



Australian Government



Staying the course

Strengthening our resilience
in uncertain economic times

Economic reform —
increasing what we earn

Keeping the door open
to our economy



During August and September this year I delivered a series of speeches — ‘Staying the Course’ — outlining how the newly-elected Turnbull Government is setting Australia up for our next generation of economic success.

With our nation having just concluded its 25th year of consecutive economic growth, the central focus of the Government is on ensuring we continue to do what is necessary to guarantee growth, jobs and higher living standards for all Australians.

There are many obstacles in our path.

Our nation is saddled with a debt and deficit legacy from the previous Labor government, we are in the midst of low global growth and calls for renewed protectionism are increasing.

We must stick with our national economic plan of which every element is designed to help us increase what we can earn as a nation, as businesses and as individuals as well as strengthen our resilience against global shocks.

The plan promotes investment, drives innovation, transforms our defence manufacturing industries, reduces the tax burden on investment and enterprise, opens up our enterprises to new markets through more new export trade deals, develops infrastructure that underpins investment and removes the impediments to investment in critical sectors.

We will also keep the door of our economy open with foreign investment, trade and an immigration program that is focused on bringing people to Australia who make a contribution rather than take one.

Staying the course on our national economic plan will help to set Australia up for our next 25 years of consecutive economic growth.

Thank you.

A handwritten signature in white ink, which appears to be 'Malcolm', written in a cursive style.

This is what our national economic plan for jobs and growth has always been about. Making the choices that will set Australia up for another generation of economic success.

STAYING THE COURSE

Strengthening our resilience in uncertain economic times

Address to Bloomberg, Sydney

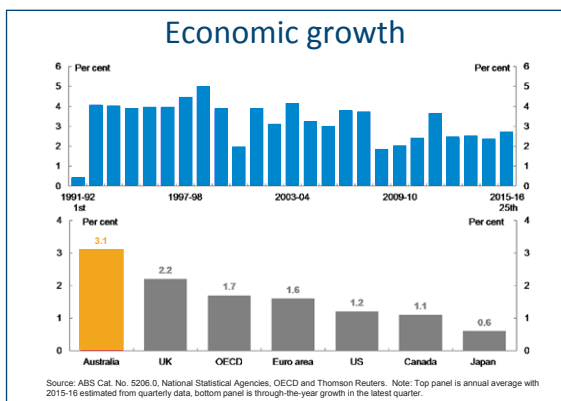


Australia has just concluded its 25th year of consecutive economic growth.

This has not occurred by accident — it is the product of more than 30 years of economic reform and hard work, ingenuity and sacrifice from millions of Australians.

Events have both assisted us and challenged us — but overall we have prevailed, where so many other countries have failed.

This remains true, and is demonstrated by the successful transition underway from the investment phase of our mining boom to a more diversified economy that can set us up for yet another generation of growth.



Today, we have one of the highest rates of economic growth in the advanced world. At the G20 there is no other place than Australia's where you would rather be seated.

We should acknowledge our relative success. But there is a terrible risk that our continued success has been steadily sowing the seeds of complacency.

A generation has grown up not ever having known a recession, of seeing unemployment rates at more than ten percent, with one million Australians out of work or mortgage rates at 18 per cent or where inflation is actually a problem, rather than an aspiration.

In addition, a generation has grown up in an environment where receiving payments from the Government is not seen as the reserve of those who unfortunately will be forever dependent on support or in need of a hand up, but a common and expected component of their income over their entire life cycle.

On current settings, more Australians today are likely to go through their entire lives without ever paying tax than for generations. More Australians are also likely today to be net beneficiaries of the Government than contributors - never paying more tax than they receive in government payments.

There is a new divide — the taxed and the taxed nots.

Deficits are dismissed as temporary, cyclical and self-correcting. If it means payments and services are maintained, then deficits are ok, just increase the taxes or increase the debt. The only problem is fewer people are paying the taxes, as our working age population contracts relative to the balance of our population and our population ages.

After so many years of growth, we must ask ourselves a few hard questions.

Are we still up to the challenge of doing what we need to do to ensure another 25 years of consecutive economic growth?

Are we more interested in preserving the benefits of what the past 30 years of economic reform has given us, than relinquishing and re-investing some of those dividends to create a stronger economy for both our own future and the generations that follow?

Do we any longer appreciate the consequences of what actually happens when it all goes south, as we did more than 25 years ago when we had the recession we had to have?

Do we really appreciate how quickly our economic success can turn, and are we as prepared as we can be to deal with it, as we were when the last crisis hit, thanks to the Howard Costello Government?

The next generation will know how well and how quickly we answered these questions by the Australia we leave them, by how much debt they will have to repay, by the taxes they will be forced to endure and the standards and access to services they are able to afford, and therefore have to accept.

My greatest concern is that we end up answering these questions too late and the hard way.

There are some who seem to wish for a burning platform to bring about the changes that are necessary — as occurred in other jurisdictions, such as Europe and the UK, but I am not one of them.

I do not want my kids to know what a recession is and everything that goes along with that.

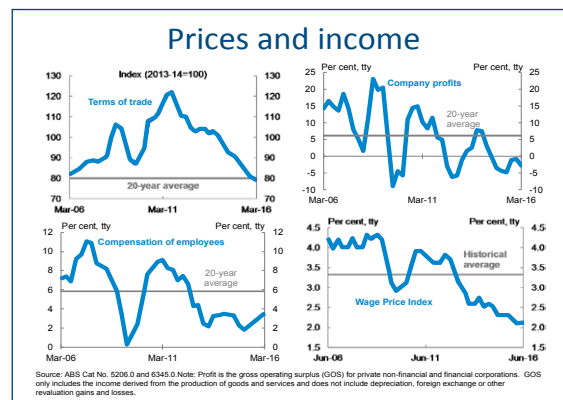
I recognise that in the absence of a 'recession we have to have', or the threat of 'becoming a banana republic', achieving necessary change will be more frustrating and more difficult. But it is no less necessary, and achieving it this way is far better than the alternative.

In the next five to seven years we have a window of opportunity to prepare our country for what lays ahead and to set our nation up for a new generation of growth and prosperity.

As a re-elected Government and a newly elected Parliament there are three things we must do over the next three years. I will expand further on these points in the weeks and months ahead.

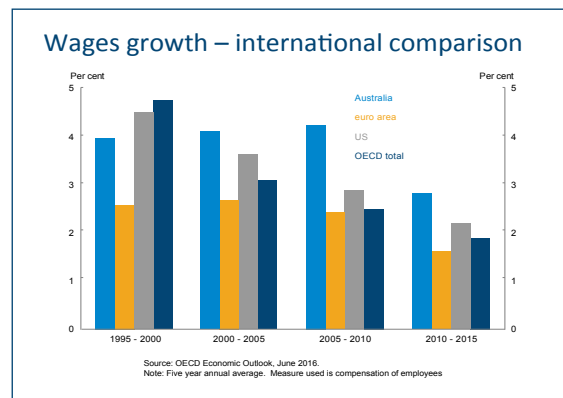
Firstly, we must take action to strengthen our economic resilience to deal with the shocks that will inevitably come - to get debt under control by returning the budget to balance through disciplined expenditure restraint and a tax system that supports growth and provides sustainable revenues. We must also build on the strength, integrity and resilience of our banking and financial system. These are my topics for today.

Secondly, we must support and implement policies that help us to increase what we can earn as a nation, as businesses and as individuals in a low growth, low interest rate, low inflation, low wages growth, volatile world.



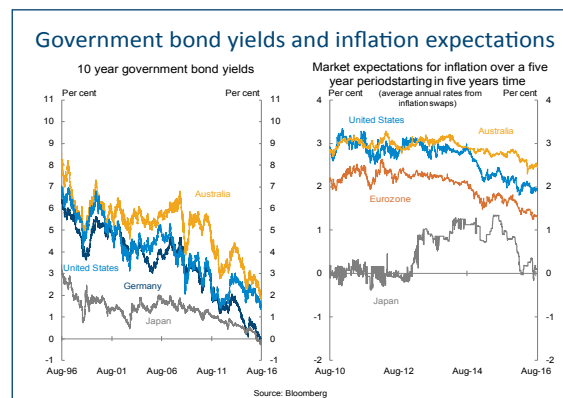
While the GFC was many years ago, the effects continue and will be felt for years to come, the world over.

We need to earn more from what we do and what we produce. This is how we lift real incomes. This is not just an Australian problem, but a global one, and we are faring better than most.



In this global economy we have to fight for every inch of growth and for every dollar, yuan, yen and euro we can get.

To achieve this we must lift our levels of private investment, to replace what has been exhausted in the mining sector, to boost our productive capacity.



Global capital is sitting dormant. How else do you interpret the absurdity of negative bond yields — where it is apparently better to give the German or Japanese Government your own money for a decade only to just get it back and pay for the privilege rather than invest in a productive enterprise.

The response of Central banks and Governments around the world has been to exhaust monetary policy with rate cuts and QE and collapse their budgets with fiscal stimuli in the hope that it can replace the vacuum created by the evacuation of private capital.

The outcome has been private capital remaining on the sidelines while public debt soars to new records and cash rates go negative as central banks push against the string.

Private capital is looking for something to invest in. Something that creates value. Real income earning projects and enterprises. An economy where growth is organic, rather than fabricated and reforms are unlocking value and creating opportunity.

This is the type of the economy that can coax private capital out of its cave. That is our task.

That is why the Budget in May was not just another budget but an economic plan for jobs and growth.

A plan to drive investment, to drive innovation, to transform our defence manufacturing industries right across the supply chain, to reduce the tax burden on investment and enterprise, to open up our enterprises to new markets through more new export trade deals, to develop infrastructure that underpins investment and to remove the impediments to investment in critical sectors such as construction by restoring the Australian Building and Construction Commission. This is the course we must stay.

This is where the jobs will come from. This is where wages growth will come from. This is where the profits will come from and this is where the revenues will come from — not from increasing the tax burden on the economy.

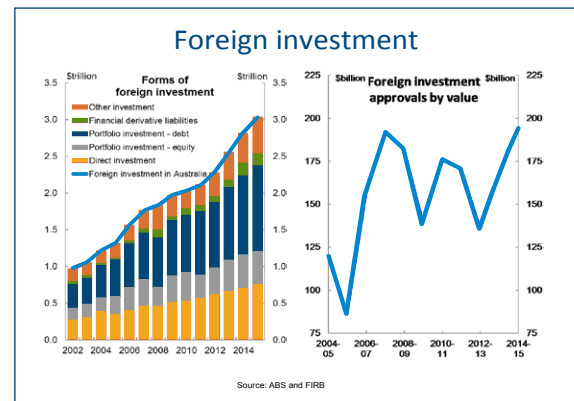
And thirdly, we must keep our doors open. We must keep the drawbridge down.

In today's global political environment, trade, investment and positive immigration policies are increasingly seen as the problem and not the solution. At the same time, more of our citizens want to believe that they can be insulated from what is occurring globally by disconnecting from the very sources of our own economic prosperity for centuries. We must face up to their concerns and address them.

Many Australians feel the system no longer works for them and indeed works against them. It is politically popular to endorse this sentiment. There is great danger in taking such a cynical approach.

As a government we know that trade, foreign investment and positive, well controlled immigration focussed on bringing those to Australia who come to make a contribution rather than take one, creates jobs, drives growth and always has.

There is more than three trillion worth of foreign investment in Australia today, with an annual inflow of around \$200 billion. In 2015, our global export volume trade, including our tourism and international education sectors, delivered around \$363 billion to our economy and accounted for around 19 per cent of our GDP and around 1.3 per cent of annual growth.



We cannot pull the doona over our head by taking false comfort in renewed protectionism. Rather than secure our economic future, it will cost it.

Today I want to discuss further our ongoing work to strengthen Australia's economic resilience in the face of the real global economic threats and uncertainties we face.

When Australia last faced an historic global economic shock - the GFC, we were well prepared. Our nation's finances were in order, our AAA credit rating was in place and our banking and financial system was strong — it was well regulated, well capitalised and well managed.

To ensure we are prepared for whatever events may occur in the future we have much more work to do, especially in the area of budget repair, to strengthen our nation's finances.

This was the core component of the national economic plan for jobs and growth set out in this year's budget, that we took to the election and was endorsed. We intend to now deliver that plan. And it will be necessary.

The muted impact of Brexit recently reminded us of the type of events that really don't impact on our economic circumstances at home.

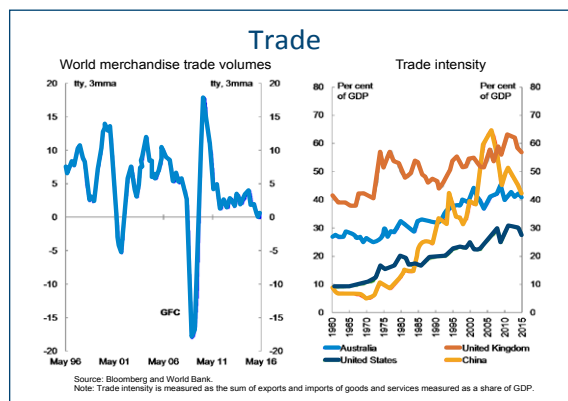
However, if similar shocks emanated from within our own region and key trading partners, especially China, or the United States, the impact would be far more dramatic. We learned this during the GFC in reverse where China's stimulus proved to be more important than our own.

