statistics qualifications, compared with an OECD average of 1 per cent.

We will be releasing more policies that form our education revolution in the coming months.

## **Investing in Skills and Trades**

Australia is today in the midst of a skills crisis. By the Ai Group's own assessment, Australia needs 240,000 skilled workers by 2016. That is holding our country back.

Instead of matching the investment in education that our competitors have been making, the government contributed to this crisis. Today, 325,000 people have been turned away from TAFE as a result of neglect by this government on the funding of the TAFE sector.

The government's answer was to set up the Australian Technical Colleges. When they realised that wouldn't work, they announced the \$837 million Skills for the Future program. There are some good initiatives in that package, but it is not enough. If we want to be the world's smartest and most productive nation, we must do more.

The Ai Group's 2007 federal budget submission highlights many of the measures we need to do to reach that goal.

There needs to be a greater focus on the delivery of VET programs and they need to be relevant to industry.

We need to ensure that our workers in the later stages of their careers continue to remain productive members of our community and of our economy.

And looking to the leaders of tomorrow, we also need to invest in our future managers. We currently have a shortage of qualified managers, and that shortage is growing at a rate faster than all other professional and trade and associate professional skilled shortages.

We look forward to the Ai Group's ideas in this area, and to a fruitful dialogue on that issue. It is long past time that we revisited the issues of management quality and training raised in the Karpin Report back in 1995, since the quality of management plays such a critical role in the success of your businesses as you know.

### **Industrial Relations**

The other side of our productivity agenda is our industrial relations policy.

This is an area where we won't see eye-to-eye on everything. But let me state to you why we believe that Australia can have an industrial relations system that is built on fairness and flexibility.

We believe in the value of collective enterprise bargaining. The research shows that enterprise bargaining achieves higher productivity and wage outcomes than individual contracts. And as I have said, it gives employers and employees to use incentives to work together to find ways to lift productivity and share the gains in profits and pay.

I don't know the details of the workplace arrangements of all the businesses around this table, but I'm fairly sure that most of your employees will be on collective enterprise agreements and relatively few of them will be on Australian Workplace Agreements. In fact, AWAs failed to attract more than a tiny fraction of the workforce – around 1 in 40 workers – until the government made it possible to use them to undercut award conditions.

The point is, collective enterprise bargaining is the approach that larger employers prefer, and it's the approach that gives the strongest focus to productivity improvements.

I believe that the economically responsible way to boost productivity is to invest in human capital and to provide flexibility and fairness at the enterprise level. Collective enterprise bargaining plays an important part in Labor's agenda to lift productivity.

It is a contrast between a simple cost gauge and investment in the human capital of the workforce. Mr Howard's approach is the laziest and the riskiest. We can either downgrade wages and conditions, or we can uplift our workforce by investing in their skills and education.

I want to work with employers and employees to build a balanced system - one that delivers for the economy, for businesses and for employees. But in doing, so we must balance the scales of fairness as well.

## **Infrastructure**

Building the infrastructure for a modern, dynamic economy is a major priority for Labor.

We need better long-term planning, more resources, and less politics in Australia's infrastructure decision making.

Rather than leave it entirely to the States or to the private sector, I want to see the Australian government return to its true nation-building role by investing in the nation's infrastructure.

There's little question that we haven't been making adequate long-term infrastructure investments for many years – whether we look at road, rail, ports, our cities or the availability of broadband.

Labor views infrastructure as the platform for future growth. It enables businesses to plan future investment decisions with certainty.

But Australia is now ranked 20<sup>th</sup> out of 25 OECD countries for its public investment in infrastructure as a proportion of GDP.

There is a chorus of voices – including the Ai Group – urging the federal government to plan for Australia's future infrastructure needs and play a role in delivery.

We need to alleviate the capacity constraints at our ports, advance our telecommunications infrastructure and invest in the priority areas of water, energy and transport infrastructure.

The Ai Group says in its Budget submission:

‘... there are very important improvements that can and should be made to the processes of infrastructure planning and development in Australia ... the Commonwealth Government should take the lead in (coordinating and) devising an effective forum for the medium to longer-term planning and development of infrastructure.’

We agree – the first thing we need is national leadership.

One of the first things I did after becoming Federal Labor Leader was to announce Labor's 'Major Cities' program, which will support practical initiatives in our major cities to deal with urban infrastructure shortfalls.

Labor believes that investment in infrastructure can increase GDP, business investment, housing investment, exports, and living standards.

That's why Labor will establish *Infrastructure Australia* – to coordinate the planning, regulation and development of infrastructure. And to make sure that infrastructure decisions are guided by independent, objective advice – not politics and pork.

*Infrastructure Australia* will report directly to State and Commonwealth Infrastructure Ministers through COAG.

