

# PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

## ADDRESS TO THE AI GROUP ANNUAL DINNER

CANBERRA

19 SEPTEMBER 2011

Thanks Lucio – not only for your kind introduction, but for your thoughtful discussion of the issues at hand.

Can I acknowledge Heather Ridout, AI Group Chief Executive.

Members of the diplomatic corps, and members of the academic community.

My ministerial colleagues and parliamentary colleagues, far too many to name.

Distinguished guests, ladies and gentlemen.

Canberra's a meeting place and it's good to meet not just people but ideas.

And Lucio, as you've observed already – we meet in interesting times.

Times of sustained economic transformation – rich and complex, challenging and promising – when we must make change work for us.

Yes times of strong fundamentals: low unemployment, low public debt, a deep, stable and liquid financial sector.

But also times when Asian growth, European and US weakness, a boom in mining investment, are driving our dollar higher and in turn putting many sectors: education, tourism, some parts of retail, especially manufacturing, under pressure.

You know that better than anyone – you live it every day.

I want you to know that in Government, we live it too.

Here tonight you have a brief respite from those pressures, but you'll be heading back soon enough, back to work where you're working so hard to make change work for your firms and for your country.

I can assure you, we're doing the same, heads are down, evidence and proposals are open on the table.

And we're working through our plans to deliver the policies which will see industry through.

Evidence and options, policies and plans, to modernise the whole economy – to keep the whole economy strong.

Based on our long term approach to creating, and sustaining, balanced growth for the whole of our nation.

Driven by our long term vision of a new technology, clean energy, high skill, high wage economy.

It's important to understand what we're already doing, what we've been doing for four years now, to modernise and strengthen our economy.

Because the work we've already done sets the foundation for our plans for the future as well.

In our first years in Government, two great projects drove me.

The first: to lift the nation's human capital.

To give our people more knowledge and skills and get more out of that knowledge and skills as well.

Universities and vocational training.

Fundamental reform with demand-driven funding, investment in much-needed capital – and new support for research.

And in coming days, Minister Evans will be announcing some important new measures, designed to underpin both growth and quality in this tertiary sector.

Schools. Investing in teacher quality, ending our national complacency about leaving disadvantaged kids behind ... developing a national curriculum – and new transparency through the MySchool website.

Early years education. Improving the quality of childcare, making it more affordable – and expanding access to preschool education.

I want every Australian child to have opportunity – and you want every new worker to be ready and able to work.

The second: to reform the nation's workplaces.

To use flexible enterprise bargaining to lift productivity across our national economy.

Setting up Fair Work Australia – creating National Employment Standards – working to harmonise occupational health and safety.

As part of a plan to compete with the world on knowledge and skills.

A plan to unlock the real drivers of future productivity.

And in our year of decision and delivery, I am still pursuing reforms to unlock productivity for the years to come.

Clean energy, to create new jobs in new industries – a price signal leveraging billions of dollars in new investment.

High speed broadband, to link every part of Australia to every part of the world.

A tax on mineral resource rents, to cut company tax for every Australian firm – to add to the national pool of savings through higher superannuation – and to build regional infrastructure.

Skills and participation reforms, to move people from days of exclusion and idleness into work and to lift the capacity of all Australians to get good work and support a growing economy.

Personal tax reform, to reward participation in work.

We're delivering a long term plan for balanced growth – one which has long been in train.

We're also walking the reform road in Government every day.

I lead a modern Labor Government – we know no other way.

Because Labor charted this reform road ourselves in the great days of Hawke and Keating.

And because the great lesson of the 1980s is that reform isn't easy, but it works.

That while the pressures are real, and painful, industry and Government have to stand firm against populist voices.

I know industry is standing firm. I know you understand: There can be no return to closed door policies.

Because the Australian economy has been the great beneficiary of open trade in the world – our economy has changed, our firms have adapted, our people have prospered.

Because our challenge, as exposure to the global market only grows, is to build new capability which allows us to prosper anew.

And just as we all understand we can't look back, we also all know none of this means "leaving manufacturing behind".

The investments and reforms the Government is making create great new opportunities for manufacturing helping them climb the value-add chain.

More innovative enterprises and more skilled workers will make manufacturing stronger than almost anything we can do.

A clean energy economy with economic incentives for new clean jobs will see new goods manufactured for new markets.