Looking forward, the growth outlook in the US is modest, but stable.

However, in China, events may prove far less predictable. Interesting times may lay ahead, and we must prepare.

The good news out of China is that the transition of their economy from production to consumption is synchronising well with our own transition to broader based growth, particularly in the services sector.

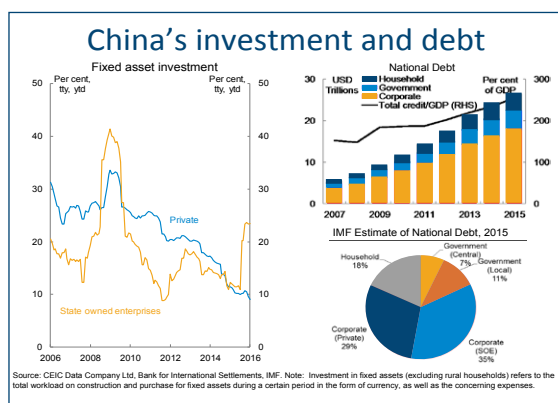
Our trade agreement further enhances these opportunities. Few countries could better hope to continue to benefit from the economic upside of China than Australia.



While China's growth is slowing, it continues to grow at 6.7 per cent, off a much higher base. And there is a clear commitment from the Chinese leadership that growth remains the goal. It is essential to their stability as a nation, and always has been.

The issue that arises is how this growth continues to be sustained and what the risks are for Australia.

China has been no more immune to falling private sector investment than other economies. China's response to falling private investment has been to dramatically increase their public investment through their SOEs in the most significant way since the GFC.



Compounded with the activity of local government administrations, China's debt levels are now rising steadily at 13 per cent per annum and are more than 250 per cent of GDP.

More than half of this debt is essentially government debt, with SOE's now accounting for more than half of all corporate debt. Bank loans account for around 70 per cent of the total debt at the end of 2015.

At a macro level, in isolation, this is not evidence of a problem. China has more than sufficient foreign reserves. The Bank of International Settlements estimates China's foreign currency denominated liabilities at around 7.5 per cent by end 2015. By comparison, prior to the Asian Financial Crisis, borrowing from international banks from Korea, Indonesia and Thailand was between 24 per cent and 50 per cent.

The issues arise at the micro level. What is the composition of this debt? How is it being managed, what are the assets underpinning it and what is the profitability of the enterprises and the quality of the revenue streams servicing it?

The ability to repay loans is deteriorating as profits continue to deteriorate, especially for SOEs. The level of non-performing loans has increased by 126 per cent since 2013.

The IMF estimates NPLs at 7 per cent of GDP, not including exposure to the shadow banking sector, whose assets grew by 30 per cent in 2015 and now stand at 79 per cent of GDP or \$US 8 trillion.

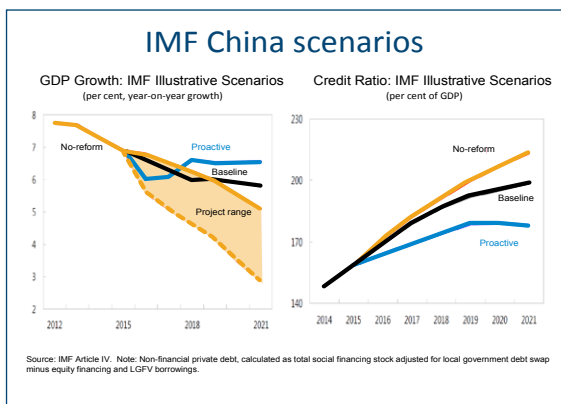
The growing size of the shadow banking sector means that during a liquidity tightening, difficulties could arise replacing shadow banking credit, leaving borrowers who rely on such financing at risk of a credit crunch.

Add to this that China has an unfunded social security liability of around 70 per cent of GDP in 2015 for the period 2015-50, and we can see an increasing number of balls in the air.

The IMF advises that taking further steps now to pursue structural reforms in the SOE sector and curbing local government borrowing would have immediate and short term impacts on China's growth rate. This would also impact Australia. However they argue the benefit would be a more sustainable growth rate moving forward.

While some actions are being taken, such as the local government debt swap program, it is clear that driving growth is the top priority.

Based on the IMF's assessment, a no reform option will see China's growth hold up above baseline until the end of the decade, but after that, continue to head south rather than stabilise. Australia would not be isolated from the effects of that outcome either.



Of course all of these decisions are outside our control and are an entirely a matter for the Chinese Government to determine in accordance with their own national priorities.

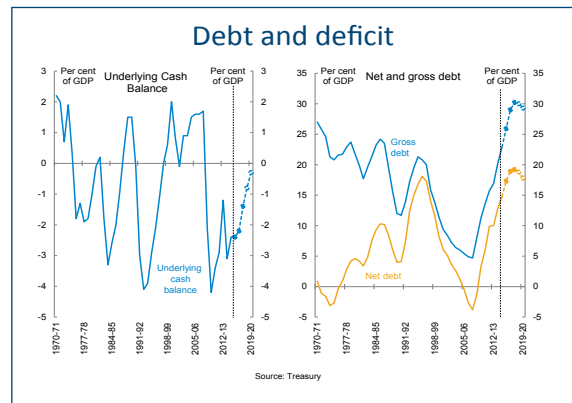
What is more important is to ensure that whatever the outcome, we ensure that Australia is as resilient as it can be.

This requires two priority responses:

Firstly, we must arrest the growth in our public debt, before it is too late, by getting expenditure under control at sustainable levels and boosting revenues through growth friendly tax policies and protecting the integrity of our tax base.

Secondly, we must continue to reinforce and build on the strength of banking and financial system.

As a Government we inherited \$240 billion in accumulated deficits and a debt of \$317 billion, and projected to increase to \$667 billion within next ten years. As a Government we have so far acted to reduce that projected debt by \$55 billion. However we are still a long way from where we need to be, and time is running out to get there.



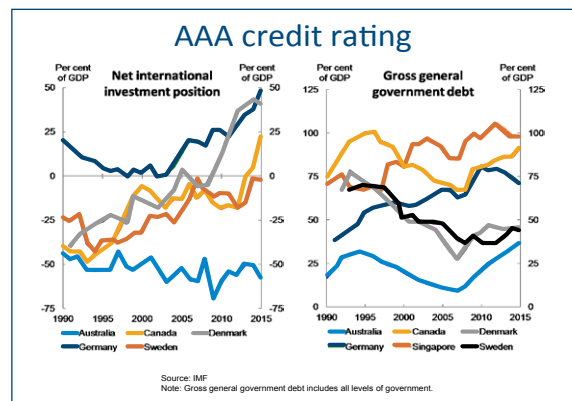
Our debt now stands at around \$430 billion, with interest payments at \$16 billion this year, now one of the largest line items in the budget and growing.

Our CGS on issue, our gross debt, is increasing by \$6 billion a month or \$1.4 billion per week in 2016/17 (\$72 billion for the year).

While our debt is low by global standards, and our placements are well covered, this is no excuse to be complacent about debt.

Our government debt to GDP is well below other AAA rated countries. However our net international investment position is the inverse.

This is because Australia has always been a net importer of capital, especially in the private sector. This has been a key source of our prosperity and development. Of itself, this is not a problem, as the investment is supported by real assets and is in productive enterprises.

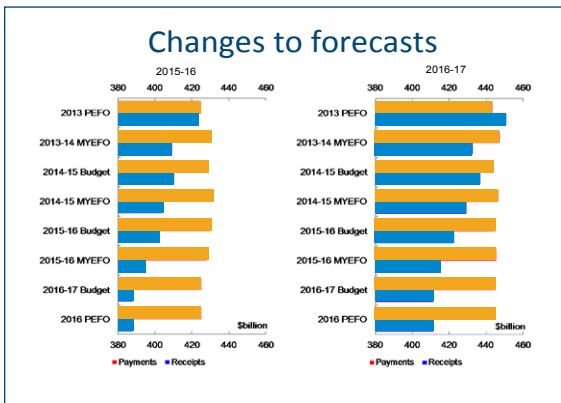


However, it does mean we have less head room for Government debt than other advanced economies that fund their own debt, and why ratings agencies tend to be very focussed on Australia's deficit and debt position. All Australian Governments must therefore be more conscious of our collective debt position. Just because rates are low, doesn't mean the money is free — you still have to pay it back.

To arrest our debt we must restore the budget to balance.

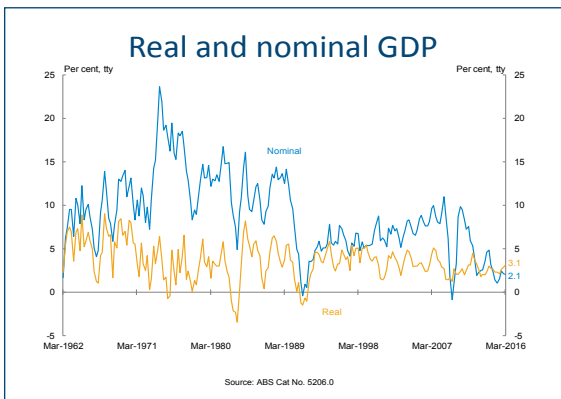
Deficits have proven difficult to shift in recent years, despite applying significant expenditure controls. The situation has been made even worse by the budget sabotage engaged in by the Opposition during the last parliament and the unwillingness of the previous Senate to enable the Government to implement our agenda for budget repair.

Despite these challenges, since the 2013 PEFO, even in nominal terms, we have kept expenditure under control. In 2013, the PEFO statement estimated Government payments in 2015/16 would be \$425 billion. In the 2016 PEFO, which mirrored this year's Budget, the estimated expenditure was the same at \$425 billion. This outcome was replicated in the comparison for 2016/17.



However, the projected revenues set out in the 2013 PEFO were not realised. The revenue estimate for 2015/16 fell by \$35.5 billion and for 2016/17 fell by \$39.5 billion by the 2016 PEFO statement. These declines match closely the projected deficits in each of these years.

During the same period forecasts for nominal GDP growth in both years were reduced from 5¼ per cent to 2½ per cent. As noted before, we earned less - the reduction in the terms of trade, commodity prices, in wages and in profits - than had previously been anticipated.



In other words, we have an earnings problem.

Our nominal growth today is lower than our real growth, by a full percentage point. This is an uncommon predicament and a core challenge in working to bring the budget back to balance. We are not being assisted by the tail winds that supported previous periods of successful fiscal consolidation, including in the lead up to the GFC.

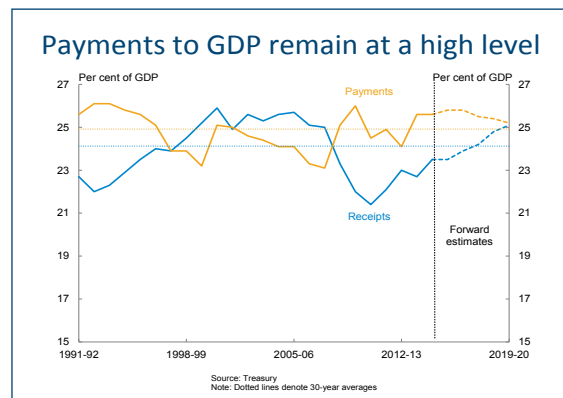
However, we cannot take this as an invitation to increase the tax burden on the economy, especially on investment. This is not the way to remedy this problem. You don't encourage growth by taxing it more. This is why we have consistently rejected Labor's tax and spend approach.

It is, however, necessary to act to protect the revenue base from structural weaknesses, to ensure the base is contemporary and ensure that taxes are paid — as the Prime Minister said, taxes should be as low as they can be, but they must also be paid.

That is why we have introduced our tough new laws to crack down on multinational tax avoidance, including our new diverted profits tax introduced in the budget. It is also why we have moved to tax digital products and services and remove the GST on bitcoin and deal with the tax challenges of the shared economy. And it is why structurally - not because of any malfeasance - we have recalibrated the way generous tax concessions are provided in the superannuation system and to ensure that these incentives are aligned with their purpose as proposed in the Murray review.

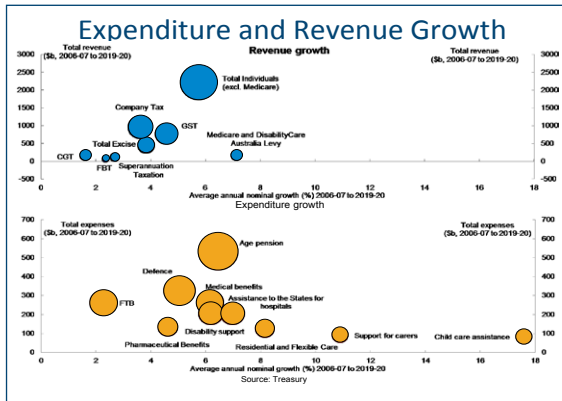
These measures will support protecting our revenue base, but budget repair must always start with getting your expenditure under control and keeping it at sustainable levels.

