



PRIME MINISTER

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ADDRESS TO THE WORLD ECONOMIC FORUM, DAVOS, SWITZERLAND

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THIS YEAR'S G20: GETTING THE FUNDAMENTALS RIGHT

For more than 40 years, this World Economic Forum at Davos has been an important contributor to global progress.

It has brought together some of the best thinkers and most important decision-makers: not to dwell on problems but to focus on opportunities.

As 2014 begins, it's easier to be optimistic.

In the United States, economic growth is set to rise from under two per cent to almost 3 per cent, with a million jobs created in the last year.

China's growth is moderating but likely to remain over 7 per cent.

Even the Eurozone is finally growing again.

Of course, the recovery remains fragile.

The US taper will need deft management.

Around the world, over 300 million young people are neither working nor studying and the global economy needs 30 million more jobs just to restore employment levels from before the Global Financial Crisis.

The challenge, everywhere, is to promote sustainable, private sector-led growth and employment – and to avoid government-knows-best action for action's sake.

It's worth noting – if only to remind ourselves of the good that can be done – that in the past few decades, more has been achieved to reduce poverty than in any other period in history.

In countries such as China, India and Indonesia many hundreds of millions have been lifted from subsistence to the middle class.

Despite the Crisis, worldwide, income per person is still up by over 60 per cent in the past decade.

The global middle class is growing from 1.8 billion now to over 3 billion in 10 years' time.

This progress is partly due to better science and technology; and partly to the constant aspiration to do better.

Mostly, though, it's been driven by the intellectual and philosophical conviction that freer trade and smaller government will strengthen prosperity; the instinct that empowered citizens can do more for themselves than government will ever do for them.

Essentially, officialdom has begun to grasp that human freedom is less a threat than an opportunity. As soon as people have economic freedom, they create markets.

Markets are the proven answer to the problem of scarcity.

They rest, as Roger Scruton has recently observed, "upon the kind of moral order that arises from below as people take responsibility for their lives, learn to honour their agreements, and live in justice and charity with their neighbours".

Even though the Crisis was the gravest economic challenge the world has faced since the 1930s, it was not a crisis of markets but one of governance.

It was the G20 which helped to coordinate the actions which prevented another great depression.

The challenge, as we continue to work through the weaknesses that brought on the Crisis, is to strengthen governance without suppressing the vitality of capitalism.

The Crisis, after all, has not changed any of the basic laws of economics.

The lesson of recent history, whether it's the collapse of Soviet-style communism, the phenomenal growth of Asian economies, or the slow and painful recovery from the Crisis of 2008 and 2009 is that real progress is always built on clear fundamentals.

You can't spend what you haven't got.

No country has ever taxed or subsidised its way to prosperity.

You don't address debt and deficit with yet more debt and deficit.

And profit is not a dirty word because success in business is something to be proud of.

After all, you can't have strong communities without strong economies to sustain them and you can't have strong economies without profitable private businesses.

Above all else, policy-makers need to understand that every dollar government spends comes from the people, either through taxes and borrowings; or, over the past few years, through the process known as quantitative easing which is not indefinitely sustainable.

A certain level of government spending is necessary and good.

In Lincoln's words, government should do for people what they can't do for themselves – and no more.

Richer people, stronger countries and a better world all depend upon policy-makers' grasp of these fundamentals and there's no better place to reiterate them than the World Economic Forum – creator of the global competitiveness index as well as this conference.

As always, stronger economic growth is the key to addressing almost every global problem.

Stronger growth requires lower, simpler and fairer taxes that don't stifle business creativity.

And stronger growth requires getting government spending under control so that taxes can come down; and reducing regulation so that productivity can rise.

In the decade prior to the Crisis, consistent surpluses and a preference for business helped my country, Australia, to become one of the world's best-performing economies.

Then, a subsequent government decided that the Crisis had changed the rules and that we should spend our way to prosperity.

The reason for spending soon passed but the spending didn't stop because, when it comes to spending, governments can be like addicts in search of a fix.

But after the recent election, Australia is under new management and open for business.

To boost private sector growth and employment, the new Government is cutting red tape and reducing the tax burden by scrapping the carbon tax and the mining tax.

We've established a once-in-a-generation Commission of Audit to re-consider the size, scope and efficiency of government.

We're streamlining environmental approvals and have already ticked off new projects worth over \$400 billion.

We've successfully concluded negotiations for a Free Trade Agreement with South Korea and are working on agreements with Japan, China, India and Indonesia as well as wider ones such as the Trans-Pacific Partnership.

With an ageing population, we're implementing measures to get more people into work: like a 'fair dinkum' (as we say in Australia) paid parental leave scheme to give mothers in the workforce their full wage for six months.

We're investigating childcare changes that will respond to modern families participating in a round-the-clock economy.

We're determined that fit working age people will work, preferably for a wage but, if not, as a condition of receiving unemployment benefits.

