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**“AUSTRALIA’S ROLE IN STRENGTHENING INTERNATIONAL
CONSULTATION AND COOPERATION”**

ADDRESS TO THE LOWY INSTITUTE

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****CHECK AGAINST DELIVERY****

This is my first address to the Lowy Institute and I would like to begin by thanking Frank Lowy and his family for their generous support of this increasingly influential institution.

I have long admired Frank Lowy. His story, his enterprise, his philanthropy and his love of Australia represent the very best of our nation.

And now, through the Lowy Institute, Frank is facilitating a “reach out” to global affairs that a maturing middle power nation should embrace.

2014 will be a significant year for our country on the international stage.

It began at the World Economic Forum in Davos where our Prime Minister gave a defining speech that has been lauded across the globe as a new and promising pathway for the G20.

Tony Abbott’s speech embodied the traditional liberal and conservative values that have served the world economy best over the last fifty years. It was a speech that reaffirmed that freedom and small government rather than more regulation and higher taxes will serve us best for the next fifty years and beyond.

During the course of this year, as President of the G20, Australia will welcome the world.

It will culminate in November when 4000 international delegates and 3000 international media will meet in Brisbane for the Leader’s summit.

This is the year that Australia will lead and influence the world's collective decision-making on how to get the global economy growing, how to make it resilient to future shocks, and how to continue to build sustainable prosperity for all the citizens of the world.

In just two weeks our leadership kicks off in earnest when we welcome the G20 finance ministers and central bankers to Sydney.

Many of the countries in the G20 have been through very tough times over the past five or six years. We are all still grappling with how to restore economic growth, create jobs, and strengthen financial systems while at the same time repairing our budgets.

Australia had the good fortune to be relatively unscathed by the global financial crisis, but this in large part reflected the decisions of past governments which left a stronger starting point for our economy and our budget.

While we emerged from the immediate crisis in better shape than many of our developed world peers, Australia now finds itself with a budget that is in significantly worse shape than before the crisis.

Indeed, in looking at the experience of the Crisis, nothing stands out more than the need to make sure Australia maintains its fiscal flexibility.

Many countries still face very difficult decisions because they have run out of fiscal and monetary policy options. We must never let ourselves get into that situation.

The G20 meetings over the next twelve months must be a reminder to all Australians that unless we prepare for the worst of economic times when we can, then the pain during recovery will always be far greater.

That is why the Abbott Government is determined to repair our budget.

The messages we have for Australia and for the global economy are one and the same. Governments have run out of money and it is now the turn of the private sector to generate economic growth and create new jobs.

Governments must facilitate and not inhibit that task.

We all have an obligation to begin by fixing our Budgets.

This will inevitably require tough decisions now so we don't face near impossible decisions later.

We will discuss the common challenge of pursuing economic growth whilst maintaining a steady course for fiscal repair.

It is a difficult balancing act but fiscal repair is made easier if there is global acceptance that there are limits to what governments can do.

Individuals must do more for themselves, they must become more self-reliant.

And the business sector must shoulder more of the burden. It must restore corporate accountability, and rely less on government assistance. It must stand on its own feet, and it must pay its fair share of tax.

I have said before that the age of entitlement is over.

The age of personal and corporate responsibility has begun.

The strengths of the G20

The G20 was established in late 1999 and my predecessor Peter Costello was instrumental in its original formation.

Most observers agree that the G20 emerged as a stronger and more powerful entity during the darkest days of the global financial crisis.

It was a moment that demanded urgent global action, and global leadership.

It was a moment that demanded exceptional measures to stabilise financial markets and support a global economy in freefall. The G20 stood up to the challenge and effectively managed the immediate aftermath of the crisis.

But with the crisis more than half a decade behind us now, the world economy is by no means sailing in calm waters.

The recovery has been painfully slow, and the picture in many countries is still one of large output gaps, sluggish or negative growth, and high unemployment or underemployment.

The world needs to rebuild economic and fiscal resilience. It urgently needs to find ways to spur growth and create jobs, and restore fiscal balance sheets.

Faced with this reality, we must continue with international consultation and coordinated action to put the global economy on the path of sustainable recovery.

And it's important even outside of crisis, because in a globalised world, every policy action taken in isolation has a spillover.

So a global steering body is required in the best and worst of times to deal with both challenges and opportunities.