Current projections show that expenditure as a share of the economy remains stubbornly high. While expenditure is projected to fall from 25.8 per cent to 25.2 per cent, revenue as a share of GDP rises more quickly, with bracket creep being the principal contributor.



That said, of the \$40 billion in budget improvement measures that are as yet un-legislated, \$25 billion, more than 60 per cent, constrain spending, while just over a third, or \$15 billion, increase revenues. In other words the policy emphasis of our measures to improve the budget is on controlling spending, rather than increasing revenue.

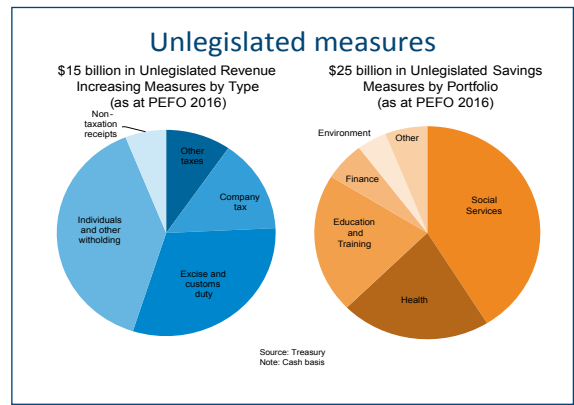
The bulk of our savings measures on outlays are not surprisingly weighted to the largest spending portfolios, in particular social services. Reigning in the growth in welfare spending is one of the most difficult challenges confronting the budget.



In most cases these initiatives on spending are designed to flatten the growth curve in future costs — no different to what any business in the country seeks to do in response to the demands of their customers. Where the growth in your costs is greater than the growth in your revenues, then you have a problem.

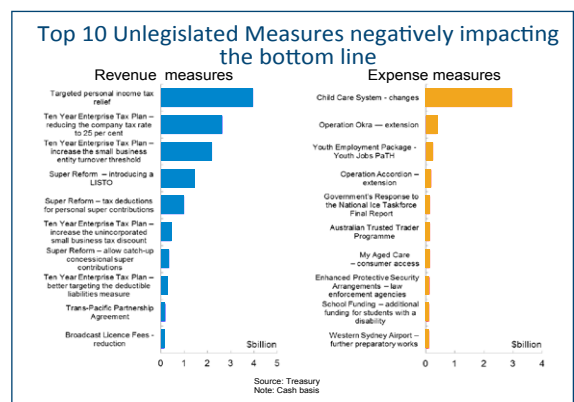
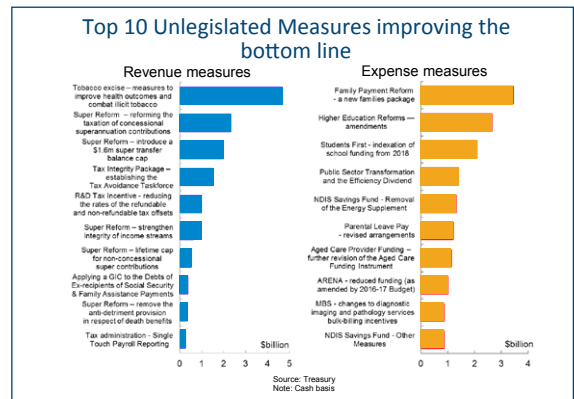
Customers demand better standards of services at lower costs. Citizens are no different. We have to work together to find better and more innovative ways of delivering our services, particularly in areas such as health, education and human services that delivers for citizens and is affordable and sustainable. Professor Harper's report, which has been taken up by the Government is guiding our approach in addressing these challenges.

In addition to these measures there are also important revenue and expenditure measures that are key to our national economic plan. Improving the flexibility of superannuation, reducing taxes for small and medium sized businesses and average full time wage earners, supporting start-ups and making child care more affordable to support work force participation.



The net impact on budget improvement measures after talking these other measures into account over the forward estimates is more than \$18 billion. This is a clear plan, with real measures that we are determined to see supported through the Parliament.

Whether the measures that are necessary to return to budget balance are supported is yet to be seen. The first test will be seen when the Opposition will have to decide whether to honour their commitments in the election to support the more than \$6 billion in savings measures on expenditure that they included in their own budget costings during the election.



As the Prime Minister said yesterday, we are asking Labor to vote for measures they have already said and indicated they support. But this cannot be the end of the process. We expect their support for other revenue measures such as tobacco excise, which will follow. But we also expect them to engage on expenditure savings they have habitually blocked. At the same time we will be putting these questions to the cross bench in the Senate and the Greens.

Ratings agencies have all warned that they want to see budget measures passed or this will increase the risk of a rating downgrade. They have expressed serious doubt about whether this parliament will be up to the task.

The consequences of the alternative are too stark.

Possible scenarios

Scenario 1 assumes:

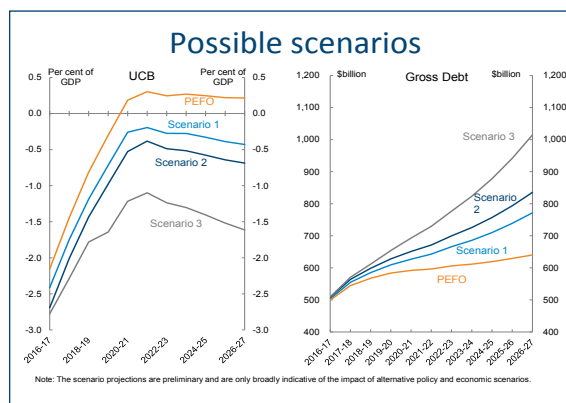
- Currently unlegislated measures supported by the opposition are passed by Parliament.
- Other unlegislated measures explicitly opposed by the opposition are abandoned.

Scenario 2 assumes:

- As per Scenario 1, but assumes further downgrades due to economic parameters.

Scenario 3 assumes:

- As per Scenario 2, but assumes all currently unlegislated measures are abandoned.



Deficit and debt projections prepared by Treasury estimate the impact of three scenarios. The first involves only the \$25.3 billion in budget improvement measures including the omnibus savings bill and other non-contentious measures being passed and additional spending pressures, such as the PBS, state partnership agreements and the like coming onto the budget. \$14.6 billion in other budget improvement measures would be reversed.

Scenario 2 includes everything in scenario 1, with further downgrades due to economic parameters in the order of \$18 billion over four years. Scenario three assumes all currently un-legislated measures are unsuccessful.

The worst case scenario will see our gross debt exceed \$1 trillion in a decade. The other scenarios place debt just above and below \$800 billion. In all three scenarios the budget does not return to balance, and over the medium term, we are moving away from that goal and not toward it, as major expenditure items like the NDIS start to fully kick in.

These scenarios set our stark choices. Our plan makes the choice to combine measures to drive growth to support revenues, while getting expenditures under control so they can be sustained at levels where the Government is living within its means.

The period of this term could well prove to be the tipping point on the trajectory of debt our children and grandchildren will be saddled with. Once that debt fully takes hold, it will build its own momentum and will only grow more difficult to tame.

I choose to maintain an optimistic disposition. I remain optimistic about Australia's future growth and will work with the Parliament to secure the right result.

Finally we must also not take for granted the strength of our banking and financial system.

Financial Systems - High priority government actions

Consumer outcomes	
<ul style="list-style-type: none"> • Life insurance remuneration • Professional standards • External Dispute Resolution framework review • Product issuer obligations and intervention power 	<ul style="list-style-type: none"> • Consumer credit protections • Credit cards • Whistleblower reforms (Corporations Act)
Innovation	
<ul style="list-style-type: none"> • NISA employee share scheme • Insolvency reform rules • Asia Region Funds Passport 	<ul style="list-style-type: none"> • Crowd-sourced equity funding • Collective investment vehicles (corporate) • Collective investment vehicles (limited partnership)
Resilience	
<ul style="list-style-type: none"> • Crisis management toolkit 	
Regulatory Architecture	
<ul style="list-style-type: none"> • Financial Sector Advisory Council • Review of ASIC enforcement powers 	<ul style="list-style-type: none"> • ASIC industry funding

This is arguably one of our most important assets we have when it comes to driving and facilitating growth in our economy, to support jobs and to boost incomes. That is why, as a Government, we have acted to further strengthen the system.

Earlier this year when the Opposition proposed a royal commission into our banking system, terms of reference still outstanding, the then Assistant Treasurer Kelly O'Dwyer was in Washington for IMF meetings, where she was approached and asked what is wrong with Australia's banking system.

Labor's careless approach and cynical politics on this issue is a genuine risk to broader confidence in our banking and financial system which can only weaken the system.

Rather than engage in cynical politics, the Government understands the importance of our banking and financial system and has been working to strengthen the system for borrowers, depositors and shareholders alike.

Our objectives are to improve consumer outcomes, further strengthen the regulatory architecture, drive innovation in areas such as Fintech and crowd source funding and further build system resilience.

Most significantly, has been the conduct and response to the Financial Systems Inquiry by David Murray Inquiry.

This has already produced results.

APRA advise that according to their update in July the banks now broadly achieve the relative positioning on capital strength suggested by the Financial Systems Inquiry.

The Crisis management tool kit legislation will make its way back into this parliament to strengthen APRA's crisis management powers over the banks.

This year's budget reforms to superannuation were driven by Murray's call to make concessions fit for purpose, and the Government is working to deliver improved governance of superannuation funds and greater choice for consumers in selecting their funds.

Interchange fee and customer surcharging restriction are being activated. Corporate administration and bankruptcy reforms have been taken up in the National Innovation and Science Agenda. Unfair Contract terms legislation was passed in the last parliament.

And we acted to strengthen the powers and resources of ASIC to deal with direct failures and malfeasance within the banking system as also recommended by the FSI. APRA has also been active in this space, focusing on aspects of bank governance, culture and remuneration that promote sound risk taking.

We are working to put in place improved dispute resolution mechanisms across the sector, not just in banking, that gives customers better access to having their matter heard and determined on a more level playing field. The Ramsay review announced by Minister O'Dwyer a few weeks ago, will advise the Government on how to put such a new tribunal in place, and will obviously draw on the work done by the PJC on Corporations and Financial Services.

The House of Representatives Standing Committee will now take on a permanent watching brief on the banking and financial sector, in the same way it conducts hearings with the Reserve Bank. This measure will provide a new forum for accountability and transparency, including a standing report on the Banks own efforts to transform bank culture.

In my own engagement with the banks leadership, there is both a recognition and commitment to deal with this issue. I agree with those in the banking sector who have said they believe the key to making this cultural shift is to restore banking as a profession. A professional banker should serve their clients like a doctor cares for their patients.

Now the medical profession is not perfect either. But I agree that such an approach is a good place to start.

These are all real examples of how as a Government we are both acknowledging and acting on the concerns and issues that Australians have about the banking and financial system. Such concerns have to be addressed. Our approach is to deal practically with these issues and address them.

We are in even better shape today when it comes to the resilience of our banking and financial system than we have ever been, but as always we cannot be complacent. This should not be an invitation to take cheap shots and undermine the system, but to continue work constructively to further improve it.

As we face the challenges of the future we can we take the easier route of higher taxes and leave spending untouched. We can appropriate the budget to fill the vacuum left by private investment rather than pursue policies that will re-engage private capital. And we can shut the door and jump under the doona and hope it all goes way, or we can recognise that continuing to be a successful open economy has always been and will always be our ticket to prosperity.

This is what our national economic plan for jobs and growth has always been about. Making the choices that will set Australia up for another generation of economic success. The Turnbull Government is up for it and we will seek to lead the nation along this path. I believe Australian's are up for it. In the weeks and months ahead we will learn the extent to which the Parliament will be supporting the Government to implement what we promised and give the Australian people the economic leadership they voted for in returning the Government.

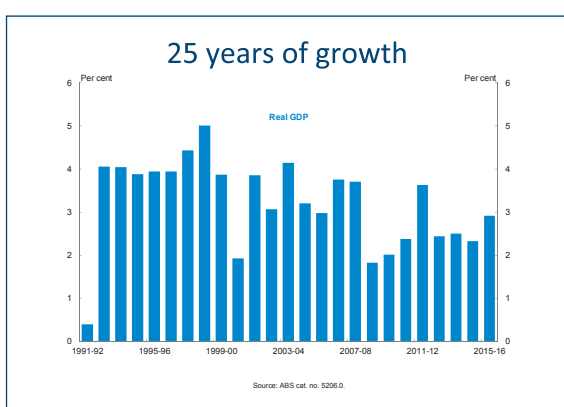
In the past year the Turnbull Government has been working to deliver the structural reforms our economy needs to strengthen growth and promote investment, and in that short time we have achieved a great deal.



STAYING THE COURSE

Economic reform – increasing what we earn

Address to the Australia-Israel Chamber of Commerce, Melbourne



Last week, the June Quarter National Accounts confirmed one of our countries greatest national achievements, namely twenty five years of consecutive annual economic growth.

