

# PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

**'BUILDING A NEW AUSTRALIAN ECONOMY TOGETHER'**

**AUSTRALIA-ISRAEL CHAMBER OF COMMERCE LUNCH**

**MELBOURNE**

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It's good to address an audience and a forum which does such great work to promote friendship and co-operation between two great countries, Australia and Israel.

Decades after the desert was first made to bloom, Israel is a place where ideas still bloom.

And this Chamber is a place where ideas bloom too.

Friends, in 2012 Australians will be watching the economic situation of Europe closely.

It's only by understanding just how serious and complex the European problem is that Australians can truly understand our own position of strength in the world economy,

the important opportunities we have created for ourselves – and the part every Australian can play in the work of coming years.

As Australians see the problems of Europe, we see the importance of fiscal discipline.

And as Australians increasingly come to know that our own fundamentals are strong by comparison, we know that we would not change places with any economy in the world.

Now our job is to help Australians understand that it is this strength which is driving the transformations in our economy.

And in turn, to understand that our nation is strong enough to bend those transformations to our own purposes - from a strong base, we can build a new economy, one which is even stronger, one which is full of opportunity.

A new economy which is prosperous and fair, creative and skilled; where mining and manufacturing flourish and services grow; where the government manages the economy for working people, for the future.

And as Australians imagine this new economy we want to build together, we know that for everyone to have a share in the new economy, everyone must have the skills the new economy needs.

I sift a lot of economic commentary and advice – and I can tell you that, for once, the economists almost all agree – Europe still faces very serious economic difficulties.

And of course, this is no longer only a Greek problem, nor is it contained in a “periphery” or in the south. The January decision by Standard and Poor’s to downgrade the sovereign credit ratings of nine of the euro area’s 17 members included some traditionally thought stable and strong, like Austria and France.

The ultimate proof of economic policy failure, mass unemployment, is blighting millions of European lives. More than 23 million men and women are unemployed in the EU, five and a half million people under the age of 25. In Spain, the unemployment rate is over 20 per cent.

I do recognise that the July, October and December agreements last year in the euro area, the G20 November summit bringing the international

community on board, plus the fiscal and financial reforms of new governments in Greece, Italy and Spain, all represent important progress.

Over the Christmas period, the European Central Bank assisted by lowering interest rates and providing cheap finance to European banks, enabling them to refinance.

And the reaction to the Standard and Poor's downgrades was not as severe as may have been expected – suggesting markets had priced in this additional risk already.

But we can expect daily choppiness and immediate reactions to overnight news to continue to colour the mood of market commentators and participants – there will be more ups and downs in global markets for as long as it takes for Europe to get its house in order.

In recent days, Europe's leaders largely signed off on a new treaty on greater fiscal discipline and cooperation. They also largely agreed on a permanent rescue fund to tackle the on going debt crisis, as negotiations on the restructuring of Greek debt continue.

Economies like Ireland, Portugal, Spain and Italy are each in different degree subject to the same policy double-bind: a long term fiscal repair task which plainly cannot be delayed but which does run counter to the urgent growth challenge.

This demands measures to deliver long-term fiscal sustainability while those countries with the capacity also provide short-term support for economic growth.

We cannot afford these nations to continue a negative downward spiral: sharp fiscal contraction, economic recession, falling employment, shrinking revenue, rapid decline in living standards sustained over years.

That's why Australia has been at the international table in 2011 and we'll be back there in 2012, arguing for sustainable long-term finances and policies

which restart European growth, arguing against fiscal austerity alone and at any cost.

Arguing for a balanced European policy response.

And that means restructuring Greece's debt; ensuring sufficient funds to refinance governments and recapitalise banks; progress now on domestic micro-economic reforms which spur growth; long term fiscal discipline across the Union – and delivering on measures for long term fiscal co-operation.

Along with co-ordinated global action, where countries outside Europe play their part in providing the International Monetary Fund with the additional resources it needs.

Australians have a deep interest in seeing these steps carried out.

Strong Asian growth – with China expected to grow over eight per cent and India over seven this year – means that the overall outlook for Australia's trade partners does remain solid.

But this does not make us immune from the problems of the European economy.

If anything of value can be retrieved from the wreck of failed economic approaches in Europe pre-2008, it is the lesson to the world: fiscal discipline matters.

There is debate about the appropriate pace of European fiscal repair now and how that relates to the growth challenge – and I've made it clear where Australia stands in that debate. Where there's no argument is that European fiscal policy has been unsustainable.

