

Fiscal and Industry Policy in the New Business Landscape

Ai Group Annual Economic Forum

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Science and Research**

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We are here this morning to talk about building growth in the new business landscape.

Given that the forces reshaping the landscape are catastrophic market failure, a global liquidity crisis, and widespread recession, the prospects for growth may seem bleak.

We do have to be realistic about the situation in which we

find ourselves today, but it doesn't follow that we have to be defeatist.

The government is determined to do everything it possibly can to cushion the Australian economy from the full impact of the global downturn.

We believe that with the right interventions, we can support jobs and growth in the short-term, while also building economic and innovation capacity for the future.

We are not alone in that belief.

The International Monetary Fund has argued that: "Monetary and fiscal policies need to become even more supportive of aggregate demand ...". (*World Economic Outlook*, January 2009)

The Organisation for Economic Cooperation and Development notes that "a comprehensive strategy is ... needed to attenuate the impact of the current recession and put the global economy back on a sustained growth trajectory". (*OECD Strategic Response to the Financial And Economic Crisis*, December 2008)

In its thoughtful budget submission, the Australian Industry Group called for "additional fiscal stimulus". (*Managing Through Troubled and Unpredictable Times and Emerging Stronger*, January 2009)

Government response

This government has the growth-oriented monetary and fiscal policies.

We have the comprehensive economic strategy.

And we have provided the additional fiscal stimulus.

We made a decision – and it is absolutely the right decision – that the strongest possible action was needed to shield Australia from the worst effects of the crisis.

We were determined to act quickly and boldly.

This is the approach we have taken ever since the global financial crisis mutated into a crisis for the real economy last September.

The evidence we are seeing from other parts of the world confirms that the longer you wait to act, the harder it becomes.

Our focus has been on cash transfers to fuel activity in the short term and capital works spending to support jobs now and lay the foundations for future growth.

The Ai Group has argued that the 2010 tax cuts should be brought forward to this year, but the government shares the view of IMF chief economist Olivier Blanchard, who recently pointed out that:

“The key here is to design packages which provide maximum boost to demand very soon. That tends to argue in the current context for measures focused on spending rather than taxes.” (IMF Press Briefing, 28 January 2009)

Our aim is to have an immediate impact, and the evidence is already coming in that the Economic Security Strategy announced in October has helped to support jobs and economic activity in the months since.

We are now following up with the \$42 billion Nation Building and Jobs Plan, which should add about half a per cent to

GDP this financial year and up to 1 per cent in 2009-10.

The bad news we've received over the past few days only confirms why action is necessary.

Manufacturing sales, wholesale sales, profits and inventories were all down in the December quarter.

The manufacturing sector suffered the biggest profit and inventory declines, and earlier this week the Ai Group reported that manufacturing activity contracted for the ninth successive month in February.

The group's performance of manufacturing index has hit an all-time low of 31.7.

This is below the US and global indexes, which both stand at 35.8.

Australian manufacturing is under intense pressure.

The global crisis is forcing manufacturing companies to restructure, cut costs, and, in the worst cases, close their doors.

Thousands of job cuts have been announced in recent months, but it is important to remember that manufacturing still employs more than a million people – around a tenth of the workforce – and that this figure has remained steady for many years.

It is great to see management and unions cooperating to avoid job losses and keep business going – for example, by reducing working hours and bringing forward leave.

Manufacturers know how important it is to keep a core skilled workforce in place so that they are ready when the inevitable recovery comes.

Short time, down days and unplanned leave can be hard on working families, and it is right that we recognise the efforts everyone is making to preserve jobs – whether it be individual workers, unions or companies.

My passion for this sector is no secret, and I don't deny that I am very concerned about it.

Yet I also recognise that Australia has arguably the strongest economy in the developed world.

Australia finished 2008 in much better shape than many expected.

Construction activity, retail sales and new capital expenditure were all still rising at year's end.

It's true that unemployment increased in January, but employment was up as well.

Household and business credit also grew in January, albeit at a slower rate than we are used to.

How do we read these mixed signals?

They certainly aren't cause for cartwheels.

We know that businesses are folding and people are losing their jobs.

We know that things will get worse before they get better.

We also know that the international environment is increasingly hostile.

Japan contracted 3.3 per cent in the December quarter – Germany, 2.1 per cent – the United States, 1.6 per cent – Europe, an estimated 1.5 per cent.

Despite all that, the more upbeat domestic data we are seeing should give us cause for hope.

It confirms the government's view that Australia is better placed to weather the storm than most other countries.

It suggests that the downturn may be shorter and shallower here than elsewhere.

It justifies our optimism about Australia's future beyond the crisis.

And it gives me confidence that the massive effort we are making to sustain activity and build capacity will deliver positive results.

One thing we can be absolutely sure of – conditions would be much worse if the government had not acted decisively.

Investment allowance

I won't go through our stimulus packages line by line, but I do want to mention the \$3.8 billion business tax break in the Nation Building and Jobs Plan.

All firms – from SMEs to international giants – can claim a bonus 30 per cent tax deduction for assets acquired between the 13th of December 2008 and the 30th of June 2009, and installed before the 30th of June 2010.

For assets acquired from the 1st of July 2009 to the 31st of December 2009 and installed before the 31st of December 2010, the bonus deduction will be 10 per cent.

Firms turning over less than \$2 million a year can claim on assets costing \$1,000 or more.

For larger firms, the minimum is \$10,000.

The deduction will apply to new, tangible, depreciating assets that firms acquire, start to hold under contract, or start to construct between the dates I've mentioned.