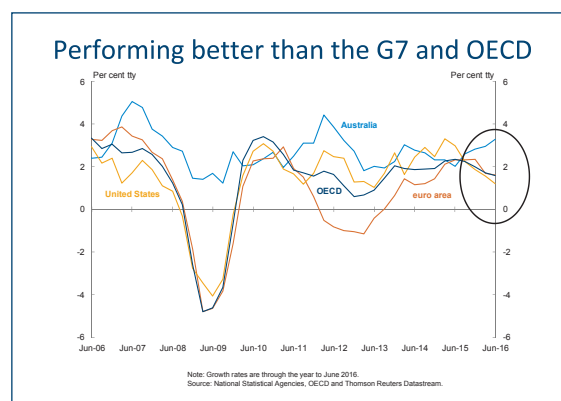
25 years of growth is the product of a generation of hard work by millions of Australians who got a job, created a job, started and ran a business, invented a new product, opened up a new market, took a risk and invested the reward.

These personal endeavors have been supported by policy changes by Governments that opened up our economy through competition, regulatory reform and trade deals. This brought new opportunities, greater productivity and higher levels of investment.

These private and public efforts were also supported by the flexibility of prices — interest rates, the exchange rate and wages — which all directed resources to where they were most needed and valued. The flexibility of these prices enabled our continuous growth — minimising the negative effects of the mining investment boom then and now as we transition to broader-based growth.

But there is no room for complacency.

While, at 3.3 per cent through the year, our economic growth is now above trend and at the top of the leader board of advanced economies around the world, to continue to take ground in increasingly uncertain and challenging economic times we must continue to fight for every inch of growth, as if it were our first.



Today's address is the second in a series, titled 'staying the course', which sets how the Turnbull Government is implementing our national economic plan for jobs and growth.

In the first address at Bloomberg I spoke of how we are working to increase our resilience to external negative economic shocks by arresting our debt and further strengthening our banking and financial system.

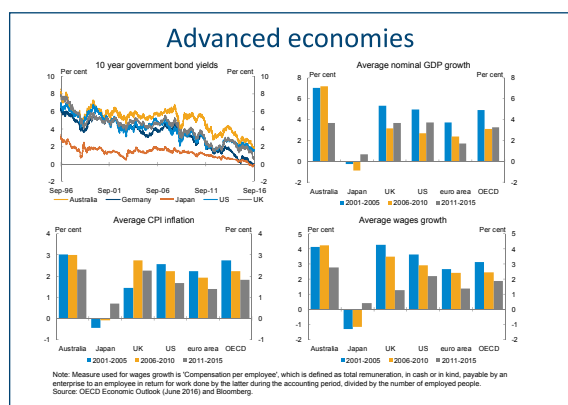
When the last crisis hit our shores, we had paid off our debt, we had 'money in the bank' with a net asset position, our budget was in surplus and our banks were in a strong position to withstand the storm.

Restoring the budget to balance by dealing with our spending problem and resisting cynical politics to focus on comprehensive financial systems reforms to make our banking and financial system stronger are all critical to this task.

Our success in the parliament this week, securing more than \$11 billion in budget improvements and resolving issues like our superannuation package demonstrated that the Turnbull Government is getting on with governing.

In my third address in this series in a few weeks' time I will be reinforcing, once again, why it is so important that we keep the doors of our economy open - to investment, trade and positive migration, which have all been foundational to our prosperity not just over the past 25 years, but for more than 200 years.

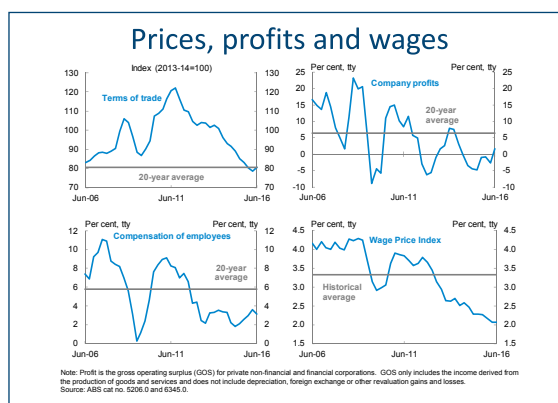
Today, I want to focus on the challenge of increasing what we earn as a nation in a world of low growth, low interest rates, low wages growth and low inflation.



The Australian economy is not immune from these global headwinds. While the mining investment boom helped Australia manage the challenges that advanced economies faced during the financial crisis we could not expect this to last forever. Now in addition to the global headwinds, Australia is managing a transition of its own.

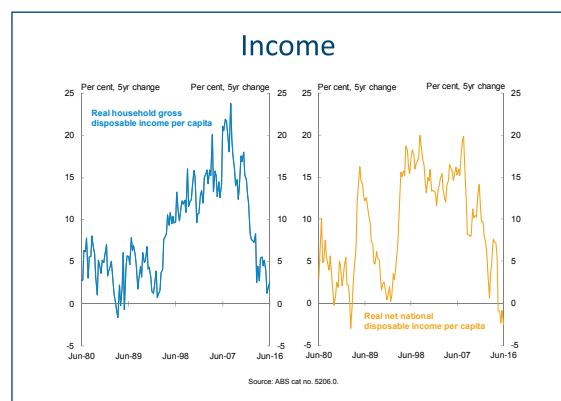
Australia's terms of trade is down more than one third off its peak — placing downward pressure on export earnings. Despite a modest improvement since this time last year, compensation of employees is well below trend levels, as are company profits. And wages growth has more than halved over the past ten years from over four percent to around two per cent.

Despite our growth, we are not feeling better off because growth in incomes has been weak, despite both interest rates and the costs of living as measured by inflation being low. This is what I refer to as our 'earnings problem'.



Real gross household disposable income, which looks at wages and transfer payments across the economy and how much money householders have available to spend on average, has been weak for some time and these trends are evident when you look at other, broader measures of living standards.

In the decade leading up to the peak of the terms of trade in September 2011, real net national disposable income grew by 30%, compared to GDP per capita of around 17 per cent.



Today, the fall in commodity prices since their peak means that Australians are effectively unable to buy as many imports for a given quantity of exports. To put this in context, at the peak of the boom a shipment of iron ore bought over 50,000 iPads. A shipment today buys less than half that amount.

We want to see this change. We want Australians to earn more so they are in a stronger position to improve their living standards.

More recently we are encouraged by the data on real net national disposable income per capita — which has moved back into positive territory in the past two quarters as commodity prices and the terms of trade retrace some of the previous falls. However, it is still early days and there is some way to go before they stabilise again.

Also encouraging was June quarter company profits data showing that while remaining flat over the year there was an increase over the quarter of 6.9 per cent, with manufacturing sector profits up by more than 10 per cent.

Recent reporting data on ASX 50 earnings reported to date show 56 per cent reporting profits up, with more than a third meeting or exceeding expectations.

Still, our incomes are not growing as fast as they used to - our wages, our profits and the prices for what we sell. This will continue to undermine nominal growth and the revenue that is derived from these incomes that support the Budget.

This does not mean we have a 'revenue problem' as some have interpreted my recent remarks. Those talking about 'revenue problems' are typically just making arguments for higher taxes, which I do not share.

A 'revenue problem' is about the numerator - the need to extract a greater proportion of national income from taxes than current settings are projected to provide. That is not our focus.

As I said at Bloomberg, our focus, as a Government, is on dealing with our expenditure problem, in particular by flattening the growth curve on costs.

Our focus on revenue in the budget is about protecting the integrity of the tax base, making the system growth friendly and ensuring it is sustainable and fit for purpose — as demonstrated by our initiatives on multinational tax avoidance, our enterprise tax plan and our changes to superannuation tax concessions.

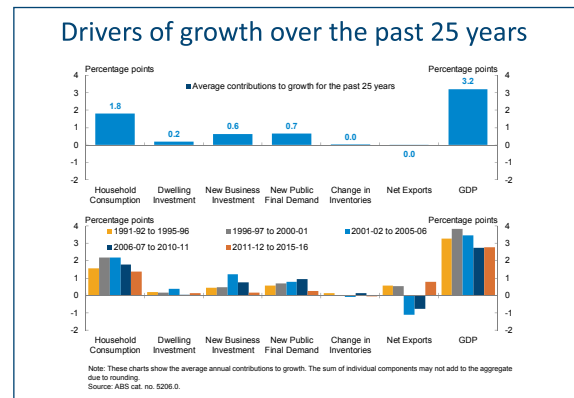
An 'earnings problem' is about the denominator - it's about trying to grow the size of the pie from which everyone is sharing, including the Government to provide necessary services and support that are relied upon by the community.

We must support and implement policies that help us to increase what we can earn as a nation, as businesses and as individuals in a low growth, low interest rate, low inflation, low wages growth, volatile world.

Translating growth in national incomes into higher earnings for families and households is also a good result for the economy.

Greater growth in household incomes means more fuel in the tank for household consumption.

Over the past twenty five years household consumption has been the most significant contributor to our national economic growth - not exports, not dwelling investment, not public expenditure nor inventories.



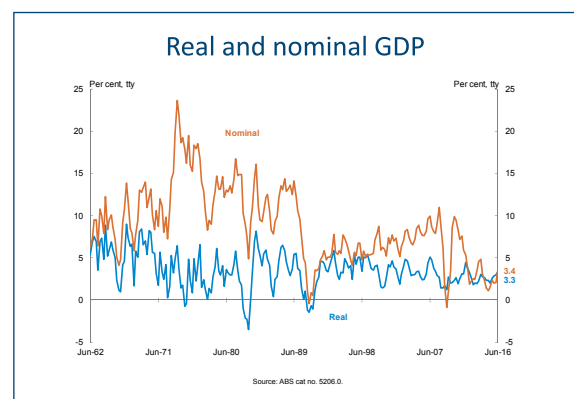
Coinciding with the fall in incomes in recent times has been a softening in household consumption. This has been mitigated to some extent by a decline in the household savings ratio as Australians have saved less to maintain their living standards.

This cannot be expected to continue indefinitely and unless we can encourage growth in household incomes it will be more challenging to maintain the growth in household consumption that is essential in assisting the transition in the economy away from relying on the resources sector.

Further softening in household consumption can only further undermine overall growth prospects in the domestic economy and the jobs that depend on it.

But there are positive signs. Consumer confidence has improved significantly over the past year — reflecting the strength of our labour market. The number of optimists outweighs the number of pessimists and that is what we need. We need more optimists going out having faith in our economy's ability to transition and supporting it through consumption.

The impact of slower income growth can also be seen when we look at the comparison between real and nominal growth in GDP.



Despite our strong growth performance in what we are producing as measured by real GDP, we are not earning as much from it as we were before as measured by nominal GDP. That's why fighting for every inch of growth matters more now than ever before - we need more of it, given we are getting less from it.

On only a few occasions in the last fifty years has nominal growth been lower than real growth. In last week's national accounts through the year nominal growth tipped slightly above real growth for the first time in two years, off the back of a slight uptick in the terms of trade. Year-average nominal growth though remained below the real growth outcome.

It is nominal GDP that has the greater impact on government revenues than real GDP.

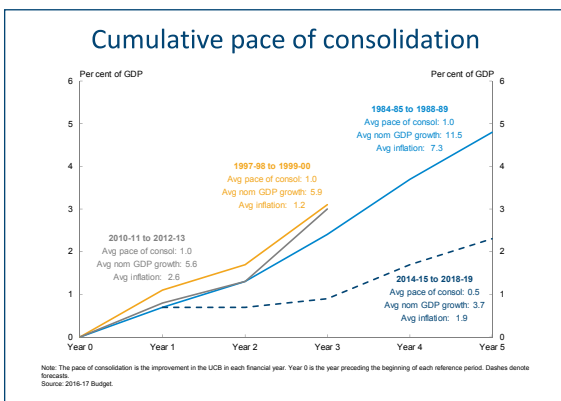
When Australians and Australia earn less for what we produce, so does the Government.

This is where addressing what we earn can really support the job of budget repair as it has done on previous occasions.

This is not a substitute for dealing with expenditure. However, nor can the need to focus on expenditure be a reason to ignore or diminish the importance and urgency of economic policy changes necessary to support more earnings rich growth.

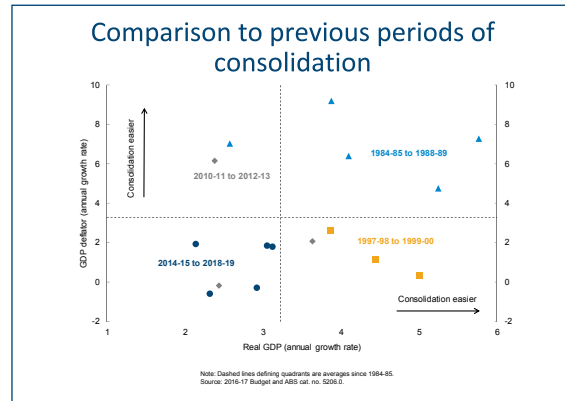
Each cycle is unique and our economy in transition requires different policy responses.

