Australian Government
The Treasury

Making the right choices

For better days ahead

Living within our means

Address to the Melbourne Institute Economic and Social Outlook Conference, Melbourne

20 July 2017

Guaranteeing the essentials

Address to the Australian Industry Group, Adelaide

27 July 2017

The economics of opportunity

Address to Bloomberg, Sydney

31 August 2017

More and better paid jobs

Address to the Business Council of Australia, Sydney

29 September 2017

Protecting our living standards

Address to CEDA, Canberra

24 October 2017

Foreword from the Treasurer

There is now an economic consensus in Australia that the "better days ahead" I spoke about in this year's Budget are materialising.

The evidence supporting the improvement in our economy can give us all confidence, as we put some tough years behind us, and look towards an exciting new growth phase ahead.

This renewed optimism is being supported by the Turnbull Government's growth agenda, and the improved economic conditions we are seeing across the globe.

Global confidence is back, and is the spirited message being broadcast by governments, central banks, the IMF and economists the world over.

Australia has just recorded the strongest period of job creation in decades, adding 371,500 jobs in the last year.

Our economy has entered its 26th year of consecutive growth, and despite wage growth remaining subdued, households are increasingly confident about their future, with more optimists than pessimists.

The case for confidence is even stronger for business. Company profits are up 18 per cent over the year, business conditions are the highest in almost a decade, and capital expenditure expectations are above average.

The next challenge will be the pay rise many Australians have been waiting for.

The better days are materialising before our eyes, and we should embrace them.

This message of positive economic momentum is woven through the fabric of five keynote speeches I have given in the last three months. Each speech is built upon the four foundations of this year's Budget: stronger growth to deliver more and better paid jobs, guaranteeing the essential services that Australians rely on, putting downward pressure on the cost of living, and ensuring we live within our means.

Holding the line on those core issues, in an economy that is improving every day, will protect Australia's living standards and lead to higher wages both now, and into the future.

The Hon Scott Morrison MP
Treasurer

November 2017

JOBS

825,000 jobs
under this Government

A fact not a slogan

520,000 jobs
in the past 2 years

Largest gain since the GFC

370,000 jobs
in the last year alone

85%
Full-time

316,000
full-time jobs in the past year

Strongest annual full-time jobs growth on record

20,000 jobs
in September

SEPT

More than market expectations

12th
consecutive month of jobs growth

Longest run in 23 years

Unemployment rate

5.5%

0.7% point over past two years

Participation rate

65.2%

near highest level in past 5 years

Rate of jobs growth

3.1%

fastest growth since GFC

Youth unemployment rate

1.7%

points from peak to 12.6%

61,500 jobs
for young Australians in the past year

2nd strongest result since the GFC

Job ads up

12.5%

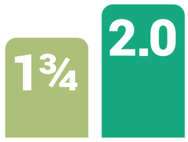
with 170,000 job ads per week

Highest level in over 6 years

GROWTH

26th
consecutive year of uninterrupted economic growth

2.0%
real GDP growth last financial year



Above Budget forecast

5.7%
nominal GDP growth last financial year

Strongest result in 5 years

New business investment has increased for the past 3 quarters

After 3 years of declining

Company profits up
18%
over the year

Driven by mining sector

Business conditions well above average

Near post-GFC highs

Wages and salaries up
2.1%
over the year

Modest, but encouraging

Monthly consumer confidence above
100

Optimists outweighing pessimists

8.7 million
overseas visitors in the past year

Over 1.3 million Chinese visitors

Rural exports up an extraordinary
19%
over the year

Boosting our regions

Service exports up more than
5%
over the year

Strong demand from Asia

Mining exports up
3%
over the year

Ramp up in iron ore and LNG

As at 6/11/17

There is clear momentum starting to build again within our economy; a sign that confidence is rising within boardrooms, on shop floors and around kitchen tables across the country.

Living within our means

Address to the Melbourne Institute Economic and Social Outlook Conference, Melbourne

20 July 2017

Thank you for the invitation to once again speak at this important forum.

The Turnbull Government is governing for everyone. Not for any special or sectional interest, whether they be big business or unions, nor to any particular section of the crowd.

It is our job to govern for every single Australian, 'for all of us' as John Howard rightly said many years ago.

That is our mandate, that is our responsibility and that is what we are doing.

This year's conference theme acknowledges the new political environment in which we must govern.

In recent years conventional politics has been turned on its head.

As I observed in this year's Budget, frustration with their own economic circumstances in a post-GFC world has led many Australians to feel disconnected.

To them, politics as usual means business as usual and they are looking for something different from politics and preferably better.

This has convinced many that Canberra is simply not relevant to them, nor impacts on their day-to-day lives.

They rightly want action. But more than that, they want to know that the Government gets it and is on their side, is attuned to the issues that matter to them, is fighting in their corner as they confront the many challenges they face each day, in their homes, in their families, in their businesses, in their workplaces and in their communities.

Populism is the great temptation in this new political environment.

One that the Turnbull Government has and will continue to resist.

Our response as a Government not to chase votes through superficial populism or ideological grandstanding, but seek to earn support by getting results.

Our agenda is to practically address the problems that Australians are facing, responsibly work out the solutions and get on with it.

Keeping Australians safe, growing the economy to support more and better paid jobs, the cost of energy, the cost of housing, the cost of doing business, the cost of child care, guaranteeing the essential services that Australians rely on like Medicare and schools, and ensuring that the Government lives within its means.

And we are doing this consistent with our values and principles as Liberals and Nationals.