Australia's position is fundamentally different.

When the global financial crisis hit we funded the best designed stimulus package in the world.

A sophisticated set of targeted and temporary measures which kept our country out of recession and which grew employment in the hardest global environment – with a commitment to restrict spending and return to surplus as revenues recovered.

That strategy remains.

My firm conclusion is that handing down a Budget surplus in May is the right call in the present economic circumstances.

The current international instability stems in large part from real concerns about sovereign risk – and perceptions of risk in various national economies can change quickly, indeed they have on occasion in recent times. So our fiscal policy must be disciplined and must be seen to be disciplined as well. It's in our interest to keep ourselves well ahead of the pack.

A strong sovereign credit rating also underpins strong bank credit ratings. A very important boost to the availability of credit for Australian business and to economic activity in Australia flows from our fiscal discipline.

Critically, the Australian economy is growing. Putting the budget into surplus when domestic economic growth is around trend means that we are well positioned to deal with further global financial and economic uncertainty and crises if that should occur.

And it increases the scope for our independent Reserve Bank to ease monetary policy when conditions require.

Fiscal discipline is the right call for the long-term as well.

Australia has always had a relatively high reliance on overseas capital.

The best way to ensure the continued vital inward flow of investment is through sound economic institutions and policies. And the one big, ongoing, discretionary decision that reinforces that best – the most powerful single signal a government can give to investors – is a strong and disciplined fiscal framework.

While global conditions make it harder, we are strongly placed to deliver a surplus for 2012-13.

Handing down a Budget surplus this May will be good for the Australian economy, good for growth and good for jobs.

Achieving a budget surplus will reinforce the strength of the Australian economy. A strength which has brought investors flocking to our dollar, turning a once-in-thirty-years currency peak into a year-long high plateau.

It's a striking development in our economic history that in a period of global uncertainty, the Australian currency is holding its value. This comes even as markets harbour expectations of future easing of our monetary policy settings, expectations which might normally be expected to see the currency trend lower.

There's growing evidence that the best explanation for this is confidence.

It's well known that Asia's demand for our mining output – together with the domestic investment to expand our mineral capacity – has lifted demand for our currency, with its value up almost sixty per cent against the US dollar since 2009.

There's another driver: investors looking to the Australian dollar as a substitute for betting directly on growth in our region – especially in China.

This reflects Australia's strong position in what I call the "Asian Century".

We are one of the economies best placed to capitalise on the global economy's shifting weight to our region.

So we've seen a global drive to hold Australian-dollar denominated investments: huge overseas institutional investors, both public and private, loading up on Australian assets – and a record surge in investors buying our government bonds – the reward for our fiscal discipline in uncertain global times.

Add the relative woes of European economies – touching even traditional currency strongholds like Switzerland – and for the first time in history Australia is being referred to as something of a global "safe haven".

What is certain from all of this is our dollar is likely to remain relatively high for years to come.

Natural advantages of resources, people and location – decades of economic reform – building economic strength.

Economic strength driving a strong dollar – and a strong dollar driving economic change.

Lifting the value of what we earn and what we own, while yes, lifting the price of what we make and what we sell as well.

There is a flipside to this story. We know that some sectors are doing it tough.

The level of the dollar – and the pace of its rise – has broken some business models and forced economic restructuring. It's already been behind some closures, while employers will also keep a watching eye on Europe.

These are powerful, economy-wide transformations, perhaps best thought of as “growing pains”.

Our success is driving the dollar. In turn, the dollar is driving change and in doing so it's making our economy leaner and stronger, forcing us to move more of our effort – more money, more equipment, more people – into the parts of our economy where we can create the greatest value.

We've said for years, for decades, that given a choice between competing on quality or competing on price, we'd compete on quality; that we'd take the high road to high-value, high-wage, high-skill employment, that we want to create jobs based on making and selling the best products and services we can.

And we've said too that we want our consumers to have the benefit of low-cost high-quality goods, wherever they're made.

Well, the strong dollar is locking in that high-value, high-quality approach for us. We never really wanted to compete on price alone – but now it's just as well, because at parity with the US, we just can't.

It's as if the world is turning up the speed on the treadmill while we're exercising. It's an adjustment, it takes work, it builds strength, it's an adjustment up, not an adjustment down.

And we can make it work for us.

While economic transformations are never easy, this time we have an advantage we have rarely had before.