What the crisis brought into sharp relief was that the G7 or G8 model no longer reflected the world we live in. Not only were economies around the world, both developed and emerging, more connected than ever before, but the balance of economic power had shifted.

The G20 is definitely the right body to take the wheel.

Why? Because G20 members account for 85 per cent of the world economy, 80 per cent of trade and about two thirds of foreign direct investment.

Decisions by G20 leaders affect how we trade, invest and relate to each other across the globe.

The G20 has both advanced and emerging economies in its membership, including those emerging Asia-Pacific markets with whom Australia has particularly close and valued relationships.

And G20 leaders are supported by a group of Finance Ministers and Central Bank Governors in charge of countries' macroeconomic policies.

The heads of all the key international organisations such as the IMF, the World Bank, and the OECD attend the five scheduled G20 Finance Ministers Meetings each year.

This brings all the key economic decision makers and advisers together in one room regularly to assess developments and progress reform.

Yet despite its economic strength, the G20 remains small and agile enough to address difficult issues that larger global groupings cannot.

So how does the G20 actually fulfil this great promise of leadership?

How does it work in practice?

The importance of relationships and trust

Within a few days of taking office, I was on a plane for meetings in Washington and New York with the G20, the IMF and other key partners.

I saw in those meetings the importance of the personal relationships between Finance Ministers and Central Bank Governors. Building trust and empathy is a key part of how the G20 actually works.

Those relationships were critical in getting a rapid, nimble and coordinated response to the GFC. They remain critical now as we confront the task of rebuilding economic and fiscal resilience in the years ahead.

The opportunity to meet colleagues around formal meetings is an important way to nurture those relationships. It is those relationships that bear fruit when it's time for intense negotiations, key decisions and rapid action.

The G20 is still relatively young as an institution so these relationships and habits of cooperation are still being built. Continuing to build this environment of trust and effectiveness is a key priority of Australia's Presidency.

What Australia brings to the G20 Presidency

As chair, Australia must play to its strengths.

Historically we have been remote from the centres of power due to our distance from the North Atlantic hubs of political and economic might.

But now we are a middle power with a successful polity and a sophisticated economy. We are currently in our 23rd year of uninterrupted growth, something of a rarity by global comparison.

And we find ourselves not at the outskirts of economic dominance, but at its heart, in a new age powered by remarkable Asian growth.

In the policy world, Australia is well known as an honest broker, without any particular barrows to push.

We have a strong record of economic and fiscal reform, so when we advocate reform to our peers we are sharing our own experience and aspirations. We won't be advocating something we wouldn't be prepared to do ourselves.

I mentioned before how important relationships are. I would like to think that Australia has natural strengths in building good bridges with countries of varied backgrounds.

We bring our unique cultural character to this leadership role. We also bring an agenda that, characteristically, is focused and practical.

Anyone who's followed the G20's fortunes over the past few years will recognise that these are exactly the qualities needed to revitalise and refocus the G20, and to strengthen the mechanisms of international cooperation at a critical time.

Australia's G20 agenda

Our agenda for the G20 this year reflects our pragmatic approach.

It's simple, uncluttered, and focused. We're not adding anything to the existing agenda, but rather honing in on the most strategic priorities.

As the Prime Minister outlined in Davos last month, the G20 in Australia must not be a talkfest. It must be a place for decisions and actions.

We will be good stewards of this institution, and we will ensure that the work of the G20 has a truly global focus and that it remains relevant to the challenges of our time.

It's important that we focus on the top priorities.

In the finance track, Australia will structure its year around two key themes:

Firstly we will promote stronger economic growth and better employment outcomes; and secondly, we will help to making the global economy more resilient and able to deal with future shocks.

The G20 is at an important juncture. It must show it is able to act decisively to implement policy reforms outside of a global crisis. Complacency is our enemy.

We must resist any temptation to reduce our micro-economic reform efforts at the first signs of growth and recovery.

This is a difficult task.

There is reform fatigue in many G20 countries from six years of challenging economic circumstances. Many Governments are at, or close to, the limits of macroeconomic policy responses.

That is why Australia's focus will be on improving the environment for private sector investment and growth. This means policies to enhance competition and trade, to sharpen price signals for investment, to build a sense of personal and corporate responsibility, and ensure governments provide a predictable 'no surprises' policy framework.

Of course current topical issues will be discussed.

We will not ignore recent instability in international financial markets, and in particular, the impact on emerging market economies.