In this new political environment, a responsible Government, and political Party for that matter, doesn't chase votes, it earns them. This takes longer, but it also lasts longer.

As I said in this year's Budget, we will therefore continue to make the right choices. To promote fairness, to strengthen our security and deliver opportunity for all Australians, and thereby secure the better days we know are ahead.

There is clear momentum starting to build again within our economy; a sign that confidence is rising within boardrooms, on shop floors and around kitchen tables across the country.

The pick up in positive data we are beginning to see, combined with the measured optimism echoed from both official organisations like the Reserve Bank and the IMF, reinforces our belief that better days are ahead for Australians.

This is not some pipe dream or mirage on the horizon, but an emerging picture that can give us confidence.

I have always maintained that for our economy to return to trend growth, as this Government and the Reserve Bank have forecast, we need to see businesses doing better than they have been.

While it is true that in the past two quarters of national accounts data - company profits have lifted in aggregate, principally on the back of improved commodity prices - for the prior three years company profits declined on average by 0.8 per cent per year. That compares to 11.8 per cent growth ten years prior.

Greater confidence, greater profits, greater investment - are the prerequisite for more and better paying jobs.

That is why it is encouraging that business conditions are at their highest level in almost a decade, back to pre-GFC levels, with the NAB Monthly Business Survey for June giving a very strong assessment of the mood within a broad section of the economy.

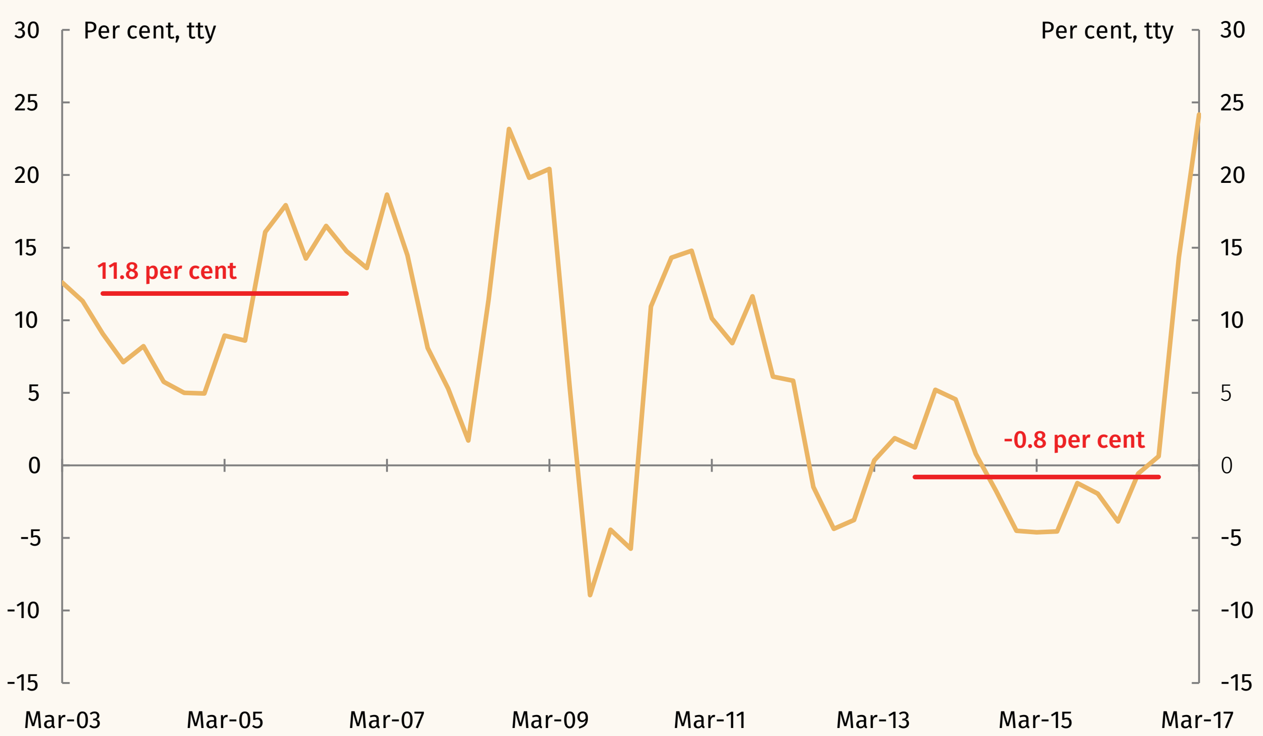
And according to the NAB quarterly data released today, business conditions are now running at +13 points for the June quarter, well above the long-run average of +2 points.

These results show businesses were enjoying a marked increase in demand for their stock, which has pushed sales and profits higher and allowed them to invest in more staff.

Their confidence in where the economy is heading will in time allow businesses to release the handbrake on their own capital spending.