The tough changes in our economy in the 1980s and 1990s came off the back of deep recessions in 1982 and 1991. Big reallocations of capital and labour – many workers forced to look for new ways to support their family – at times of double digit unemployment and real concentrated hardship in many regions and towns.

By contrast, the growing pains we feel in parts of our economy today come when unemployment is just over five per cent, when our economy has created over seven hundred thousand jobs since late 2007, when there are shortages in many skills, when prospects for work for skilled workers are genuinely bright.

Every year, three hundred thousand businesses close down – and three hundred thousand new ones start up – every year.

And every year, around a million workers change jobs – a quarter of them changing industries too.

That's the modern Australian economy, and I know no serious advocate for any sector or industry who wants to stop the world changing.

The challenge is to include all our people in the opportunities change creates.

We can see an opportunity to build a new Australian economy.

And we can see more: an opportunity to build the new economy together, to include every Australian in its growth.

Our people do not want to be forced to choose between mining and the rest; nor do they want to choose between a strong future for manufacturing and a strong economy as a whole.

They know their hard work has given Government a strong hand and they are looking to us to play the right cards.

Yes, to ensure the benefits of our strong economy are shared by all Australians.

Yes, to make the mining investment boom last, yes, to keep the whole economy strong - but more than that.

In this decade, Australia can build a rich, fair economy – where working people get their share of the benefits – where strength is sustained into the future.

A high participation, high productivity economy.

Where everyone shares in the benefits of our hard work.

Where fly-in, fly-out work doesn't fly over jobless households and past communities left behind.

A high skill, high tech, fast broadband, clean energy economy.

Where our energy exports fuel clean growth in the world and our energy use at home is cleaner and more productive.

Where we sell computer games to Korea and diagnose disease over distances of thousands of miles.

An economy with advanced industrial production, where fuel-efficient cars made here are sold around the world.

Not just one which maintains employment at major vehicle producers, though those jobs matter greatly.

But one where vehicle manufacture anchors employment in the whole chain of supply.

The component makers. The toolers, the metal manufacturers, the suppliers of plastics, chemicals and glass.

An economy with the technical and scientific capabilities required to make cars – which sustains those capabilities through the economic cycle.

And that's why this Government is working with the Australian car industry to lift its capacity for innovation and design.

Smart and sustainable co-operation between government and industry is the model which has been pursued by reformist Labor Governments in Australia for decades. With no better example than the Button car plans of the Hawke-Keating era.

There is no case – no case – for a half billion dollar cut to automotive industry assistance in the current economic environment.

Nothing could better illustrate the real stakes at play in Australian politics than this debate between the parties over Government support for jobs.

My Government is putting jobs first.

And this new economy will be more adaptive, flexible and able to seize new opportunities than ever before.

In the new Australian economy firms will see the moment of change as a chance, a chance to move up the value chain, to expand their discovery and production of premium goods and services.

More specialisation, more world-leading research and development, so the ingenuity of our enterprises generates jobs of every kind, from design and manufacture to assembly and sales.

More innovations in traditional areas of comparative advantage like mining and agriculture, ideas which become leading technology used around the world.

Australia's best are businesses more than able to compete and win in the world.

Building a new Australian economy means making many more businesses as good as that.

Australian workers and industries can aim for and achieve every degree of sophistication and success of the clusters of great manufacturing in places as diverse as northern Italy or Israel, California or parts of Germany.

Just as our international educators can offer tertiary educations the equal of Oxbridge and the Ivy League to a half a billion strong Asian middle class who'll want nothing but the best for their kids.

Just as our financial houses can become the investment brains of that same Asian middle class as they seek choice and security in retirement as well.

The promise of this new economy is there for every business and every person in every sector who is prepared to make it work.

Australian Labor Governments promise not just to manage the economy or to build its strength – but to manage the economy in the interests of working people – to build its strength for the future.

So we see not just an opportunity, but an obligation: to spread the opportunities of the new economy to everyone.

It is an ambitious goal, and to deliver it, the Government will pursue an ambitious program of investments and reforms in 2012.

We will roll out fibre for high speed broadband to over sixty sites across the country.

Twenty thousand more students will start university this year than last, up by a fifth since we came to office.

We will hand down a Budget surplus in May.

Carbon pricing will start on 1 July – driving change in energy use, funding innovation in clean energy and help for households.

The minerals resource rents tax will start on 1 July as well.

Funding tax cuts for small businesses and over time funding cuts for all businesses, higher super for all workers and new infrastructure in the regions.