## **Innovation**

The Ai Group has put forward a number of proposals around innovation and exports. Labor believes that in the 21<sup>st</sup> Century, innovation policy is industry policy.

We understand that innovation is the key to survival in a rapidly changing global environment – in manufacturing particularly, but also in services and of course in mining and agriculture.

We need to invest in new technologies and new industries in order to stop our best and brightest workers and innovators going overseas.

But our recent performance in innovation has been disappointing.

The average annual growth rate of real business investment in R&D has plummeted from 11.4 per cent over the period 1986-87 to 1995-96, to only 5.1 per cent in the period 1995-96 to 2004-05.

In manufacturing, average annual growth has fallen from 10.6 per cent to only 1.9 per cent.

The National Manufacturing Forum – of which the Ai Group is a member, along with all State and Territory Governments – has identified that manufacturers face a range of barriers to increased R&D expenditure. These included difficulty in accessing public research organisations, the relevance of existing tax concessions and a lack of innovative skills.

I understand that your pre-Budget submission reiterates your proposal for a new Step-Up Supplement to the R&D Tax Concession, to replace the existing 175 per cent premium rate. It also recommends allowing companies to credit their franking accounts for the company tax saved as a result of the concession.

The R&D tax concession is something we are looking at very closely, and the Ai Group's proposals are being carefully taken into account.

We also want to particularly focus our attention at the small and medium enterprise level. Many of these companies were started by an individual who had a great idea and made a go of it.

But often they need help to take the next step – to continuously improve their business processes; to identify and apply new technologies; to prototype and test new products; and to identify new markets for the things they make.

Labor understands that it is easy for small manufacturers to feel like they are under siege, especially given the speed of change that they are now facing, and the intensity of competition.

Labor believes that governments can and should help out in all these areas. Governments should roll up their sleeves to help businesses who want to help themselves prosper and grow.

This is precisely the idea behind Labor's *Enterprise Connect* initiative – to help companies look out for opportunities and to connect them with specialist expertise, with governments and with each other.

We will be investing up to \$200 million over four years to establish ten Enterprise Connect centres around Australia, and we've already identified a centre for advanced manufacturing as one of the first of those centres.

Labor recognises that we need to ensure that Enterprise Connect operates as part of a system of industry support, which also includes existing initiatives and facilities, such as QMI Solutions in Queensland, the uniquely Australian InnovationXchange, specialised Cooperative Research Centres, and other Centres of Excellence in research. This system should also explicitly include our world class universities and publicly funded research agencies.

### **Climate Change and Clean Coal**

Federal Labor is committed to a comprehensive approach in dealing with the threats and opportunities presented by climate change.

Innovation and investment must be at the heart of Australia's response to climate change. It presents Australia with an opportunity to be at the frontier of new global markets for energy efficient technology.

The core science is beyond dispute. The planet is heating up. The ice caps are melting. Sea levels are rising. The ocean's waters are warming. The corals are bleaching. There are more extreme weather events, changing rainfall patterns, and threatened species.

Yet, the government has failed to adequately respond to the climate change challenge, and indeed, many in the government remain climate change sceptics.

But the cost will be too high if we simply ignore climate change. Climate change is now a known risk that no business can ignore. We need a plan to secure the future health of our planet. We also need a plan to protect the Australian economy and jobs – particularly in tourism and agriculture.

Labor will work to forge a new national consensus on climate change.

We will start by:

- ratifying the Kyoto Protocol,
- cutting Australia's greenhouse pollution by 60 per cent by 2050,
- setting up a national emissions trading regime,
- substantially increasing our renewable energy target,
- ensuring that Australia's disaster mitigation plan reflects the impact of climate change, and
- we will convene a National Climate Change Summit so that the best science and the best ideas are put on the table.

Another essential element in Federal Labor's comprehensive strategy for tackling climate change is the National Clean Coal Initiative that I announced on Sunday.

Australia's coal industry is an integral component of the Australian economy, and is the lifeblood of many regional communities in Queensland, New South Wales and Victoria. Australian firms directly export nearly 25 billion dollars worth of coal a year, making Australia the world's largest coal exporter.

However, for Australia's coal industry to have a vibrant future in a carbon constrained world, technologies that significantly reduce the greenhouse gas emissions from coal-fired power stations and secure jobs in the coal industry must become commercially viable.

Labor's National Clean Coal Initiative will accelerate the development and demonstration of near-zero emission coal technologies by:

- setting a goal for commercially viable technologies that significantly reduces emissions by 2020 and for near-zero emission technologies by 2030,
- launching a 500 million dollar National Clean Coal Fund to provide Commonwealth support for the demonstration of clean-coal technologies by the private sector, and
- increasing Commonwealth funding for the CSIRO by 25 million dollars over four years to drive the National Clean Coal Initiative.