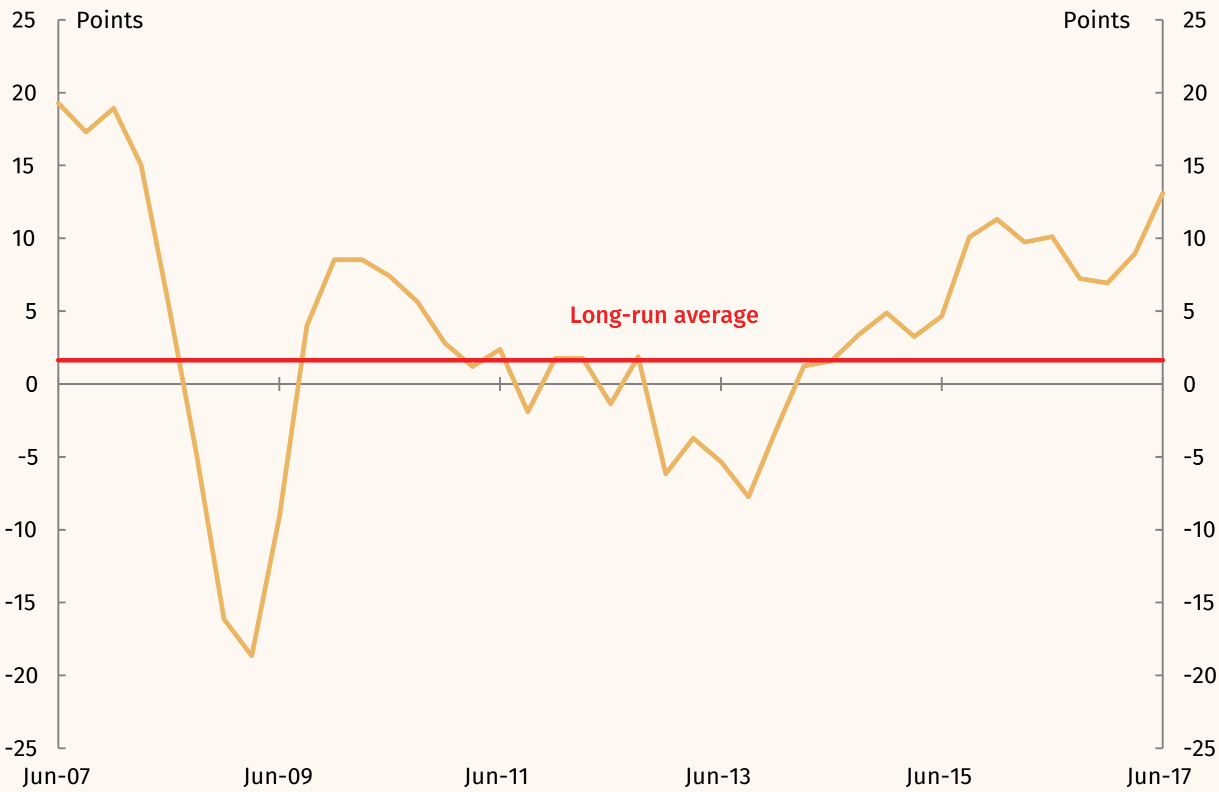
Capex expectations in the NAB survey remained strong.

Company profits



Note: Private non-financial corporations and financial corporations gross operating surplus
Source: ABS Cat. No. 5206.0

NAB business conditions



Source: NAB Quarterly Business Survey

Like NAB's Alan Oster, I agree that "we continue to be pleasantly surprised by just how upbeat the business sector is' and that "we are now starting to see positive spillovers from the business sector to the broader economy."

Thankfully, this renewed optimism is particularly evident in the retail sector. In May, we saw retail trade rise 0.6 per cent to be up 3.8 per cent over the year - with April's result the strongest in two and a half years.

But perhaps there is no greater indicator of the underlying strength in the the economy than the jobs market.

Last month, 62,000 Australians went out to find a full-time job, and found one. This is a tremendous result, and now pushes the total number of jobs created in the 2016-17 financial year to over 240,000.

This was the largest increase in jobs in a financial year since before the GFC, taking the Coalition Government's track record on job creation - to over 700,000 jobs since we came to office.

These positive signs are being increasingly recognised. The Reserve Bank Board meeting minutes released this week reflected the positivity. In fact, they even used the word 'positive' eight times!

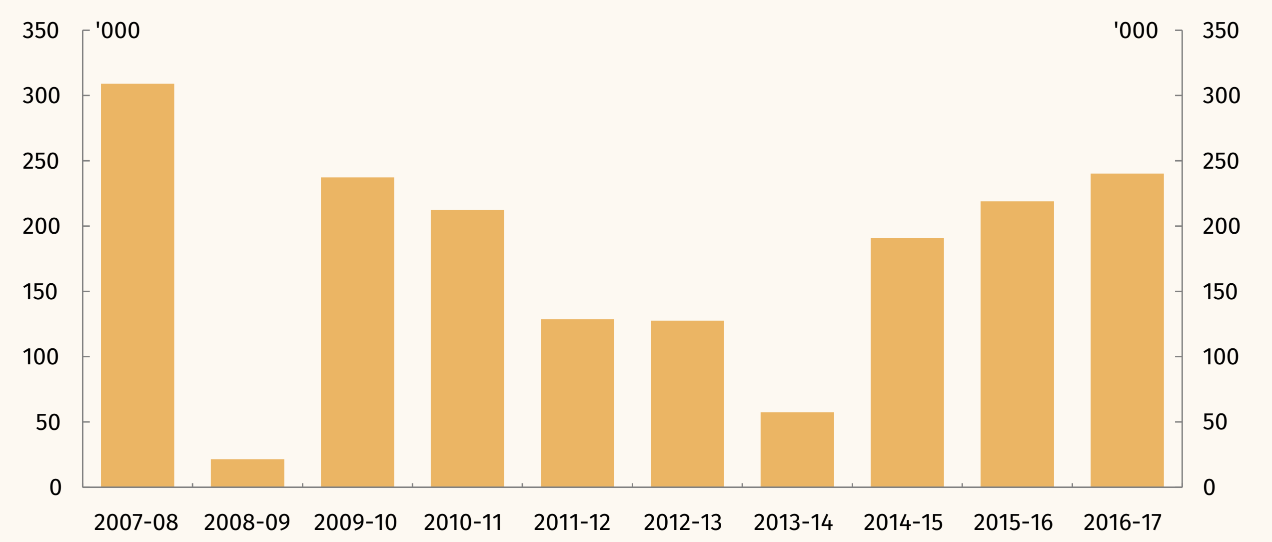
The board welcomed the recent improvements in labour market data, noting the pick-up should support a rise in household income growth. They also noted that indications for the June quarter have been positive, despite the impact of Tropical Cyclone Debbie.