Our discussions will be based on the fact that fundamentals across most emerging economies are in better shape than they were prior to the Global Financial Crisis.

Countries like Mexico have undertaken significant reforms over the last decade. Mexico has improved its capacity to cope with global volatility by undertaking domestic micro-economic reform. Its currency can now trade across a wider range without creating significant domestic dislocation.

South Korea and Malaysia have similarly undertaken significant domestic economic reforms.

Other nations such as India and Indonesia have progressed very difficult reforms in a challenging political environment. In particular Indonesia's reduction in fuel subsidies has sent a positive message about the determination of the government to make difficult decisions that ultimately strengthen the local economy.

Generally, sovereign debt levels in emerging economies are reasonable, financial systems well based and foreign reserves in the main are providing a reasonable buffer.

While normalisation of policies in advanced economies is a contributing factor to the volatility in capital flows, it appears that much of the market volatility is related to specific issues in some emerging economies.

We will need to foster a constructive discussion at the G20 in Sydney so we understand each other's policy constraints and intentions. We must ensure that domestic policy is based on the best information.

We also need to develop a common view that the primary response to volatile financial markets should be for all G20 countries to continue to strengthen domestic economic and financial policy frameworks. At the same time, we need to cooperate to manage spillovers between countries.

The second big issue on the upcoming agenda is how the G20 can cooperate to get the conditions right to strengthen growth.

As I indicated before, the best way to promote stronger economic growth is by unlocking private sector-led growth through more investment and free trade.

Whilst leaders will deal with the issue of trade, the investment agenda is a key focus of the finance track.

Weak investment is a key contributor to below-par growth in many economies. Stronger demand, including from investment, could assist the process of normalising the currently accommodative monetary policy in advanced economies, with benefits for medium term financial stability.

And in both developed and emerging markets, stronger investment would boost productivity, job creation and economic development.

Government budget deficits and high debt mean that the public sector cannot be relied upon, nor should it be, to deliver greater investment.

So now is the time for a cashed up private sector to do some heavy lifting.

The centrepiece of that agenda will be commitments from members to undertake domestic reforms that tangibly improve the investment environment and so unlock private sector investment, particularly in the area of infrastructure. These initiatives will be a key part of the comprehensive growth strategies that Leaders have committed to producing by the Brisbane Summit.

From our perspective, Australia will lead through our comprehensive plan for boosting economic prosperity, built around a strong infrastructure package to boost growth and lift productivity, restoring the Government's fiscal position and revitalising Australia's structural reform agenda.

It is clear any discussion of growth and resilience will need to involve a sound approach to fiscal policy.

This has been squarely on the G20 agenda for some years and we will progress it further in our 2014 agenda.

As recovery takes hold in advanced economies, now will be the time to refocus on rebuilding fiscal flexibility across the G20 with measures that improve the long term structure of budgets.

Again, Australia will lead by example.

As I noted earlier, Australia's relative resilience through the GFC reflected our disciplined fiscal policy and track record of economic reforms during the 1980s, 1990s and early 2000s.

However, a legacy of the global financial crisis and the previous Government's spending policies is that Australia's fiscal buffers have been significantly eroded.

The structural position of our budget is unsustainable.

We now find we are not able to finance projected growth in government spending from our existing tax base.

This means that, in the absence of significant fiscal adjustment, public debt will continue to grow and the Government's flexibility to respond to future economic shocks will continue to erode.

To a large extent, the budget that we inherited from the previous government reflects the entitlement mentality that has dominated government decision-making over recent years.

Too many tax payers' dollars have been spent on corporate and middle class welfare and too often previous governments have been drawn into areas that are better left to the private sector.

Not only are these policies an unsustainable use of taxpayers' funds, they also undermine economic incentives, our productivity and ultimately our national prosperity.

We must restore our own fiscal position to a sustainable long-term path.

This will be the key focus of the budget in May, when we will be announcing changes necessary to meet our commitment of achieving budget surpluses that build to at least 1 per cent of GDP by 2023-24.

The budget will also be set against the broader challenge of sustaining growth and national prosperity.

With Australia's terms of trade in decline and baby boomers now reaching retirement, sustaining strong growth in living standards over the next decade will require a significant improvement in Australia's productivity growth performance.

Again, this won't be achieved through more government handouts.

We need to invest in economic infrastructure, remove regulatory impediments and create an environment where workers and firms have strong incentives to increase the productivity of individual workplaces.