We'll do more to keep people with temporary health conditions in the workforce, rather than on a pension.

And we're accelerating the construction of major infrastructure, especially roads, because time spent in traffic jams is time lost from work and family.

Every country's circumstances are different but this is what we are doing in Australia to boost growth, participation and productivity.

Some countries might find our example instructive, just as we have learned from others' experiences. Growth, however, is the result of global conditions as well as domestic policies.

And this year, Australia is in a unique position to promote global growth as chair of the G20.

If the largest economies can individually achieve higher growth and can cooperate to achieve higher global growth, obviously, every country benefits.

At St Petersburg last year, each G20 country agreed to prepare its own comprehensive growth strategy to feed into a G20-wide action plan.

I'm looking forward to respectful but robust discussion of each country's national plan.

Each of us can learn from canvassing the problems that we all face; and even more importantly, the problems that can only be solved by countries working cooperatively together.

This year's Brisbane summit will focus on a few key subjects because progress usually comes one step at a time.

Australia's aim is a communiqué just three pages long explaining precisely how good intentions are being put into practice.

Like last year, this year's G20 must be more than a talkfest.

As always, trade comes first.

People trade with each other because it's in their interest to do so.

Every time one person freely trades with another, wealth increases.

Just as trade within countries increases wealth, trade between countries increases wealth – that's why we should all be missionaries for freer trade.

At the very least, the G20 should renew its commitment against protectionism and in favour of freer markets.

Each country should renew its resolve to undo any protectionist measures put in place since the Crisis.

Better still, each country should commit to open up trade through unilateral, bi-lateral, plurilateral and multi-lateral actions and through domestic reforms to help businesses engage more fully in global commerce.

As a trading nation, Australia will make the most of its G20 presidency to promote free trade.

Over time, everyone benefits because, in a global economy, countries end up focussing on what they do best.

A more global economy with stronger cross-border investment eventually helps everyone because it generates more wealth and ultimately creates more jobs.

Of course, money's tendency to flow to where taxes are lowest is a powerful incentive for all countries to keep taxes down.

One of the side effects of globalisation is more ability to take advantage of different country's tax regimes.

Different national tax arrangements have not always kept up with the rise of services and the pervasiveness of digital technologies.

So, the G20 will continue to tackle businesses artificially generating profits to chase tax opportunities rather than market ones.

The essential principle is that you should normally pay tax in the country where you've earned the revenue.

My hope is to have a really frank leaders-only discussion in Brisbane about the biggest issues we face, including digitalisation and its implications for tax, trade and global integration.

Because taxes need to be fair, as well as low, in order to preserve the legitimacy of free markets.

For the leaders of the countries generating 85 per cent of the world's GDP merely to agree on the principles needed for taxation to be fair in a globalised economy would be a big step forward.

Then, there's the worldwide "infrastructure deficit", with the OECD estimating that over 50 trillion dollars in infrastructure investment is needed by 2030.

Developing countries need new infrastructure, developed countries need rebuilt infrastructure and almost every country is struggling to finance the infrastructure it needs.

It should be easier to get big new road, rail, port and dam infrastructure off the ground – and we can do that through attracting more private capital through sensible pricing policies and better regulatory practices.

As an "infrastructure prime minister", my hope as G20 host, is to bring policy-makers, financiers and builders together to identify practical ways of increasing long-term infrastructure financing.

What investors really need is greater confidence that governments won't change the rules after the investment has been made.

The G20 assumed its current form in response to the Crisis triggered by bad banking practices.

So at the heart of the G20's work is building the resilience of the financial sector: helping to prevent and manage the failure of globally important financial institutions; making derivatives markets safer; and improving the oversight of the shadow banking sector.

Financial regulation is always a work-in-progress but these reforms now need to be finalised in ways that promote confidence without eliminating risk.

The challenge for authorities is to keep abreast of developments, not to lag behind them as they did pre-Crisis, and to maintain the public's trust.

On trade, tax, infrastructure, employment and banking, we owe it to our citizens, on whose behalf we attend international conferences, to maximise the specific outcomes from this year's G20.

Finally, governments must always remember that an economy is far more like an organism than a machine.

A strong economy is far less likely to be one responding to central control than one spontaneously generating its own growth.

After all, government doesn't create wealth; people do, when they run profitable businesses.

Government's role is always to nurture its citizens rather than to promote itself.

At the start of Australia's G20 presidency, the government and the people of Australia look forward to welcoming national leaders and international opinion formers to our country.

I promise you: we will make your trip worthwhile.

Australia is determined, as a responsible and committed G20 chair, to promote better global governance. We will strive to build on the good work of Russia's presidency and lay the foundations for further progress under Turkey in 2015.

Better governance, though, is not the same as more government.

Ultimately, the G20 is not about us in government; it's about the people, our masters.

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