We need all the ideas we can muster to tackle the threat of climate change and to identify the opportunities as well. Labor welcomes your ideas.

## **Trade**

One of the most disturbing aspects of our economic performance in recent years has been our trade performance. Despite the mining boom, Australia has been in a trade deficit for almost five years.

Growth in export volumes has slowed from averaging 8.4 per cent a year under Labor to just 1.1 per cent a year over the past five years.

This has given Australia record current account deficits and a foreign debt of half a trillion dollars – that's disturbing when we've got our best terms of trade in over 50

years. It raises the important question of what will happen when the mining boom ends?

We must lift our export performance as a national priority. Labor agrees with the Ai Group that we haven't been making an adequate investment in fostering exports. Just look at the EMDG Scheme. Since 1996-97, the total dollar value of EMDG grants paid to exporters has declined by \$3.8 million. And in real terms, the payments to promote exports through the EMDG Scheme have declined by \$47 million.

In 2006-07, the EMDG Scheme will underspend by \$8.9 million. This will be the third year in a row that the scheme has underspent following three years where funding to companies had to be rationed because demand for funds outstripped the budget cap.

Labor is examining the eligibility criteria and funding cap for the EMDG Scheme.

On trade negotiation policy, Labor agrees with the Ai Group that the government should use hosting APEC in 2007 to strengthen the push for an APEC free trade area.

Labor goes further, however, in advocating that the government use APEC to develop a caucus of countries to push for a successful conclusion to the Doha Round and to counter the anti WTO coalition that the Trade Minister has suggested is forming.

### **Business Taxation**

We must also ensure that Australia's business taxes do not stifle our competitiveness.

We need to ensure that as global capital chases investment opportunities around the globe, we too are able to compete for those investment dollars.

With capital so mobile, its treatment under the tax system must be at the centre of our deliberations.

We need to ask whether our tax rates are still competitive internationally and whether the regime in totality may act as a disincentive to international investment.

We also need to ensure that Australia's corporate tax system encourages investment in much-needed national infrastructure.

Like many other major challenges that Australia faces, we'll only make significant progress on improving the regulatory environment if the Commonwealth and States work together.

Taxation, like business regulation, is a significant element of my plans to reform the Federation – to end the buck passing, the blame shifting and the cost shifting between different levels of government.

It is a problem for consumers and for businesses, as they navigate the tangle of state and federal bureaucracy, and it needs to be urgently addressed.

I know this is an area of concern that many people in business are raising.

It represents one of the final frontiers of major inter-governmental reform.

We need to move away from coercive federalism to cooperative federalism where funding is no longer held to ransom by narrow political agendas and where the national interest comes first.

### **Labor's Partnership with Business**

This is an ambitious reform agenda, but there is much work to do.

That is why Labor welcomes a partnership with the business community and particularly with the Ai Group and its members.

We share a commitment to build a strong and prosperous Australian economy whose benefits are shared by all.

The dialogue we engage in will improve the quality of the debate and the quality of decision making – that's why I welcome the engagement here tonight, and in the future.

To help facilitate this dialogue with the business community, I have announced that Labor will establish a Council of Business Advisers to operate as an ongoing source of business consultation and advice.

The Council will be chaired by Rod Eddington – one of Australia's most distinguished businessmen – and will include eminent business men and women with diverse experience.

We want their frank and fearless advice, given directly to me and my ministers.

I have also directed my shadow ministers to be in regular contact with industry. We want your ideas. We want your policy solutions. We want you to be a part of the government I lead.

### **Conclusion**

I don't believe we can take Australia's prosperity for granted. We need to build a strong, diverse, competitive economy that can continue growing beyond the mining boom.

We need to build a new vision for Australia's future industries, that will provide high-skill, well paid jobs for tomorrow's workforce – future industries that will make and sell goods and services the world wants to buy.

To do that, we must tackle many challenges. I have outlined some of those challenges tonight.

We want to use economic policy to deliver better economic and social outcomes – and we don't believe these goals are incompatible.

The priorities in Labor's reform agenda are many of things that are top of your own agenda – education and skills, innovation and exports, and planning and delivering nation-building infrastructure.

It is a big agenda – but it is an agenda that Australia needs to tackle if we are to maintain our long term prosperity

And in delivering this reform agenda, we want to work closely with Australian businesses to grow and expand our economy and maintain prosperity for all.

We need to find common ground and use our common sense to tackle the big reform challenges we face.

And there is no guarantee of continued prosperity and progress without reform.

We understand that business is the engine room of the economy and that a partnership with government is essential if we are to deal successfully with the challenges of the future.

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