A high technology economy with high speed broadband around the country will see manufacturing performed in much more sophisticated ways.

These benefits hold true – not only for manufacturing but for retail and tourism and education – for every part of our broad and diverse economy.

So Government and industry will be working together to do just that.

At the Tax Forum, at the Future Jobs Forum, we'll bring good people together, get the best evidence and ideas.

And we're working through practical new steps, like our reforms to the anti-dumping system, the first of which are expected to pass the Parliament this week.

But the most important decisions won't be made at Cabinet, in Parliament, or in a Forum.

The most important decisions will be made in boardrooms, in corner offices, as every business and every firm makes the decisions which will make change work for them.

Your decisions will be the most critical to our future.

Decision made by leaders and firms who will survive and thrive not just by understanding the long term structural change that the economy is undergoing, but by bravely embracing the right risks to pursue the rich rewards from change.

Through new strategies: to diversify into new goods and services, to find a new point of connection to a production process, to restructure your operations or team up with an old competitor or a new supplier.

Making an old business new, or starting a new business from scratch, requires new investment decisions which embrace sound risks.

New investment, not just in machinery and equipment but in developing new goods and services and skilling and re-skilling people as well.

So you need to weigh up the returns on a range of potential investments in deciding how to proceed in a changed economic environment.

And while you live the risk and rightly reap the reward, it's vital that public policy settings don't hold business back – that they don't hinder businesses taking smart risks.

Perhaps no system of policy settings is more central to business planning than business tax.

We need new flexibility in the tax system now if business is to thrive in an economy undergoing significant structural change.

We need to be sure that Australia's business tax system doesn't hold industry back.

The Henry Review outlined some of the specific problems.

When the tax system hinders investment in a struggling business, or discourages lending to a business with a new idea, it does more than add to patchwork pressures.

It harms national productivity as well.

Giving workers more capital, more and better machines, new technologies and smarter ways of doing business – all this investment adds to productivity.

And it is vital for making change work for us as well.

For business to grow when the competitive winds are with them; to stand fast when the winds are against them; and to change when they can stand fast no more.

You need investment flows to be flexible if business is to thrive in an economy undergoing significant structural change.

You deserve the flexibility and incentives to do your job – to make the decisions which you know will help your businesses to seize the opportunities change creates.

This is something I want the Tax Forum to consider next month.

The Tax Forum will be an opportunity to start to discuss options for a business tax system which supports decisions to change.

To start discussing new ways to ensure our business tax system adds to the flexibility of the Australian economy – not just now, but for the future challenges and opportunities that we may face.

Let me give one example of the kind of change we have already made – a change which could be a model for further reform in the tax system over time.

In the 2010-11 Budget, the Government made an important change to the tax system to make investments in long lived infrastructure more attractive.

We recognised that the tax system was getting in the way of much needed investment in infrastructure.

As you all know, traditionally, business profits are taxed immediately.

But when a business is in a loss position, expenses associated with investment are not recognised in the same timely way.

Instead, they are carried forward to offset future profits – but at their face or nominal value.

So for long lived investments, where it takes some time for projects to move from loss making to profit making endeavours, old expenses don't have much value by the time you can cash them in.

This is a distortion which can make what would be viable infrastructure projects unattractive after tax.

And this is why in the Budget we announced that from next year, tax losses incurred in investments in eligible infrastructure projects will be “uplifted” to maintain their value over time.

For the first time, these losses will also be able to be recouped even where there is a change in ownership of the project.

A smart and practical change to the system – but more.

A model for reforms to enhance flexibility.

The type of flexibility which I'd like to see discussed more at the forum next month.

A model for further reform in the tax system over time.

Removing distortions, lifting barriers, delivering flexibility, making change work, encouraging enterprise, rewarding risk.

Friends, I don't share Margaret Thatcher's values.

But one of her most famous remarks does rather summarise the position of the Australian economic debate today.

*There is no alternative.*

What government and industry have done together in the past few years, what we'll do together in the coming months: growing jobs, getting back into the black, staying on the reform road, making the decisions for the long term. It is the only way.

We won't solve patchwork pressures by giving in to populist pressures.

We won't create jobs by always telling people what they want to hear.

What we're working on together is the serious economic plan, with the serious economic team, charting the serious way forward.

We're optimistic and determined, confident and ready to work.

To modernise the whole economy, to keep the whole economy strong.

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