But it is not just the domestic economy that gives us confidence. Global economic activity is also on a firmer footing.

The improvement in world industrial production has been led by the US, Japan and emerging Asia. The same is true for world trade, where the recovery has been a little broader.

Chinese GDP growth has remained strong through the first half of 2017, with through the year growth standing at 6.9 per cent over the year to June 2017.

Financial year jobs growth



Source: ABS Cat. No. 6202.0

As always, this is not to say that there are not risks.

The impact of the unwinding of the extraordinary monetary policy accommodation we have seen in several major economies will have to be closely monitored, but the fact that it is occurring at all is a testament to a stronger global economy.

One should also be cautious in making assumptions about what this may mean for rates here in Australia. Our Bank was far more conservative on the way down. Economies like the US, UK and Europe have a fair bit of catching up to do, before they return to the levels where we have now rested for the past 11 months.

Recent temperance in some of our more overheated housing markets, in line with measures introduced by the regulators, also give reason for confidence in what has been a period of prolonged stability on rates.

Despite the improvement in the data we cannot take the prospect of better days ahead for granted.

These better days must be secured.

In the twelve months since the last election the list of our legislative achievements mean the Turnbull Government has a pretty good story to tell.

Remember, this was meant to be the impossible Senate, the one that would give our Government nightmares, denying any progress we might dare to accomplish.

The prophets of doom said we would struggle to govern with a one-seat majority in the house and a particularly parlous Senate. It would be chaos. Calamity. And most importantly, it would leave us treading water.

We have passed 126 separate pieces of legislation in the year since the election, including tax cuts for small and medium sized businesses, personal income tax cuts, more affordable child care to help Australian families, reigning in union thugs by restoring the ABCC and making multinationals pay their fair share of tax.

That is almost two pieces of legislation passed for every single sitting day in the past 12 months.

And since early May, we have passed 17 bills to implement our Budget. This Budget is passing the Senate.

That means record spending of $23.5 billion into public and private schools to deliver genuine need-based funding for all students.

It means guaranteeing Medicare for the millions of Australians that rely on essential health services.

It means further backing our 3.2 million small businesses, who have already received the biggest tax relief for small business in decades, by allowing them to depreciate their assets instantly.

It means a comprehensive housing affordability package that is already bearing fruit, supporting first-home buyers and renters alike, increasing housing supply and taking care of the homeless.

It means a $75 billion investment in building Australia's economic infrastructure, and putting downward pressure on energy prices by keeping our gas at home, investigating retail pricing behaviour, investing in energy production like Snowy 2.0 and new energy technologies and making our regulation more efficient.

Action is what truly matters. And that is what the Turnbull Government is delivering - with outcomes that directly benefit Australians.

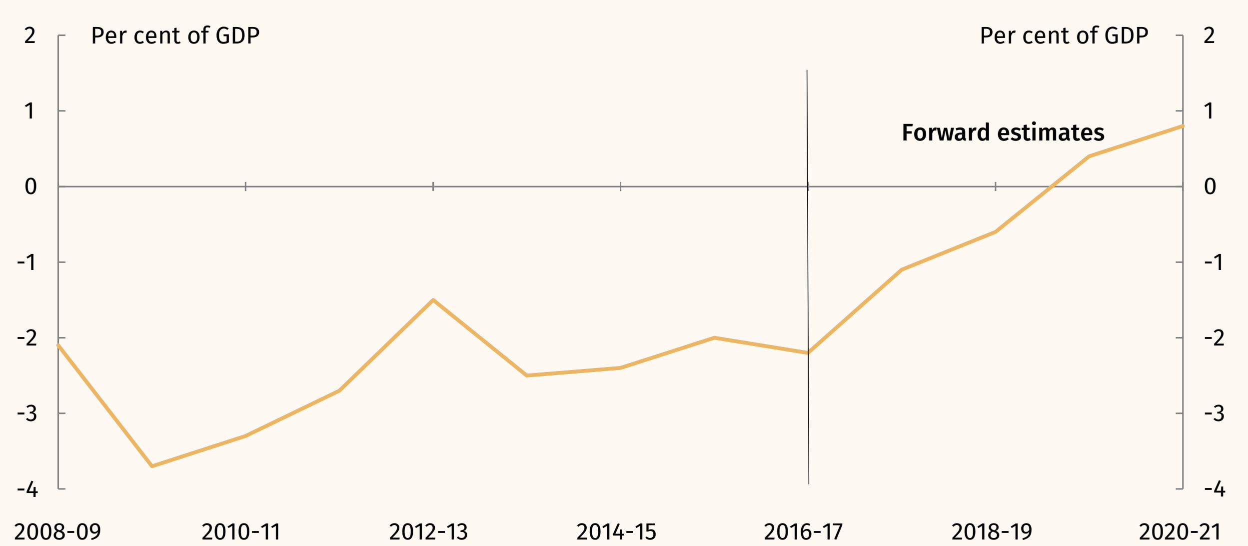
Our beliefs and our values are being demonstrated by our actions - cutting taxes, building infrastructure,

guaranteeing essential services, respecting both today's and tomorrow's taxpayers and moving ever closer to restoring the Budget to balance.