This is the broad framing that sits behind the Government's structural reform agenda.

Through our infrastructure initiatives, the Competition Review, the Financial System Inquiry, the upcoming review of the Fair Work laws, our deregulation agenda and the Commission of Audit, we have a comprehensive agenda to improve the structural underpinnings of the Australian economy.

Combined with our fiscal adjustments, this means that we will be leading from the front when it comes to the G20's comprehensive growth strategies.

Building Resilience

Building resilience in the global economy more broadly will require progress over a range of areas. These include reform of international institutions particularly the IMF; implementation of the financial regulation agenda; and harmonisation of international tax rules.

This is an ambitious agenda.

And it will be a challenging one.

The Need for IMF Reform

Reform of the IMF has been central to the G20 agenda since its inception, but recently it suffered a major setback when the United States, as part of their Budget deal, failed to ratify reforms to the IMF that were agreed by the G20 in 2010.

For 70 years, the IMF has been the cornerstone institution in the international monetary system and the lynchpin of the global financial safety net.

The world has been a far better place because of its role as a key international institution.

However, for it to remain a central global institution, the IMF must be adequately resourced and have governance arrangements that reflect its global membership.

In 2010, the G20 and the IMF agreed to a far-reaching package of reforms that would lead to a doubling of the IMF's permanent resources and a major realignment of voting shares to better reflect the changing relative weights of countries in the global economy.

Today, ratification by the US Congress remains the final step to implement the 2010 reforms.

These reforms are critical to the IMF's ongoing legitimacy and effectiveness.

Failure to reform means that we risk a shift away from the IMF and the multilateral system towards bilateral or regional approaches and an international financial architecture that's fragmented and misaligned.

Ultimately, what is most at risk over the longer term is the stability of the international monetary system itself. Given the costs of instability, it is of paramount importance to the G20 that we modernise the IMF.

That's why, together with the Deputy Prime Minister of Singapore, Tharman Shanmugaratnam – the Chairman of the International Monetary and Financial Committee – I wrote an article in the Wall Street Journal calling for the US Congress to show leadership and urgently ratify the 2010 governance reforms.

To secure global economic stability into the future, the United States must support IMF reform now. As a longstanding friend of the United States we can say emphatically that this reform is very much in the interests of the United States as well as that of its friends.

I believe we have a small window in which to achieve IMF reform. It will be high priority for me, with the cooperation of the rest of the G20, to prevent this reform process from grinding to a standstill.

How our success will be measured

Australia is seeking to leave a lasting legacy in the way the G20 operates.

We'll pursue this goal primarily by focusing on tangible outcomes, improving communication about the G20, having meaningful engagement with business and other stakeholders, and reaching out to non-G20 members.

G20 will achieve outcomes during our presidency, and will also be set up to keep achieving outcomes once we pass the presidency on to Turkey in 2015. To put it simply, we want to leave it an even stronger institution.

In the end, Australia's presidency will be judged by just a few things.

Under our leadership, we should have practical actions in place for the G20 to lift growth and create jobs. We should aim to 'shift the dial' on world growth.

The G20 should agree to a more sustainable approach to fiscal policy that makes the world economy more resilient.

We should also have a financial system that is safer while also supporting growth.

And we should have a fair and effective international tax framework for the 21st century.

Also, as leader, we should set an example of job creation in our own context. We should set an example of growth led by business.

Under our leadership, Ministers, Governors and leaders should find the meetings productive and come away believing the G20 was worth investing in.

We should be remembered not only for helping the G20 deliver its objectives, but for making substantial and lasting improvements to the effectiveness of the G20 as a forum.

These are the benchmarks I have in mind as we approach the year ahead of us, and as I approach each of the meetings I'll chair with Finance Ministers and Central Bank Governors.

Conclusion

The challenges, and the opportunities, of our age are intrinsically global in nature.

They require global responses.

In our world, a great deal of prosperity, opportunity, and equality hinges on how well the international community works together for the greatest good.

Cooperation is fundamental to free trade and free commerce, which in turn are the foundations of wealth.

Cooperation is fundamental to alleviating poverty, growing the global middle class, resolving international conflict, and responding to disaster.

In 2014, Australia has the opportunity to show the world just how effective such cooperation can be, and to make it even stronger.

I have every confidence that our leadership and example this year will inscribe a rich chapter in the history of the G20.

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