This is on top of the usual depreciation deduction.

We want businesses to go on building for the future, in an environment where they might otherwise defer or cut back on their capital investment plans.

Draft legislation for the tax break was released for comment last week, and Treasury is accepting submissions until next Tuesday, the 10th of March.

That's not a lot of time, I know – but as I've been saying, we can't afford to dawdle.

Ideology

We have moved early and moved consistently to defend Australian jobs and businesses because we believe that this is a core responsibility of government.

More and more people are coming around to that point of view.

It isn't just the economic landscape that has changed.

The ideological landscape has changed as well.

This crisis has shown us how easily markets can be distorted and how bad they are at correcting themselves.

It has reminded the world that the state has a legitimate and indispensable role to play in guiding the economy, building social and economic infrastructure, and redistributing wealth.

It has persuaded people that public spending for the public

good isn't such a bad idea after all.

Yet even in times like these, there are those who cling to a nightwatchman view of the state:

- the view that governments should have no role in making and unmaking social conditions
- the view that they should be passive – except when it comes to protecting the status quo.

The Australian exponents of this view have led the resistance to the government's stimulus packages.

Some say we should do nothing on principle.

Others hedge their bets by saying we should “wait to see how this global recession pans out”, as the deputy leader of the opposition has put it. (ABC Radio National, 5 February 2009)

Much the same debate has been played out in Japan, Germany, the United States.

Economic progressives from Rudd to Obama have encountered a lot of opposition from conservatives.

This opposition arises from a particular set of assumptions about the role of the state in economic management – and that includes industry and innovation policy.

It arises from the conviction that market forces will right all wrongs.

It arises from a crude Darwinian belief that any business that gets into trouble, any worker who loses their job, must have been unfit to survive – and that whatever succeeds them will be an improvement.

That's is not a belief this government shares.

We believe that in times of crisis, the state can and must intervene.

That doesn't mean throwing off all restraint.

It means being ready to balance short-term fiscal considerations against the long-term national interest.

Nobody wants to be in deficit and nobody wants to be in debt.

Discipline and responsibility are still the order of the day, and as soon as growth gets back to trend, we will return the budget to surplus as quickly as possible.

In the meantime, however, we will not let a discredited ideology prevent us from doing everything we can to protect Australian jobs, businesses and living standards during these difficult times.

The Prime Minister and others have identified 2008 as an historic turning point – the year in which neo-liberalism was discredited and social democracy was reinvigorated.

There is no question that things have changed.

Having been shunned by polite society for a generation, Keynes is back in fashion.

It is as if the crisis has broken a spell.

It has sent us blinking into the daylight – enabling us to see what a crooked house we have built, and forcing us to think about how we can make it straight.

Those of us on the social-democratic side of politics can well

remember the triumphalism of the neo-liberals in the 1980s, and we should be wary of making the same mistake.

The world is unlikely to simply exchange one orthodoxy for another.

What I believe we will see is more a vigorous and inclusive debate about how we should manage our economy – with a much wider range of options on the table.

This is great for public policy, great for the community, and great for innovation.

Innovation

Even in a downturn, innovation remains the heart of our industry policy.

In the words of the OECD, “Strong innovation performance is more important than ever in the current context.” (OECD *Strategic Response to the Financial And Economic Crisis*, December 2008)

That’s why we are continuing to work with SMEs through the Enterprise Connect network of manufacturing and innovation centres.

Launched in very different circumstances last year, Enterprise Connect is now on the front line.

It is giving SMEs the skills and knowledge to become more innovative and productive – with the focus increasingly on immediate business improvements to arm firms against the downturn.

Around 1,100 companies have been assisted to date – four-fifths of them in manufacturing.

That's why we continue to make huge investments in skills, education.

That's why we continue to improve infrastructure, increase support for research and research training, and prosecute reform in the university sector.

This may seem remote from the concerns of industry, but it isn't.

Our ability to attract international R&D investment and grow our knowledge-based industries ultimately depends on the quality of our research system.

It also depends on the level of collaboration we have between researches and industry.

That's why we have revitalised the Cooperative Research Centres Program, which will receive \$182.7 million in funding this financial year.

That's why we are spending \$71.7 million on Australian Research Council Linkage Projects in 2009.

No matter how squarely we are focused on the challenges of today, we should not lose sight of tomorrow.

That's why we are working on a long-term response to the Review of the National Innovation System in the budget context.

And that's why we are working with industry to keep the lights on through the dark days ahead.

As a first step, we are supporting the efforts of industry organisations to help their members develop practical survival strategies.

To that end, I'm pleased to announce that the government will be partnering with the Ai Group to run at least twenty workshops for manufacturers around Australia.

The workshops will focus on the essentials of managing through the meltdown, including strategies for dealing with costs, inventories and cash flow.

Our aim is to give firms the skills and know-how they need to ride this crisis out.

The future

It is a truism that flawed companies are the first to go in a downturn.

The same goes for flawed economies.

Countries with no commitment to innovation and limited capacity for fiscal stimulus are likely to come out of this crisis badly.

Countries like Australia, on the other hand, can use their existing advantages as a springboard to increase their competitive edge.

That will only happen, however, if maintain capacity until the upturn comes.

Which brings me back to where I began.

The government is ready to act.

We are ready to spend wisely to boost aggregate demand.

We are ready to work with individual industries and individual companies to address specific challenges.

As social democrats, we have always accepted that this is a responsibility of government.

It is a responsibility we will never run away from.

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