None of this is being achieved at the expense of the Government living within its means.

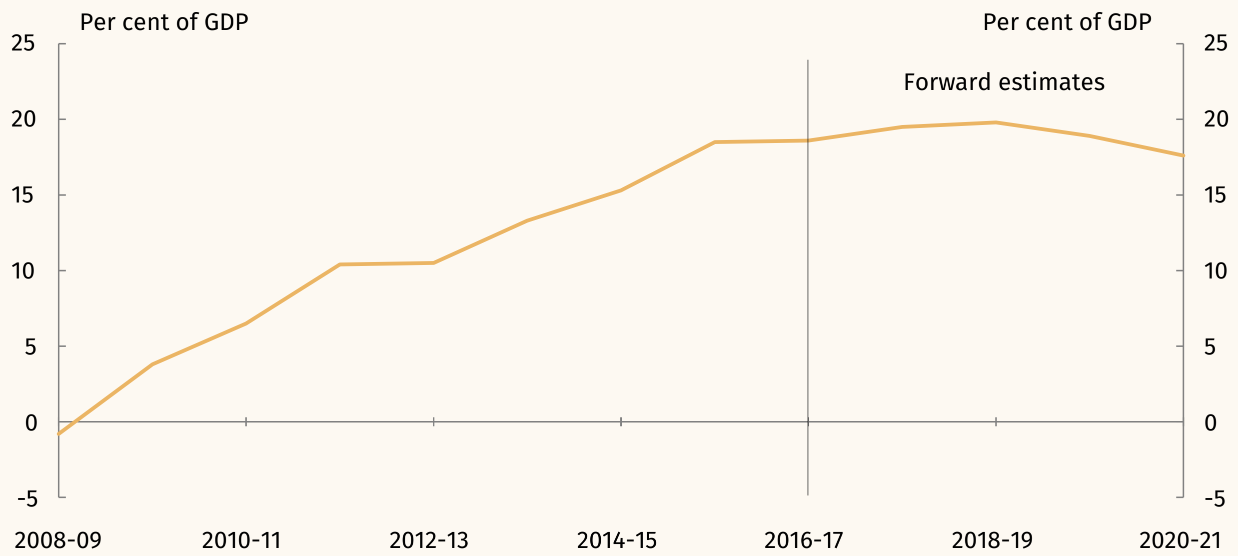
It is true that we have copped some flack based on the false notion that the Budget I delivered in May was excessive in its spending and missing the Budget repair measures required to rein in debt.

Net operating balance



Source: 2017-18 Budget

Net debt



Source: 2017-18 Budget

Let me bust that myth in three definitive ways.

Firstly, since the election a little over a year ago, we have implemented $34 billion of Budget repair measures that is making a real difference.

Signed, sealed and delivered - $34 billion of legislated Budget repair measures that will help propel the Budget back to a projected balance in 2020-21.

These are not paper savings or a wish list, but legislated Budget repair measures.

An important principle of living within your means is that everyday expenditure, such as pensions and welfare should be met by everyday revenue, such as taxes.

Our Budget repair achievements mean that growth in gross debt has fallen by two thirds since we came to Government. It is true that gross debt has now passed the $500 billion mark, you cannot turn this debt tanker around quickly or painlessly.

However, it is also true that had we kept spending and borrowing at the rate Labor was, we would have passed that mark eighteen months ago, and would now be approaching $1 trillion.

Under Labor gross debt increased by 474 per cent, and more than 70 per cent of that debt was for everyday spending on welfare, schools and health funding.

From 2018-19, for the first time in a decade we will no longer as a government be borrowing to meet everyday expenses like welfare, education and health.

Net debt is Budgeted to peak in 2018-19 at 19.8 per cent of GDP or $375 billion and thereafter fall to 8.5 per cent or $256 billion over the medium term. In other words, debt falling over the course of the Budget and forward estimates.

Secondly, we tried to push through a further $14.7 billion worth of Budget repair measures still remaining from the 2014-15 and 2015-16 Budgets, but were blocked at every turn by a Senate that does not share the Government's commitment to Budget repair.

We were faced with a clear choice - accept the reality and find another way to deal with the Budget repair task - or deny the reality, whinge about the Senate and lose our AAA credit rating.

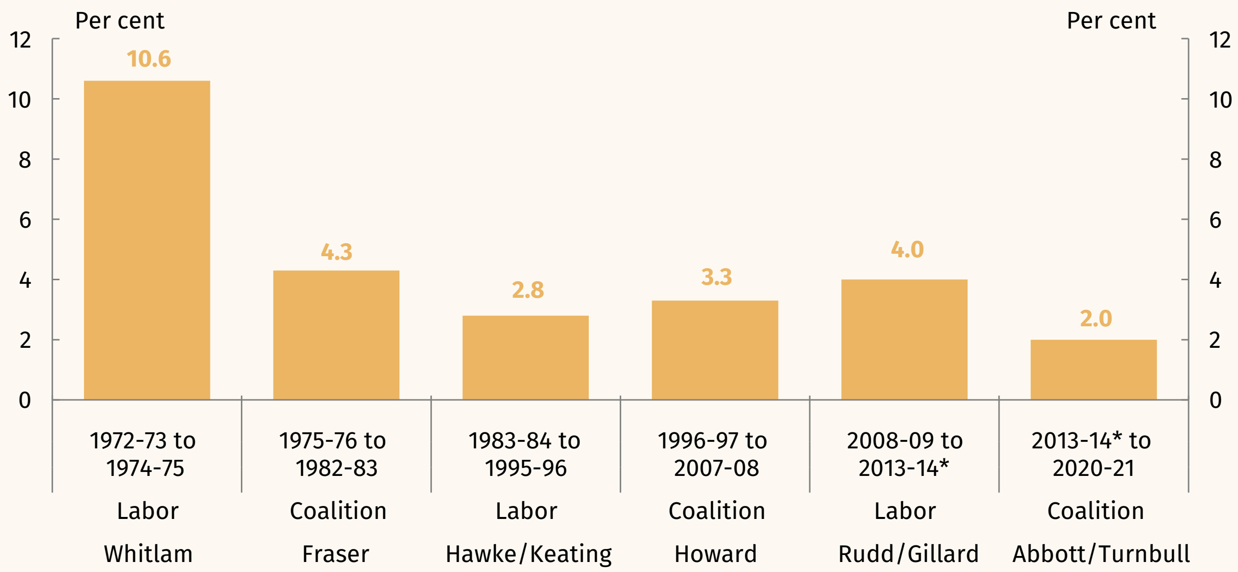
We chose the responsible path.