Nominal GDP growth has played a significant role in previous periods of fiscal consolidation. Under the Keating and Costello consolidations, nominal GDP grew at 11 per cent and 6 per cent respectively. Nominal growth during the most recent consolidation since 2013-14 has been on average just 4 per cent. In the past three years nominal growth has been just 2.7 per cent.

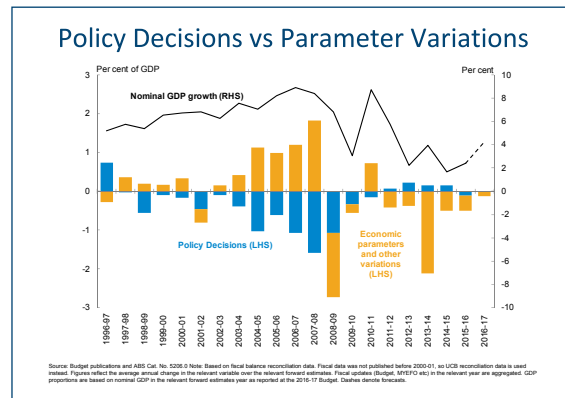


Low rates of nominal GDP growth are a very strong headwind when you are trying to bring a budget back to balance.

Treasury Secretary John Fraser demonstrated this a different way in his recent speech in London, plotting budget years against real GDP and the GDP deflator, noting that the current period of consolidation will be more difficult than previous periods.



The impact of nominal growth on budget repair can be seen when look at the fiscal impact of policy decisions versus parameter variations on individual budgets over the last twenty years.



We can see going back to Peter Costello's first budget that after strong policy decisions to restore the budget to surplus and as time went on and nominal GDP grew, it was higher revenues and reduced outlays on automatic stabilisers (represented by the red bars - parameter variations) such as welfare payments, rather than budget policy decisions, that took over the job of improving the budget and paying down the debt.

As revenues grew and the pressure on outlays was reduced, the balance of policy decisions shifted to increased outlays and tax cuts, paid for not by policy decisions to reduce expenditure or raise taxes, but higher revenues and lower outlays generated by higher nominal growth in the economy.

The high tax club did not have to make an argument during this time, because incomes and government revenues were rising and expenditures were not under threat from declining revenues. You see, the argument from the high tax club is actually not about wanting higher taxes for their own sake, but rather not having lower expenditures.

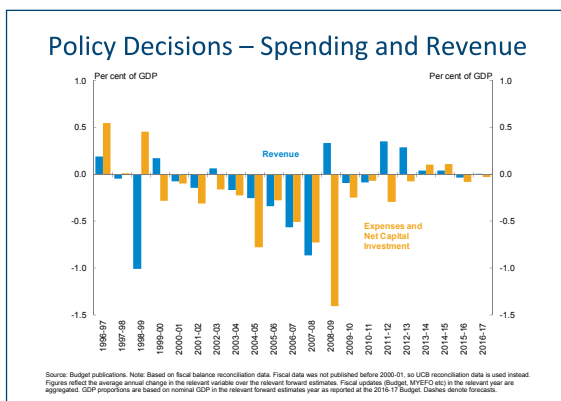
Ironically, the critics of the Howard Costello Government at the time sought to use the growing surplus against them - they saw it as a political liability for the Government. Everyone had an idea about how to get money out the door.

In this context, to have kept the focus on reducing the debt and returning taxpayers money to them in tax cuts - as evidenced by the net impact of policy decisions on revenue during this period being negative - was a significant achievement. As was the establishment of the Future Fund that now stands at \$120 billion. However, what could be afforded then, in a period of strong nominal growth, on payments and revenue, does not mean it can be afforded now.

The real achievement of the Howard Costello Government, amongst so many, was they delivered a growing economy with strong real wages growth that enabled Australians to get ahead, that supported their Budget, provided a reliable social welfare safety net and repaid the debt.

The Turnbull Government has the same challenge today.

We can see that after the GFC, the Rudd Government combined record levels of policy expenditure locked in against false revenue promises that were never delivered.



This quickly turned surplus into deficit and money in the bank into a spiraling debt. This debt curse of Labor is what we must now contend with and, at this stage, without the support of a strong nominal growth tail wind.

This is why lower earnings is a problem that we must address by boosting investment and unlocking productivity and value in our economy to set Australia up for another generation of growth.

In others countries, and indeed within this country under the previous Labor Government, the prescription being followed in the post GFC world has been to put Government at the centre.

The focus has been on both monetary and fiscal policy stimulus that at best can only ever bring forward investment rather than create it, as it eventually has to be paid for. This is not a sustainable solution. With monetary policy having exhausted itself globally and expansionary fiscal policies leaving us with higher taxes and bigger debts, we believe economic policy must take a different path by particularly focusing on lifting the level of private investment in our economy.

At the G20 the Prime Minister and I have been consistently advocating the need for structural reforms to take priority over the focus on monetary and fiscal stimulus. Our focus must be to boost trade and investment and smooth the return of private capital to our economies.

And we are practicing what we preach here at home - this is what our national plan for jobs and growth and this year's Budget is all about.

In the past year the Turnbull Government has been working to deliver the structural reforms our economy needs to strengthen growth and promote investment, and in that short time we have achieved a great deal.

Everything we have done has been part of a plan to ensure we foster investment and promote the creation of jobs and stronger growth. As the economy transitions from the mining boom, we want to see jobs and growth not just in resource-rich states or larger states — we want growth that is broad-based and felt across the entire economy by all Australians.



The importance of incentivising investment through good policy settings is not always as obvious as it seems, and the costs of failure can be felt in all sectors of the economy. One area where the Government, led by my colleague Josh Frydenberg, has been working with the states and territories through COAG in recent months is in the area of gas market reform.

COAG Energy Ministers have agreed the most significant reforms to our gas markets in two decades. The Commonwealth and state and territory governments have agreed to the creation of trading hubs in the north and south through law and rule changes which simplify the way gas is traded, easier access to transport infrastructure, and to cooperate on regulatory and scientific issues on how to increase onshore gas supply. These reforms target the operation of the market, and are designed to increase competition and make the supply of gas more secure and affordable.

Once the beneficiary of an enormous investment boom, the gas market now faces numerous challenges as investment has dried up. While the causes are varied — market design, the global investment climate and state government policies to name a few — the consequences are real for industrial users now facing higher gas prices and less flexible contracts. In some instances, these gas users are being faced with little choice but to reduce or defer investment or even consider shutting down. While good work has been done with the states and territories to improve the operation of the gas market, it is unfortunately a clear example of reduced private investment leading to real costs for the economy and Australians employed in related industries.

Our drive to avoid such outcomes has seen the Government seek to remove barriers to investment wherever possible. Nothing demonstrates our commitment to this more than the Budget I delivered earlier this year. This was no ordinary Budget — it was a comprehensive economic plan for jobs and growth.

Better Tax System

At the centre of this year's Budget was the enterprise tax plan. Our plan backs small to medium sized businesses, in particular, to become larger businesses by backing them to invest more of what they earn by reducing the tax they pay. We'd rather see a dollar back in their pocket because we know that they are more likely to turn it into two dollars, while the Government is more likely to turn it into fifty cents.

It might come as a surprise that this wasn't the most popular policy to take to an election — but we stood right behind it and continue to do so because we know it's the right policy to support growth and investment, particularly in the non-mining sector which is so critical to our transition.

Our plan also keeps average full-time wage earners on a lower rate for longer, keeping them from reaching the second highest tax bracket. The legislation to enable this has been introduced to Parliament and I expect it to become law in the coming weeks.

Infrastructure

In order to support the private investment we want to see as a result of all these initiatives, the Government is also investing heavily in infrastructure. We are investing a record \$50 billion in national infrastructure to improve our productive capacity and freight links and back the digital economy. We are backing key projects such as Western Sydney Airport, Westconnex and the nbn.

It's often overlooked that the nbn is the biggest infrastructure project in our history. It was a complete mess when we came to Government, but is now on track and hitting its rollout targets for completion in 2020 after a heroic effort by our now Prime Minister when he was Communications Minister. Today more than 3.1 million homes and businesses can order and nbn service, while just 51,000 premises were connected to the nbn in six years under Labor. At current rollout speeds, we can connect that many premises in just 11 days at half the price of Labor's nbn. Once complete, the nbn's impact will be transformative for our economy.

Here in Melbourne, while we would like to see the East West Link built, we continue to work with the State Government on the detail of investments we have committed to the Monash Freeway, M80 Ring Road and Murray Basin Rail to name a few.

We also want to ensure our wider building and construction industry is given the best possible environment in which to drive economic growth by ensuring it is operating in an efficient, safe and law-abiding way.

This is why the Government is committed to re-establishing the Australian Building and Construction Commission (ABCC). The ABCC will fix the toxic culture of industrial unlawfulness plaguing the industry.

We have just experienced the highest quarterly number of working days lost in the construction industry since September 2012 — which was the first quarter after the ABCC's abolition.

We cannot afford this vital industry and the economic growth it delivers to be held hostage to militant unions.

The Building and Construction Industry (Improving Productivity) Bill introduced into the Parliament by the Prime Minister will introduce higher penalties for breaches of industrial law; stronger protection against discrimination, coercion and undue pressure; broaden the circumstances under which industrial action attracts penalties and prohibit industrially motivated picketing action.

Innovation and Science

The Government has of course also been taking action through our National Innovation and Science Agenda to support new and innovative businesses by ensuring tax and other incentives are in place to foster investment, innovation and enterprise.

In the first phase, our changes to tax breaks, depreciation rules, bankruptcy provisions and other regulatory settings are all designed to help our innovators seize new opportunities and flourish without Government getting in the way.

The Government is also backing the FinTech industry so Australian companies can seize new opportunities and export markets for our financial services. In March this year, we released our FinTech Statement, setting out a plan for a strong and vibrant FinTech industry in Australia. I have also established a FinTech Advisory Group to advise me directly on matters of importance to the industry.

We are supporting the FinTech sector through a number of initiatives, including supporting ASIC's consideration of a 'regulatory sandbox' licensing exemption, considering how to address the 'double taxation' of digital currencies when it comes to the GST, committing to establishing a crowd sourced equity funding framework and initiating a review of blockchain technology to consider how it can be applied across the economy. I was very pleased to see the International Organization on Standardization yesterday back Australia to lead the international effort to develop international standards on blockchain.

Included in our recent initiatives are our 'landing pads' in international innovation hotspots, including one in Tel Aviv which has just begun operation. This landing pad will help our Australian innovators learn from the best in the business, collaborate with local Israeli and international firms; and assist in sharing technologies and best practices.

I can also announce today that the Government has now formally commenced negotiations with Israel on a tax treaty that will improve trade and investment by removing tax barriers for business, which I remain hopeful could be concluded in the first half of next year.

We have had productive discussions with visiting Israeli officials on eliminating double taxation in order to reduce cross-border barriers to flows of people, investment and technology.

Defence Industry

Our defence industry plan is another critical part of our plan for jobs and growth, backed by a much needed investment of \$89 billion in ships and submarines for the Navy over the next 20 years.

Our plan will transform not only our defence forces but also our national defence industry. Because while our naval shipbuilding is being completed in Adelaide and Perth, our investment will support thousands of high-tech manufacturing jobs right across the supply chain.

Here in Melbourne the week after the Budget, I visited APT Advanced Manufacturing in Berwick with Minister O'Dwyer and Member for La Trobe Jason Woods. This is one of the many companies in the defence industry supply chain which we are supporting with our investment in defence and naval shipbuilding, and they have a great story. Once their bread and butter was auto-parts, but now they manufacture parts for our Collins Class subs and they will be part of the supply chain for our new naval shipbuilding programme. And, as a company with a turnover between \$2 million and \$10 million, they will be immediate beneficiaries of our enterprise tax plan, helping them reinvest in and grow their business and hire new workers.

No doubt there will be countless stories just like APT's that will be replicated across Australia as our investment in defence ramps up in the coming years.

FSI and Harper

Essential to supporting these initiatives is a strong economy, supported by a strong financial sector and competition policy that promotes innovation and more choice and lower prices for consumers. That is why two of the first things I did as Treasurer this time last year were to respond to the Financial System Inquiry and the Harper Competition Policy Review.

The Government's response to these reviews recognises the importance of both a resilient financial system and strong competition policy to our economic growth going forward.

The Government accepted all but one of the recommendations in the FSI and our response will guarantee a strong and resilient banking sector that ensures Australia can respond to the challenges and opportunities that the future brings.

The Government's response also included measures to protect consumers such as banning excessive card surcharging, which has now come into force as of this month.

Previous National Competition Policy reforms in the 1990s following the Hilmer Review had substantial benefits for Australia, boosting our GDP by 2.5 per cent. These reforms are an example of the benefits we can all receive when Governments work together to pursue and deliver the reforms that our economy needs.

The Government's response to the Harper Review will promote stronger growth and more and better choices for consumers. We have set out an agenda that will boost innovation, open up new markets and drive real improvements in how we run our services that will see Australia prosper in the years ahead.