New business tax arrangements to reward innovation will be the subject of extensive work by the Business Tax Working Group leading to a final report on the future of the business tax system in December.

And through 2012, a new approach to collaborating with industry will be taking shape: through the new portfolio of Industry and Innovation – allied to the structural transition funding in the Clean Energy Future package – and the work of my own Manufacturing taskforce.

These are big milestones on the reform road this year – policies which lift productivity and build the new economy.

And a new economy, driven by change, needs workers every bit as innovative as its firms whose skills grow as quickly as the sophistication of the technology they use every day.

That's not just for scientists and laboratories: it's for advanced manufacturing and mining, agriculture and logistics, and it's in the shops and workshops we visit every day.

If you doubt that, next time you get your car serviced, have a look at the machine they use to check the suspension – for that matter, have a look at the computer they use to total up your bill.

To keep up, everyone needs strong basic skills and the ability to learn throughout life – skills that not everyone needed last century – and soon enough, to get ahead, everyone will need advanced skills.

There will be new jobs not done now – and there'll be jobs that exist today that are done in new ways and demand new skills.

Farmers with the skills to trade carbon credits. Plumbers with the skills to transform the energy and water efficiency of our factories and our homes.

Panel beaters with the skills to work in the new supply chains for global manufacturing. Medical professionals with the skills to diagnose and prescribe on-line.

This is why I've asked the Minister for Skills, Senator Evans, to bring forward a major proposal for a sweeping overhaul of the vocational training system in Australia.

In coming weeks, we will be releasing details of proposals for reforms including income contingent loans.

At the next Council of Australian Governments meeting, these reforms will be put to the States and Territories, whose co-operation will be necessary to deliver this reform.

Under the plans now being developed, thousands of vocational education and training students would no longer have to pay upfront fees, while others would be guaranteed a significant fee subsidy of up to \$7,800.

This means benefits for students studying foundation and entry-level courses for technical and service sector careers in areas such as health and hospitality, business and communications, construction, transport and other areas.

They would be guaranteed a government-subsidised training place – meaning many more Australians who want a place will get one.

Our plans also mean benefits for students working on a Diploma or Advanced Diploma, for courses like Engineering, Computing and IT, Architecture and Building, Community Services and Social Sciences, Health and Medical Sciences, Business.

They would no longer have to pay upfront fees, but would have access to HECS-style loans to cover their fees instead.

Getting rid of up front, out of pocket costs – saving thousands of dollars at the time they need it most – paying the costs back only when they can afford to.

Something which has been available to university students for decades.

I want the kids who learn these vital skills to have the same right to a low-cost loan as kids who study economics or law.

And I want TAFEs offering those kids high-quality training to have the same right – to offer as many places as there are kids who will take them – as the universities do today.

Cutting the upfront costs of training and improving student choice.

Guaranteeing every Australian the skills they need.

Because millions of Australians will need new skills to make the most of the new Australian economy we are building.

And because to build the new Australian economy, we will need millions of Australians to have new skills.

The equation is simple.

Skills bring jobs, and skills bring job security.

The more skills you have, the better placed you are to grow your firm, to keep your job, to earn more over time.

And the better placed you are to find good new work if your job changes too.

Good news on skills for working Australians:

This is Labor's skills guarantee – a training ticket for your economic future.

With an economy which has the adaptive capacity, the modern infrastructure, the innovative firms – with people who have the adaptive capacity, the modern skills, ability to learn – then we can make the transformation to the new economy work for us.

I was recently reminded, while reading about the cricket of all things, of the famous oath of the American Civil War General Ulysses S Grant, who said he would “fight it out along this line if it takes all summer”.

There's something of that determination and clarity in my Government's approach in 2012.

Today, interest rates and taxes and are lower than when we came to office and we have created hundreds of thousands of jobs.

We will govern for a strong economy – and our success will be the country's success.

We understand the big changes at work in Australia.

We understand the opportunities they create.

We know Australia can be the winner in the Asian Century.

We can choose to give working people a fair share of the resources boom and today's economic strength – or allow only some to feel the benefits.

We can choose to get ready for the future – or stand still.

We can choose to face up to the hard decisions now – or take the easy way out today and leave all the hard decisions to our children.

We can choose to stick together and win through – or squabble amongst ourselves and lose out.

My line is very clearly drawn.

This Labor Government will make the right choices.

We will build a new Australian economy.

We will get working people a fair share.

We will get the country ready for the future.

We will see our nation stick together.

We will see our nation win through.