We hit the reset button on the Budget and worked with the Senate to produce Budget improvement measures, including revenue measures, that are now passing the Senate.

As a result we continue to retain our AAA credit rating from all three major agencies.

Thirdly, and more importantly, spending growth

Average real spending growth



Note: First six months of 2013-14 attributed to previous government, last six to the following government.
Source: 2017-18 Budget

under this Government is the lowest of any Government in at least the past fifty years.

Since we were first elected and over the Budget and forward estimates, our annual average spending growth is less than two per cent.

Under Rudd-Gillard-Rudd, real spending growth ran at an average of 4 per cent. This was despite having a two percent spending growth cap.

Kevin Rudd said when he inherited a spending to GDP ratio of 23.1 per cent in 2007 that 'this reckless spending had to stop'. When he left office the ratio was 25.6 per cent, well above the long-term average. We have managed to claw that back down to 25.2 per cent in the current Budget, despite the baked in legislative spending introduced in the Rudd-Gillard -Rudd years.

This reckless spending is now being stopped.

Even under the Howard Government, real spending growth ran at an average 3.3 per cent, with general public service growth broadly flat.

I note though for those who think we are big spending Government by comparison, that we have reduced general public service spending by more than 7 per cent on average per annum in real terms.

However, the pre-GFC environment faced by the Howard Government was very different. They exercised spending restraint in a comparatively revenue rich environment. Real revenue growth under the Howard-Costello Government ran at an average of 4.8 per cent, enabling them to bring the Budget into surplus and pay off the debt.

The average receipts to GDP ratio for the Howard Government was 25 per cent.

It is hard to say no when you are delivering surpluses and the debt has been paid off. But the Howard-Costello Government did.

Our challenge has been to restrain expenditure in a revenue weak environment, to flatten our cost curve below our revenue curve.

Over the past three years real revenue growth has averaged 2.4 per cent and this is projected to increase to 4.4 per cent on average over the forward estimates. This brings the average receipts to GDP including Budget and forward estimates period to 24.1 per cent.

As a result, like the Howard-Costello Government, we have been able to ensure that expenditure growth has been less than our revenue growth.

Over the last fifty years only two Governments have achieved this - that is called living within your means.

Lower growth in spending from a smaller percentage of tax revenue to GDP: That is not a tax and spend Government. That is not a Labor

Government. That is a Liberal-National Government doing what we always do - in whatever the economic circumstances we face - living within our means.

That is why we remain on track to get the Budget back into balance in a sensible timeframe, projected for 2020-21.

That is why have worked to find a practical way through to getting a balanced Budget and protecting our AAA credit rating.

Another practical factor we have taken into account in our fiscal policy settings is to ensure we maintain a responsible pace back to a balanced Budget.

You don't want the medicine or the treatment to kill the patient.

With an economy coming off a once in a lifetime mining investment boom, a thirty per cent fall in our terms of trade, flat wages growth, weak global growth, a fragile labour market, and a halving in the share of mining investment in our economy, context matters when framing fiscal policy.

Our fiscal policy must also ensure the Government addresses the needs of a growing population, that we are investing in our economic infrastructure, that we maintain essential services and income supports, rebuild our national security and defence capabilities in a dangerous world after six years of neglect, and give businesses access to the resources required to expand and operate in globally competitive markets.

We have adopted a pace of fiscal consolidation that the OECD has classed as 'appropriate' and the IMF has supported and deemed 'appropriately prudent under the current circumstances'.

A sensible, balanced fiscal policy is one that helps support the economy through good times and bad. One of the key reasons that the Australian economy survived the global financial crisis so well was because of the hard work the Howard-Costello Government had done in balancing the books.

Because that is one of the main ways that good fiscal policy supports the wider economy. It is about ensuring that when shocks hit the economy or when the difficult days come, you have what RBA Governor Philip Lowe refers to as 'buffers' in place to absorb the shocks and help you through.

Finally, I wanted to note that in addition to getting our fiscal settings right that it is important we continue to ensure that our banking and financial system is unquestionably strong, unquestionably fair and unquestionably competitive.

And on this issue, we have been getting on with the job as well.

Yesterday APRA announced new measures implementing the Government's response to the Murray Inquiry, on new capital requirements.

I note that all the major Banks have indicated that they are well placed to meet the new requirements.

This puts the regulatory framework for our banking and financial system at the leading edge when it comes to 'unquestionably strong', supporting our banks to be amongst the most stable and resilient in the world. This is where we want to be.