The Government's response to the Harper Review goes well beyond our well-publicised decision to amend section 46. In addition to other substantial changes we are making to the competition law, we have also begun work with the states and territories on a new national agreement to promote innovation in government service delivery and regulation across the economy, particularly in human services which has such an important impact on our living standards.

At the Commonwealth level, we have made a commitment to open data by default and have provided the Treasury with additional funding to undertake a series of rolling reviews under the Government's Regulatory Reform Agenda, with an initial focus on issues identified by Harper and the FSI.

While these reforms are a good start, the Government is committed to continuing to seek out new ideas and policies that support our productivity and innovation. Good policy settings support productivity by ensuring our economy and governments are flexible and able to adapt as our economy transitions.

Today I can announce that the Government will be asking the Productivity Commission to undertake an inquiry into Australia's productivity performance and provide recommendations on productivity-enhancing reform; to be the first in a regular series of reviews undertaken at five-yearly intervals.

This review will provide an overarching analysis of where we stand in terms of our productivity performance and provide us with more ways to ensure we continue to facilitate structural change in our economy that supports productivity growth.

The review will complement the Intergenerational Report (IGR) that the Government releases every five years. The IGR assesses the long-term sustainability of Government policies and how changes to Australia's population size and demographics may impact economic growth and public finances over the next 40 years. The PC's findings will assist the Government in continuing to identify priority areas of reform to address potential future challenges as we work with the states on implementing the reforms recommended by the Harper Review.

Participation

A key challenge for any government is to ensure that as many people as possible are engaged in the economy, to be participating in work and feel that they are part of the process.

We need to ensure that as many members of the community as possible have to feel that the system is working for them and their financial future.

Fuller participation results in paying commensurate and not higher taxes, from earning a wage, from taking risk in the pursuit of reward through enterprise by setting up a business, not drawing welfare support and contributing to the national productive effort.

Providing the right conditions for investment will lead to more jobs. To support these jobs, we are also implementing major initiatives to support participation in the labour market, particularly by helping young Australians and women into the workforce.

One of our key initiatives in this year's Budget was the Youth Jobs PaTH — Prepare Trial, Hire — a programme that will help up to 120,000 young people get a job and stay in a job. The Youth Jobs PaTH — opposed, shamefully, by the Union movement — will help young job seekers get the skills employers want and incentivise businesses to take a chance on young people to help them get a foothold in the workforce. We redirected funding from less successful job programmes to fund the Youth PaTH, because we know that the best form of welfare is a job and, if we can get this right, the payoff of our investment for these young people, the businesses that employ them and the wider economy will be worth it.

The Government is also continuing to work to secure the savings we need to implement our childcare package, based on the recommendations of the Productivity Commission. This package helps families with children get into work by creating a simpler, more affordable and accessible childcare system that responds to longstanding community frustration with the current system that is complex and difficult to navigate.

Conclusion

We must support and implement policies that help us to increase what we can earn as a nation, as businesses and as individuals in a low growth, low interest rate, low inflation, low wages growth, volatile world.

We must ensure that all our policies, especially state and federal taxes are not just economic growth friendly, but also income growth friendly for all citizens.

We must continue to remove impediments and create the right conditions for Australian employers, especially small businesses, to grow and create more jobs.

A growing economy requires individuals generating new products and services to create value. These new and potentially improved offerings, products or technologies create new markets and thereby new wealth is created.

This is the type of the economy that can coax private capital out of its cave. That is our task.

Our national economic plan for jobs and growth will promote investment, drive innovation, transform our defence manufacturing industries right across the supply chain, reduce the tax burden on investment and enterprise, open up our enterprises to new markets through more new export trade deals, develop infrastructure that underpins investment and remove the impediments to investment in critical sectors such as construction by restoring the Australian Building and Construction Commission.

This is the course we must stay.

Our economy is successfully transitioning. We are one of the fastest growing advanced economies in the world today.

STAYING THE COURSE

Keeping the door open to our economy

Address to the Lowy Institute for International Policy, Sydney



After twenty five years of uninterrupted annual economic growth an entire generation has grown up without ever having known a recession. This is despite a GFC, an Asian financial crisis, global terrorism, SARS, one in a hundred year floods, droughts and a one third fall in our terms of trade.

For some, a quarter of a century of economic growth has given rise to complacency.

What does it matter if our budget is in deficit, or our debt is now growing at \$1.4 billion per week? Just raise taxes or borrow more, what could possibly go wrong? At the last election Labor actually proposed to increase the deficit by \$16.5 billion and are on record arguing that there is ample room to increase our Government debt even further.

But for others, they are asking questions about why they feel they have not benefited from Australia's growth as much as they expected. They are asking practical questions like why are my wages not increasing like they were before? Why can't I get the extra hours I was getting before?

These sentiments are real and they are looking for something to explain it.

According to a recent poll, almost half of Australians are in favour of banning Muslim immigration. There are similar results for banning foreign investment and opposing free trade agreements.

Support for these measures is the product of genuine anxiety in our community about these issues.

It can be politically popular and rewarding to simply endorse these policy sentiments. However, there is great danger in following this path.

Investment, trade and immigration bans not only fail to address the cause of concerns that Australians have, but worse they would cut Australians off from the primary sources of their prosperity for over two centuries. Australia cannot afford to adopt the "doona economics" approach that suggests we can pull the doona over our head and insulate ourselves from the economic changes that are occurring globally and domestically.

Foreign investment, trade and an immigration programme that is focused on bringing people to Australia who make a contribution rather than take one, creates jobs, boosts wages, drives growth, increases our living standards and always has.

Ensuring that foreign investment, trade and immigration policies continue to serve our national interest is a key component of the Turnbull Government's national economic plan for jobs and growth.

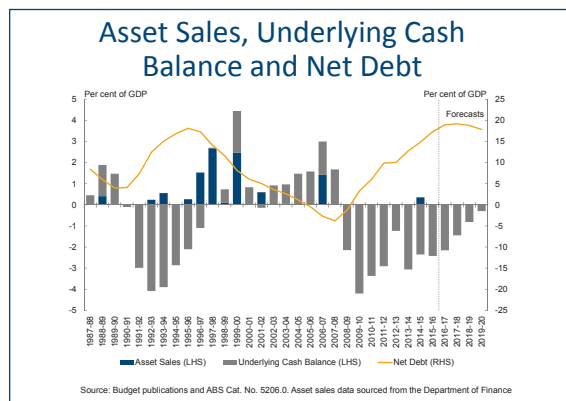
During the past month I have been delivering a series of presentations titled 'staying the course', setting out how the Turnbull Government's national plan for jobs and growth is being implemented to address the concerns of Australians seeking greater job and income security in a transitioning economy, to deal with the cost of living pressures they face.

Arresting our debt

In the first of these presentations I stressed the need for us to build up our economic resilience to deal with inevitable external economic shocks that will come our way.

In addition to making our banking and financial system even stronger we must urgently arrest our climbing public debt.

Thanks to the Howard Costello Government, when the last crisis hit, the Commonwealth was debt free, in net terms. They achieved this by doing three things.



Firstly, they arrested the growth in debt that stood at 18.1 per cent of GDP when they were elected, by restoring the budget from a deficit of 2.1 per cent of GDP in 1995-96 to zero in 1997-98. This was achieved, predominantly, by getting public expenditure under control.

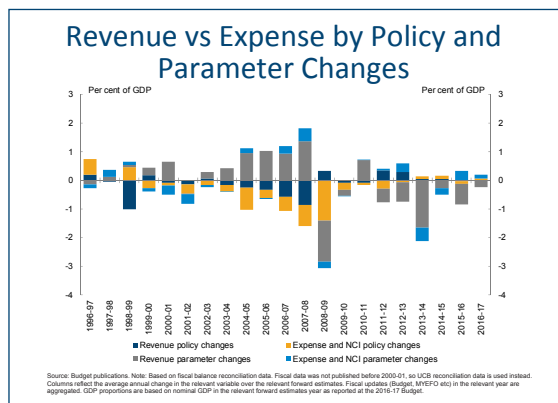
Secondly, they maintained budget surpluses for a decade by implementing economic reforms that supported growth in our economy. As national incomes rose from increased profits, wages and prices for what we were selling, so did Government revenues. By not spending more than was coming in for ten years, they achieved accumulated surpluses of 11.5 per cent of GDP that eroded the debt, year on year.

Thirdly, the Howard Costello Government realized asset sales of almost 9 per cent of GDP from 1996-97 onwards. This further assisted the retirement of debt and provided the foundation of the Future Fund that now stands at more than \$120 billion.

To arrest our debt we must first get the budget back into balance by getting expenditure under control.

The Budget I delivered in May projects a return to balance in 2020-21, subject to parameter variations, with Commonwealth expenditure to fall from 25.8 per cent to 25.2 per cent, which is still above trend.

To get this expenditure under control requires us to address the cumulative impact of previous spending decisions and make them affordable in today's fiscal environment.



Prior to the 2013/14 budget there had been fourteen consecutive budgets where the Government made decisions to increase policy spending in net terms. This means that policy decisions to increase spending (lower revenue) on new programmes and initiatives were not offset or 'paid for' by policy decisions to reduce spending (increase revenue) in other areas.

In surplus years, this new policy spending was paid for by higher revenues driven by the increased employment and growing incomes of a growing economy. Nominal GDP growth from 2003-04 to 2006-07 was around 8 per cent per year. There was also less pressure on welfare spending, as a growing proportion of the working age population were in jobs.

In the Rudd/Gillard/Rudd years, new policy spending reached historic levels at 26 per cent of GDP. This includes converting temporary spending measures in the form of various supplement payments introduced under the Howard Costello Government when they could be afforded, into permanent payments under Labor. There are now 53 such supplements in our welfare system.

During this time, nominal GDP growth fell to 5.8 per cent and the record new spending was funded by increasing our debt.

The result under Labor was a huge surge in net debt, from a positive balance (money in the bank) of \$45 billion in the budget Labor inherited (2007-08) to a net debt of over \$200 billion in the budget they left behind (2013-14) to the Coalition. Net debt is now back at more than 17 per cent of GDP.

The other outcome from this period was to hard-bake more than a decade of structural increases in policy spending into the budget, which now comprise an inestimable proportion of our current spending profile.

With an inherited deficit, a growing debt and nominal growth over the last three years running at less than 3 per cent, we have been disciplined on not spending more than we save. But there is much more to do.

Our task is to address expenditure measures, wherever possible, that can no longer be afforded, are no longer fit for purpose or can be better targeted. The same applies to revenue measures where it leads to greater sustainability and integrity of the tax base.

Our changes to retirement incomes on both the assets test for the age pension and superannuation tax concessions are prime examples of this approach.

In our last sitting week in parliament we finally made some important progress in getting \$6.3 billion in expenditure reductions passed through the parliament, which will reduce Commonwealth debt by more than \$30 billion by 2026-27. It took three years to get there and represents only a modest start. There is another \$20 billion in expenditure restraint measures from the Government yet to be passed by the Parliament.

Increasing what we earn

But as was the case with the Howard Costello Government, the debt will not be repaid by expenditure measures alone. To pay back the debt we will need to boost our incomes by implementing economic policies that lift productivity, drive investment, increase profits and support higher real wages.



That is why in my second address, titled 'Staying the course - increasing what we earn', I set out a series of initiatives the Turnbull Government was implementing to increase the earnings of businesses, wage earners and as a result, Governments.

Our enterprise tax plan provides incentives for small and medium sized companies to reinvest their earnings to build their business and employ more people.

Our national competition policy reforms recommended by the Harper review are focused on improving the standard and delivery of public services, reducing regulation and providing a more level playing field for small and medium sized businesses to compete.

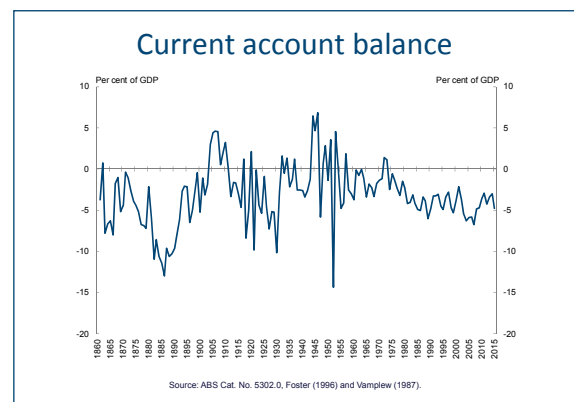
Our National Innovation and Science Agenda is delivering tax incentives, new bankruptcy provisions and other regulatory settings all designed to help innovators seize new opportunities and flourish, including transformational sectors like FinTech.

Our twenty year defence industry procurement plan will see ships and submarines built in Australia, supporting thousands of high-tech manufacturing jobs and sustaining industry capability right across the supply chain.