This will be followed up by the introduction of our crisis management tool-kit legislation when we return to Parliament after the winter break.

This week we released further draft legislation to give all licensed lenders the opportunity to classify themselves as a bank, by removing the strict requirement for them to have $50 million in capital.

There are around 58 lenders in Australia that would be entitled to be called a bank under these changes. But more importantly, the door is suddenly open to a raft of online lenders who could enter the market.

We are also in the process of reviewing the 15 per cent ownership restrictions for new entrants to the banking sector, which we believe will facilitate the entry of innovative new players.

When the UK opened its doors to new banking entrants through changes in regulations, 56 new “Challenger” banks were created, with that rapid increase in competition forcing home loan rates down, and deposit rates up.

The big banks simply had to follow their lead, or risk being overpriced in a very competitive market.

In this year’s Budget, we announced the introduction of an open banking regime in Australia that will give customers ownership of their financial data and reduce the costs of banking products.

It will empower customers to seek out products better suited to their needs - saving them money and allowing them to better achieve their financial goals. It will also create further opportunities for innovative business models, helping challenger banks drive greater competition and contributing to overall productivity.

Tonight I announce the appointment of Scott Farrell to lead the Open Banking Independent Review. Mr Farrell is a partner at King & Wood Mallesons and has over 20 years’ experience in financial systems law. He knows the FinTech sector and is a member of my FinTech Advisory Group.

I am also releasing Terms of Reference for Scott’s review, which set out that Scott is to provide the Government with a timeline and implementation model by the end of the year, including outlining the data sets to be disclosed.

To drive greater competition in lending products, the Turnbull Government will also legislate a mandatory comprehensive credit reporting regime if credit providers are not reporting at least 40 per cent of their data by the end of 2017.

There will also new protections for consumers on credit cards. Outlawing unsolicited offers, requiring offers to be based on full repayment not minimum repayment and making it easier for consumers to cancel their cards.

In the Budget we also announced our new Banking Executive Accountability Regime, giving APRA the power to monitor and act swiftly against executives who act inappropriately.

In the most serious cases, banks will be hit with a $200 million fine if they fail to rein in reckless behaviour.

This backs up the additional powers and resources we gave to ASIC last year, to deal with malfeasance in the banking and financial sector

In addition, I have tasked the ACCC to establish a dedicated unit to undertake regular inquiries into specific financial system competition issues, to bring much needed scrutiny to the economy’s largest sector; the first of which will be a one-year price inquiry into residential mortgage products.

This is in addition to the Productivity Commission’s review of the state of competition in the financial system.

Consumers will also have access to new one-stop shop Financial Complaints authority that will enable them to have their cases heard and for binding resolutions to be reached, without having to engage in a lawyers’ picnic. This will be followed up by our response to the Ramsay review expected to be received next month.

Looking further ahead, we are looking at streamlining Know Your Customer requirements, to make it easier for Australians to shift between accounts and create more efficient and secure ways to develop digital identities.

And we will continue to hone our regulator sandbox to allow FinTechs to test a wider range of products and services in a safe environment, without the need for licensing.

Conclusion

The Turnbull Government, which I am a part of, is unapologetic in our pursuit of economic growth. Everything we do is working to achieve this goal.

We are also practical about how we must work to get results and earn support in this new political environment.

We are determined to not waste a day.

The Budget I delivered in May, that is passing the Senate, is implementing our national economic plan.

The outcomes we seek for the Australian people have been clearly set out.

More and better paying jobs. Guaranteeing the essential services you rely on. Putting downward pressure on rising costs of living. Ensuring the Government is living within its means.

Thank you.

Fairness is sharing the load, each paying according to our means, ensuring we meet this cost as a nation.

Guaranteeing the essentials

Address to the Australian Industry Group, Adelaide

27 July 2017

The Budget I handed down in May was built upon a foundation of fairness, security and opportunity. It was about making the right choices to secure the better days that are ahead.

It is a Budget that seeks to encourage and support all Australians; from all walks of life, of all generations and experiences, by doing everything we can to foster economic growth.

It doesn't 'kowtow' to the big end of town, the unions or overseas interests. It puts Australia's interests first. It respects the principle of a fair go, while rejecting demands for a free ride.

Our Budget speaks to realising the economic hopes that Australians have for themselves, their families, their businesses and communities, despite the challenges.

While we recognise the economic frustrations that many Australians have experienced in a challenging and changing world, we believe it is our task to replace this frustration with a sense of opportunity.

By contrast, our political opponents in the Labor Party see these frustrations only as something to cynically exploit for political gain.

Our Budget does not target one group of Australians over another, nor does it seek to champion some Australians at the expense of others.

It puts the interests of all Australians first by keeping the strongest credit credentials available.

Our Budget also does not give up on growth, by focusing only on how our economic pie is carved up. In making this their focus, Labor has put up the white flag on growth. By contrast, the Turnbull Government is implementing a strong national economic plan to drive growth.

Our Budget embraces the economics of opportunity for all Australians rather than the politics of division and envy between Australians that is embraced by Labor.

That is because the Turnbull Government is governing for all Australians - or as John Howard used to say, for all of us.

To ensure that living standards within every household improve as the economy marches forward. That every Australian has the opportunity to share in the benefits of our national growth story.