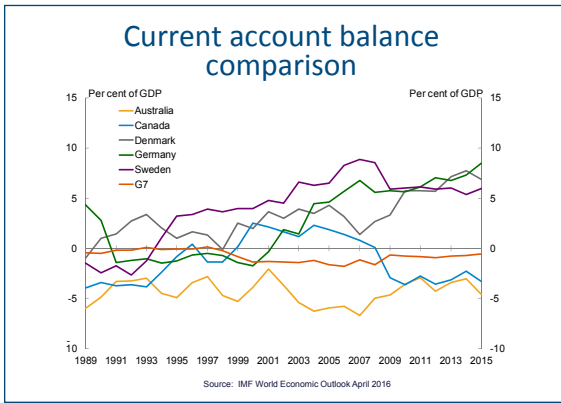
Our \$50 billion National infrastructure plan combined with successfully rolling out the NBN is boosting productive capacity, enhancing key freight links and backing our digital economy.

Today, I want to address how keeping the door of our economy open to investment, trade and immigration will also help us increase what we earn and boost our living standards.

Foreign Investment



As a large, resource rich country with relatively high demand for capital, Australia has relied on foreign investment to meet the shortfall of domestic savings against domestic investment needs for over two centuries.



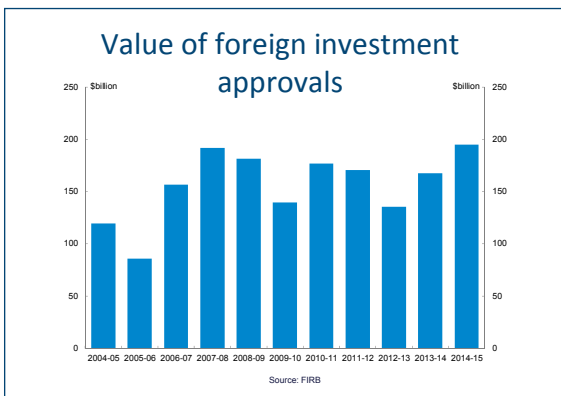
Unlike many advanced economies, Australia needs to fund a current account deficit (CAD) of around four per cent of GDP on average each year. Restricting the foreign capital inflows needed to fund this size would result in a reduction in the living standards of Australians, with less investment, lower growth, fewer jobs and lower wages. Previous Treasury modelling suggested that this reduced capital inflow would lower GDP over the following decade by 2.6 per cent, gross national income by 2 per cent and reduce real wages by 7.2 per cent.

Foreign capital has allowed the Australian people — including our generation — to enjoy higher rates of economic growth, employment and a higher standard of living than could have been achieved from domestic savings alone.

The Australian economy has been built on successive waves of foreign investment: First from Britain, then the United States, Japan and now, increasingly from China.

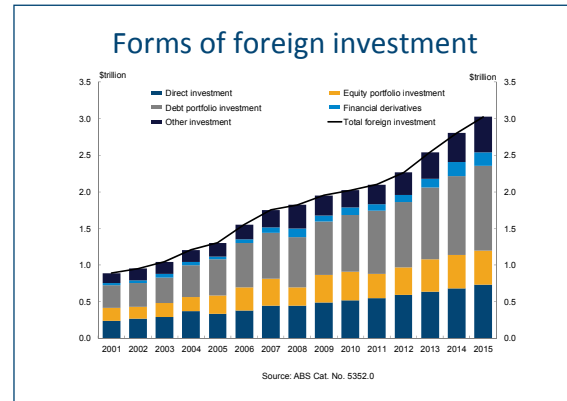
In 2014-15, the Government approved almost \$200 billion in foreign investment flows into Australia to fill the gap in investment demand.

Over the past five years, investment from China has grown most strongly, by more than 20 per cent off a low base, while there has been 10 per cent plus growth from Canada, Japan and the Netherlands. Notwithstanding this growth in Chinese investment, in 2014-15 Chinese applications accounted for less than a quarter of all applications by value



Today there is more than \$3 trillion of foreign investment in Australia. \$735 billion is in foreign direct investment with a further \$460 billion in portfolio equity investments.

Of the various forms of foreign investment, foreign direct investment or FDI has been the more stable funding source than other key forms of external finance, such as foreign portfolio investment and debt.



According to the ABS, the primary source countries for the stock of FDI are the USA with more than \$173 billion (24 per cent), followed by Japan at \$86 billion (12 per cent), the UK at \$76 billion (10 per cent), with China at \$35 billion, Singapore at \$29 billion and Canada at \$26 billion, all less than 5 per cent each.

Other things being equal, good FDI is our preferred means of financing our CAD. It not only covers the gap, but does so in a way that brings multiplier benefits for our economy.

This includes increased competition.

The entry into the Australian market of German grocery chain ALDI and US grocery chain Costco has had a substantial positive impact for consumers and shaken up what was a tightly controlled supermarket duopoly. Since it opened its first Australian store in 2001, ALDI has now grown its share of the supermarket sector to around 12 per cent. It has been estimated that ALDI and Costco between them will account for around 20 per cent of the supermarket sector over the next decade. The decision to allow foreign banks into Australia had similar impacts on our rather sclerotic banking system in the 1980s, expanded credit growth for businesses that, in turn, fuelled their growth.

FDI has also helped create world-class services offerings clustering around advanced manufacturing, and even in our export mainstays of resources and energy.

For instance, Boeing has made a significant contribution to the Australian economy over the last decade and invested more than \$800 million in Victoria. Around 1,200 people work at its Fisherman's Bend Facility in Port Melbourne — primarily making wing flaps for Boeing's Dreamliner and 777 aircraft. In addition to making parts for its aircraft, Boeing has also invested heavily in services at Fisherman's Bend — which now houses its largest R&D site outside the United States. This kind of investment is a massive vote of confidence in our economy and our skilled workforce.

The CSIRO and nine Australian Universities are collaborating at Boeing Research and Technology Australia, conducting ground-breaking research and developing a range of new aviation products. Among other things they have built an enviable capability in next-generation materials that reduce costs and production times for the industry.

FDI also drives productivity improvements through improved access to markets, technology transfer and hard wired linkages into global supply chains.

In 2016, GlaxoSmithKline opened a pilot vaccine facility in Boronia, Victoria, which uses ground-breaking new technology for the delivery of vaccines. Over the past four years, GlaxoSmithKline has invested more than \$100 million in its Boronia manufacturing plant — the company's largest site in the southern hemisphere.

In 2014, German healthcare company, Fresenius Kabi invested \$47 million to expand its Australian operations in Melbourne and will produce innovative infusion treatments, irrigation solutions, intravenous generic drugs and compounded oncology products. The investment is expected to create 120 highly-skilled jobs in Victoria.

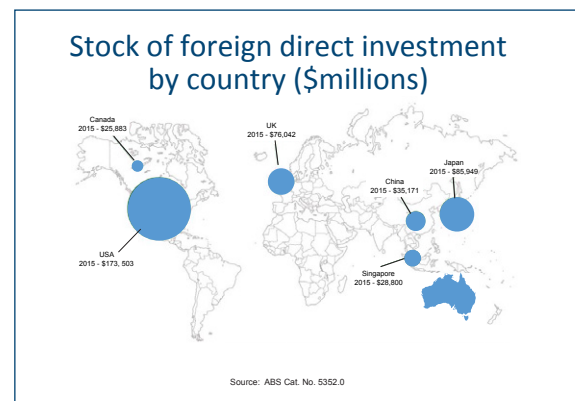
Also in 2014, British defence and aerospace company, BAE Systems opened a \$10 million components production facility in South Australia where it will produce titanium tail fins for the F-35 Joint Strike Fighter (JSF). In the same year, Saab established a new Advanced Maritime Systems Centre in the Adelaide Technology Park. The Centre employed over 100 local combat systems engineers, project managers, and software engineers, and the company plans to increase the workforce to over 200 by 2020.

FDI is also supporting jobs and communities in agriculture, where the sector is desperately in need of capital. The bottom line is that in many cases foreign investors are coming in and supporting agricultural enterprises that have not received that same support from Australian investors.

British dairy company Longley Farm invested more than \$100 million in a high-tech milk processing facility in Casino, New South Wales, developing a unique export business based on a patented 'fast-freeze' technology. US company Monsanto began operations in Australia in 1928 with a focus on commodity chemicals before expanding into agricultural products. In 2013, Monsanto Australia announced a purpose-built research facility in Toowoomba to ensure cotton growers continue to benefit from its successful insect-tolerant and herbicide-resistant cotton.

Chinese investors have also been active in agricultural investment. However, the level of involvement suggested in some public commentary is exaggerated.

The agricultural land register firstly shows that 86.4 per cent of all agricultural land in Australia is owned by Australians and that of the 13.6 per cent agricultural land owned by foreign interests, over 80 per cent of this interest is leasehold.



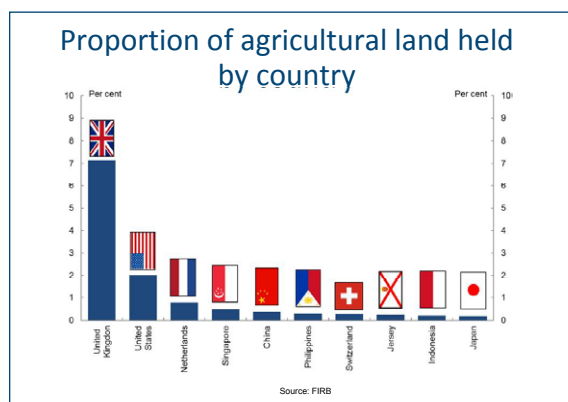
Less than one half of one percent of all agricultural land in Australia is owned by Chinese nationals and like with foreign investment more broadly, Chinese nationals are not the dominant foreign ownership source. China accounts for just 3 per cent of all foreign owned agricultural land, while the Americans, British and Dutch account for more than two thirds of the holdings.

Of the major agricultural foreign investment applications I have approved as Treasurer, the largest were to combinations of US, Canadian, Dutch and Swiss investors, not Chinese. In January, I approved proposals totalling \$467.3 million, including among others Milton Downes, Koramba Aggregation and Baroma Park. I have also approved the sale of Rocklands and Tanbar stations for up to \$212.5 million to the Dutch. The combined value of these sales alone, more than eclipsed the combined value of the approvals I have authorised to Chinese purchasers over the same period.

And those that have been approved have received support because, like foreign investment from other sources, they are adding value, creating jobs and improving productivity.

This year, Kimberley Agricultural Investment (KAI), a Chinese subsidiary, purchased Carlton Hill Station in the Ord River district of Western Australia, from Consolidated Pastoral Company, whose beneficial ownership was in the UK, for an estimated A\$100 million. To date, KAI has invested up to \$700 million over six years on a greenfield agricultural development near Kununurra, Western Australia. KAI will lease and develop 13,400 hectares of irrigated farmland cleared through the Ord-East Kimberly Expansion Project. This investment will enable the expansion of cropping in Northern WA, including high value grains such as chia and also possibly cotton.

While acknowledging the value and contribution of foreign investment to our national prosperity, it is important to strike a balance between maintaining an attractive and welcoming environment for foreign capital on the one hand, and maintaining community confidence in the foreign investment regime.



As I found with immigration, Australians must have confidence that there are clear rules that protect the national interest and that these rules are being enforced.

That is why our Government has acted to strengthen the controls we place on foreign investment and is following through with improved enforcement to pursue those who break the rules.

For residential real estate we have established a dedicated unit within the ATO to review cases and strengthen compliance. This has already improved compliance and enforcement through the use of the ATO's sophisticated data matching systems and specialised staff with compliance expertise. \$96 million in divestments have so far been ordered under this new compliance regime.

Foreign investors are also not allowed to profit from breaking the law. Stricter and more flexible penalties have been introduced to make it easier to pursue foreign investors that breach the rules

We have also increased application fees for foreign investors purchasing real estate to ensure that Australian taxpayers no longer have to fund the cost of administering the system.

For agriculture, we increased scrutiny and transparency around agriculture investments, including by lowering the screening threshold from \$252 million to \$15 million (applied cumulatively) on 1 March 2015 and enshrining that in legislation. We also applied a \$55 million threshold to investments in agribusiness.

We also introduced increased, and unprecedented, transparency into the system through the creation of a comprehensive register of foreign ownership of agricultural land that commenced collecting data from 1 July 2015.

Infrastructure asset sales is a new and growing challenge for our foreign investment regime, requiring a greater capacity to focus on national security issues. In response I boosted FIRB's expertise in this area with the appointments of David Irvine and David Peever, who have well recognized experience in these areas. We also acted to enable FIRB to formally review critical infrastructure assets sold by State and Territory governments to private foreign investors from 31 March this year, in accordance with the relevant thresholds.

It is also important that we place tight controls on how these assets are managed and controlled, when foreign investment is involved. That is why, as Treasurer, I have imposed unprecedented new conditions on foreign investment in infrastructure assets to ensure that control of the assets is kept in the hands of Australian citizens, with security clearances as appropriate. This includes insisting that the majority of board members of new ownership entities are citizens, and even requires a majority of Australian citizen board members to satisfy quorum requirements for Board meetings, including sub committees.

Another key issue that concerns Australians about foreign investment is whether foreign investors pay tax on their operations in Australia. That is why on each transaction I approve I have imposed a new tax deed which, if a company for example seeks to shift profits offshore to avoid paying tax in Australia, I can force a divestment of the asset, in addition to other existing penalties provided for in our multinational anti avoidance laws we successfully introduced last year.

It is true that the vast majority of foreign investment proposals that go to the FIRB are accepted, but not without proper scrutiny first, with either myself on major transactions or the Minister for Small Business or Treasury on lesser value transactions making the final decision.

New FIRB thresholds		
Investor	Action	Review threshold – more than:
Private investors (non-FTA countries)	Business acquisitions (all sectors)	\$252 million
	Media sector	\$0
	Agribusinesses	\$55 million
	Agricultural land	\$15 million (cumulative)
	Residential land	\$0
	Vacant commercial land	\$0
	Developed commercial land	\$252 million
	Mining and production tenements	\$0
Foreign government investors	All direct interests in an Australian entity, business or land	\$0

Source: FIRB

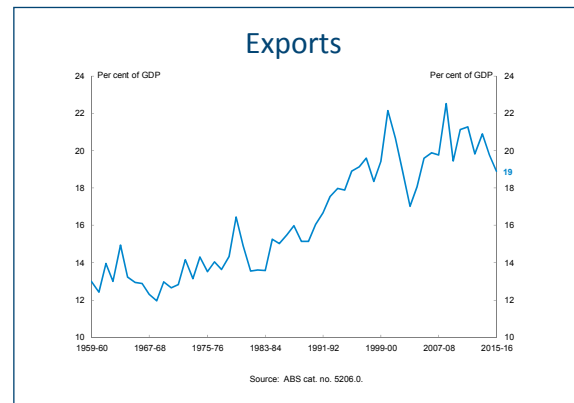
I am on the record as throwing my support behind proposals that have demonstrated that they are not contrary to the national interest and can make a positive contribution to our community and our economy.

However, at the same time, I've demonstrated that I will not approve foreign investment proposals if I come to a considered view that they are contrary to the national interest. These instances demonstrate that the system is working. If I said yes to everything the Australian community would be rightly concerned that we weren't taking this issue seriously.

That said, we want to ensure the process is efficient as it can be and for the first time, we've just done a survey of FIRB users to invite feedback on their experience with our systems. I've asked Treasury to work with the FIRB Board to see if we can put something in place to ensure that we have a mechanism for users to provide feedback on a regular basis if they want.

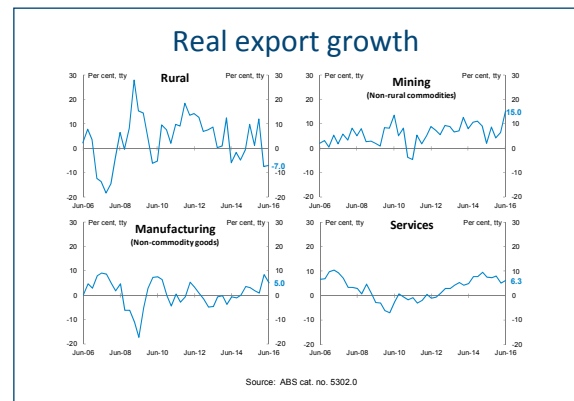
Trade

Like foreign investment, trade has also been a staple of Australia's economic growth and critical to addressing our current account deficit and boosting Australian's living standards. Our export trade deals were a core component of the national plan for jobs and growth that we took to the election.



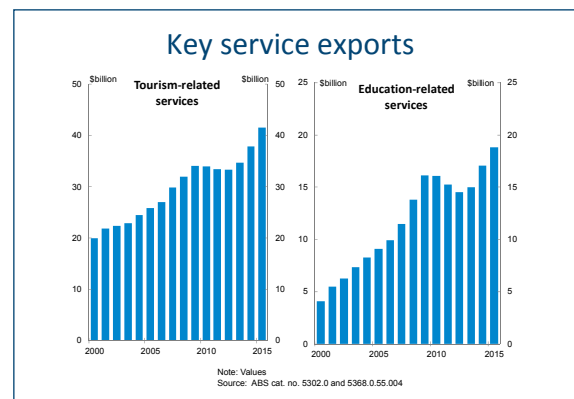
In 2015, Australia's global export trade volume, including our tourism and international education sectors, delivered around \$363 billion to our economy and accounted for around 19 per cent of our GDP in value terms.

In the June quarter, our exports rose 1.3 per cent to be 9.6 per cent higher over the past year. This was the highest through the year growth in exports since the Sydney Olympics.



A key feature of our export growth is that it is increasingly broad-based, supporting the successful transition we are making from the mining investment boom to broader based growth.

Mining exports rose by 15 per cent over the past year as the industry continues to shift from the investment phase to the production phase. At the same time services exports are up 6.3 per cent through the year, with tourism and education continuing to be strong performers.



Central to the growth in services exports has been the growth in earnings from our tourism and international education sectors. With more than 7 million visitors a year (including more than 100,000 every month from China), adding more than \$40 billion or 3 per cent a year to GDP, and supporting 580,000 jobs, the gains are obvious. Similarly in education, where international students generate \$19 billion for our economy, with around 650,000 students enrolling last year.

In addition to health care, the next wave of service exports will be in human services, such as aged and disability care, where Australia has a strong reputation. Our recent trade agreements open up real opportunities for these services.



These results have been achieved against a backdrop of declining growth in the volume of world trade. Growth in world merchandise trade has stayed below 3.0 per cent on an annual basis for five years and in 2015 its value fell because of shifting exchange rates and falls in commodity prices.

In a world where many economies are contemplating pulling the draw bridge up on trade, it is in our national interest to stay the course and argue the case for continued trade liberalisation to keep markets open. We can't afford not to trade.

On this score the Coalition Government has practiced what it is preaching, first under Tony Abbott and now Malcolm Turnbull. The FTAs secured under a Coalition Government with the powerhouse economies of North Asia — China, Japan and South Korea — are delivering significant opportunities to expand Australian sales abroad, and boost employment at home. Not only do they cut tariffs on key Australian exports, but they also provide for more open treatment and greater regulatory certainty for our service providers and investors. This same process is now being rolled out with our ASEAN trade partners.

This makes sure Australian companies have every opportunity to compete on a level playing field and make the best of their hard work, skilled people and innovative ideas in the international marketplace.

Practically speaking, it has been really pleasing to see some of the early results from the most recent of these deals, with China.

For example, in the first six months of this year, there has been a doubling in the value of Chinese imports of fresh mangoes, fresh cherries, fresh table grapes and fresh oranges from Australia — all on products where tariffs have been cut twice already, and are on their way to zero in coming years.

Fresh and chilled boneless beef imports into China have also grown by around 20 per cent in the first half of this year — great news for that important export industry as those tariffs also come down.

Fresh lobster and abalone tariffs into China are falling for Australia, and Chinese imports of those products are up significantly — doubling for abalone, and increasing even more for lobster.

With ChAFTA cutting wine tariffs from the 14 per cent most of the rest of the world gets charged, to 8.4 per cent now, and zero in just a few more years, our wine exports also are seeing continued very promising growth — positioning us to remain a key supplier of high-quality wine into that booming market.

Finally, China's imports of manufactured products like unalloyed zinc have also surged from January to June this year, taking advantage of the removal of tariffs on those products.

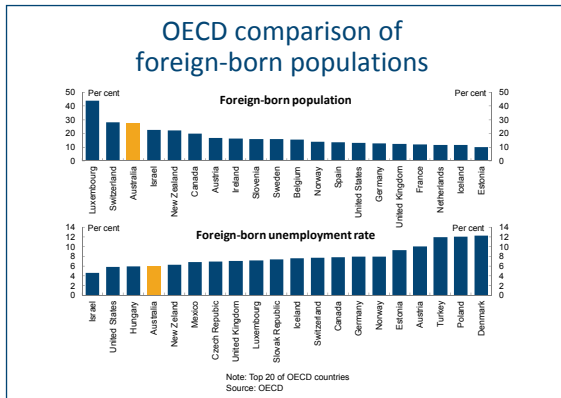
These excellent China results also build on earlier success from the FTAs with Korea and Japan — products that benefited in 2015 from FTA-driven tariff cuts in those markets include fresh and chilled beef, macadamias, cherries, almonds, chipping potatoes, table grapes, rolled oats, fresh asparagus and wine.

Immigration

Finally, our success as an immigrant nation has been central to building the successful and prosperous economy we have today.

Not only has the volume of our immigration programme been the prime driver of population growth that has supported our economic growth, but the composition of our immigration intake has been equally important.

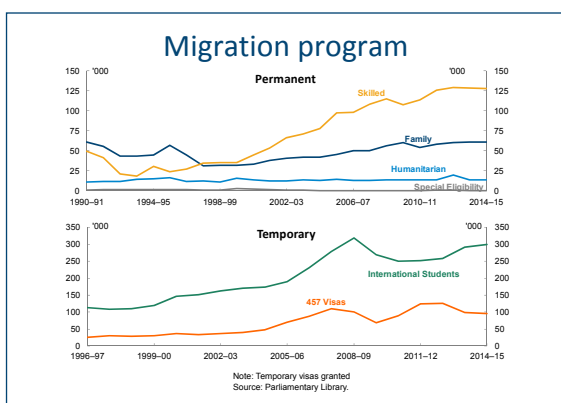
Our immigration program sets itself apart from other countries, as it is built on attracting people and families to Australia who want and are able to, as I said earlier, make a contribution rather than take one. Our immigration policies have always had, when they have been most successful, a strong economic focus.



While we have a higher proportion of foreign-born citizens, we have a lower unemployment rate than many other OECD countries.

An immigration system geared towards attracting migrants with high rates of workforce engagement and employment in skilled areas increases the productive capacity of our economy, thereby benefiting all Australians. The accompanying boost in economic activity generated, according to the Productivity Commission, can increase GDP per person by around 7 per cent.

The Productivity Commission is projecting our GDP to be around 60 per cent higher by 2060 than it would with only natural increases in population. This is almost a trillion dollars in today's terms.



We saw this economic impact during the years of the Howard Government when not only did we double the level of permanent immigration to Australia, but we increased the proportion of skilled migration of our intake from less than 30 per cent under Labor in 1996 to almost 70 per cent, where it has remained ever since.

The Turnbull Government is committed to ensuring that we keep this strong economic focus within our immigration programme.

The factors that produce these economic results also result in greater social cohesion.

In their 2011 policy paper titled Selection, Migration and Integration: Why Multiculturalism Works in Australia (and fails in Europe), the Centre for Independent Studies (CIS) studied the effects of policies regulating immigration in Australia and New Zealand. It found that 'the relatively high educational and occupational status of immigrant's parents ... fully explains the better educational performance of immigrant children'.

The CIS observed that 'Australia predominantly received migrants who were qualified and capable of easily integrating into society' and that Australia has been 'cherry picking' the best qualified migrants, most likely to make a positive contribution.

The CIS went further to say that 'if Australia wants to continue the process of attracting migrants into the future, it should not deviate from its policy of selecting migrants by their suitability'. They're right.

Coalition Governments have always seen the merits of this approach to immigration policy from Menzies to Turnbull. Seeking the reinforcing outcomes of economic contribution and social cohesion provides the foundation for community confidence in our immigration programme, which is necessary for its ongoing support.

Upholding this confidence is one of the reasons why I personally, our Government and the Howard Government, took such a strong stance on border protection.

While at the same time our immigration was doubled by the Howard Government, public concern about immigration levels being too high, as measured by the Scanlon Foundation survey, was halved.

More recent Scanlon Surveys have found the proportion of Australians who believe the number of immigrants accepted as too high has again fallen since 2013, when our borders had been in turmoil after years of failed border protection policies under the Rudd-Gillard-Rudd Governments.

The Lowy Institute's own 2016 poll found 73 per cent of Australians now agree that immigration has a positive impact on our economy and 72 per cent, agree that 'accepting immigrants from many different countries makes us stronger' and strengthens us because of immigrants' hard work and talents.

This is in contrast to international surveys which Scanlon notes found disapproval of government handling of immigration in 12 European countries averaged 60 per cent in 2014.

Conclusion

It would be foolish for anyone to deny that there is concern about immigration in Australia. The way to address it is not to be dismissive, but to engage on those concerns and have policies that effectively address them, as the Coalition has done, under Howard, Abbott and Turnbull, ably assisted, I would like to think by their respective Immigration Ministers.

The same is true for our approach to foreign investment and trade, where our policies are delivering real economic benefits for Australians across the country.

So we will continue to pursue immigration, trade and foreign investment policies that are focused on the national interest, by focusing on how Australians can participate and benefit from a growing economy, to boost wages, increase profits and raise our living standards.

This has been our history. It has played a major role in delivering the prosperity we enjoy today.

It must also be our future. We cannot deny this same prosperity to future generations by disconnecting ourselves from the very sources of this prosperity, namely foreign investment, trade and immigration, in the future.

Our economy is successfully transitioning. We are one of the fastest growing advanced economies in the world today. Over 2015-16, we grew by 3.3 per cent and generated around 220,000 jobs. We have just completed twenty five years of consecutive economic growth. The Turnbull Government's national economic plan for jobs and growth that we are delivering is all about setting up the next twenty five years.