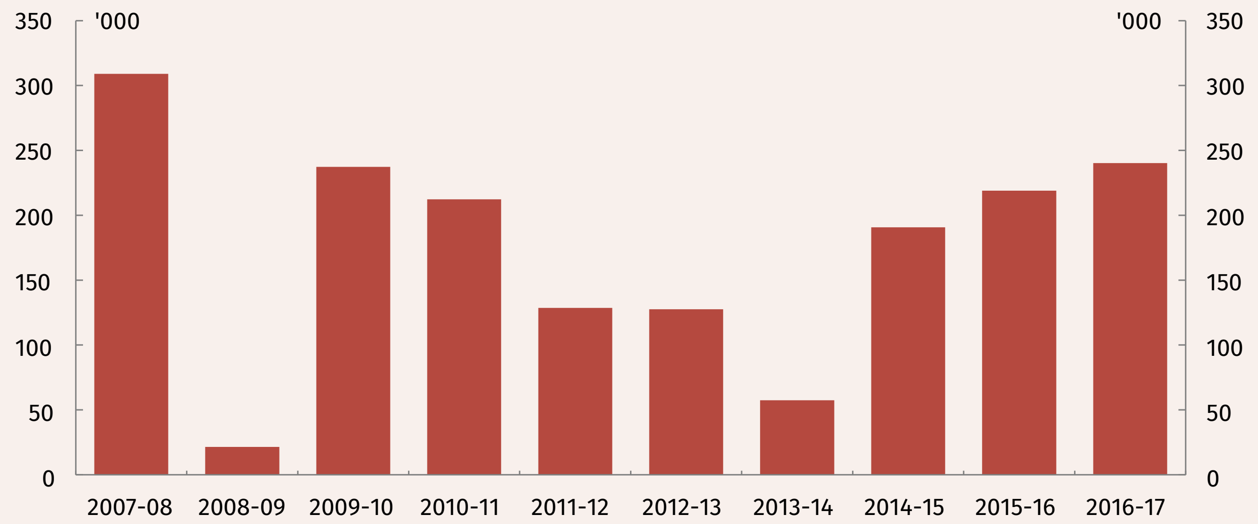
The Turnbull Government does not measure fairness through the narrow lens of envy.

That is a brand of politics that divides and ultimately disappoints the very people it promises to support.

Such an approach seeks to chase votes rather than earn them.

Bill Shorten only thinks you are doing better if someone else is doing worse. It's a con. This politics, this populist agenda, is always based on someone losing, so long as it's not Bill Shorten.

Financial year jobs growth



Source: ABS Cat. No. 6202.0

It's a small vision for a big and successful nation like Australia and a dark vision for our economy, which the Turnbull Government rejects.

Populist politicians like Bill Shorten will always stand at the microphone and make bold assumptions about the ever-increasing gap between haves and have nots.

When you consider many Australians have not enjoyed the same level of growth in their personal financial circumstances as others, it is easy to fall into the trap and nod in agreement.

But when you hold it up to scrutiny, it is just another Shorten con, that sells Australia short.

Firstly, this cheap rhetoric about an unfair Australia diminishes the achievements of generations of Australians who have not only built a prosperous country, but a very fair one.

Australia has a proud record of looking after those who haven't fared as well as others, and certainly better than most countries.

Australia rightly runs a progressive tax system with a generous social safety net. Our welfare system, despite its acknowledged faults which the Turnbull Government is acting to address, is one of the most targeted in the world.

The Turnbull Government has tightened means testing of benefits, including in the most recent Budget, while at the same time strengthening the integrity of our welfare system, by cracking down on the rorts to ensure it provides help to those who need it most.

We also believe that the best form of welfare is a job. The fact that more than 240,000 jobs have been created in the last financial year, the strongest year of job growth since before the GFC, means Australians are doing better.

Secondly, we must not buy the flat earth argument that you're doing worse because someone else is doing better.

Sure, fairness is about paying your fair share, but it's not about taking from those who have earned to simply even up the score.

I have supported and introduced tax changes that were designed to increase fairness and sustainability in our tax and welfare system and to ensure that we each paid our fair share.

Some of these measures have been unpopular, including with Coalition supporters.

In the Budget we necessarily legislated for the major banks to pay more to recognise the advantaged position they occupy in our financial system, not because their profits are large or they are unpopular. We are actually working to reduce taxes for profitable businesses so they can afford to invest more and pay higher wages.

We are seeking to legislate to increase the Medicare Levy so we can all ensure that the NDIS is fully funded and that we all continue to share in the cost of delivering it.

In previous Budgets I have acted to remove generous superannuation tax concessions granted in more prosperous times that could no longer be afforded. This was not about increasing taxes, but making our retirement income system more affordable, not redistributing earnings.

Fairness should not be judged by how much you appear to punish people who do well. That cannot be the test in a modern and competitive economy.

Jamming the handbrake on those who once aspired and embraced their opportunities, and who have had good fortune and kicked some goals in life, is not a plan to make Australia a more prosperous country or fairer.

We cannot allow our tax and welfare system to be built on the principle that someone has to do worse for you to do better.

That is not what I believe Australians call fairness. We're bigger than that.

Thirdly, we need to remind ourselves of some facts, as Roger Wilkins, the deputy director of the Melbourne Institute did last week when he rebuffed the notions of a growing inequality here in Australia.

Roger is not a politician, he has no dog in the political fight, he's a respected academic. Amongst his many credentials he is responsible for the highly respected survey of Household, Income and Labour Dynamics in Australia (HILDA).

He said: "If anything, inequality has been declining.''

This is particularly the case when we take into account our progressive tax and transfer payment system and when we are looking at our experience post the GFC.

Between 2011 and 2014, the Gini coefficient for household disposable income based on the HILDA data decreased from 0.311 to 0.299.

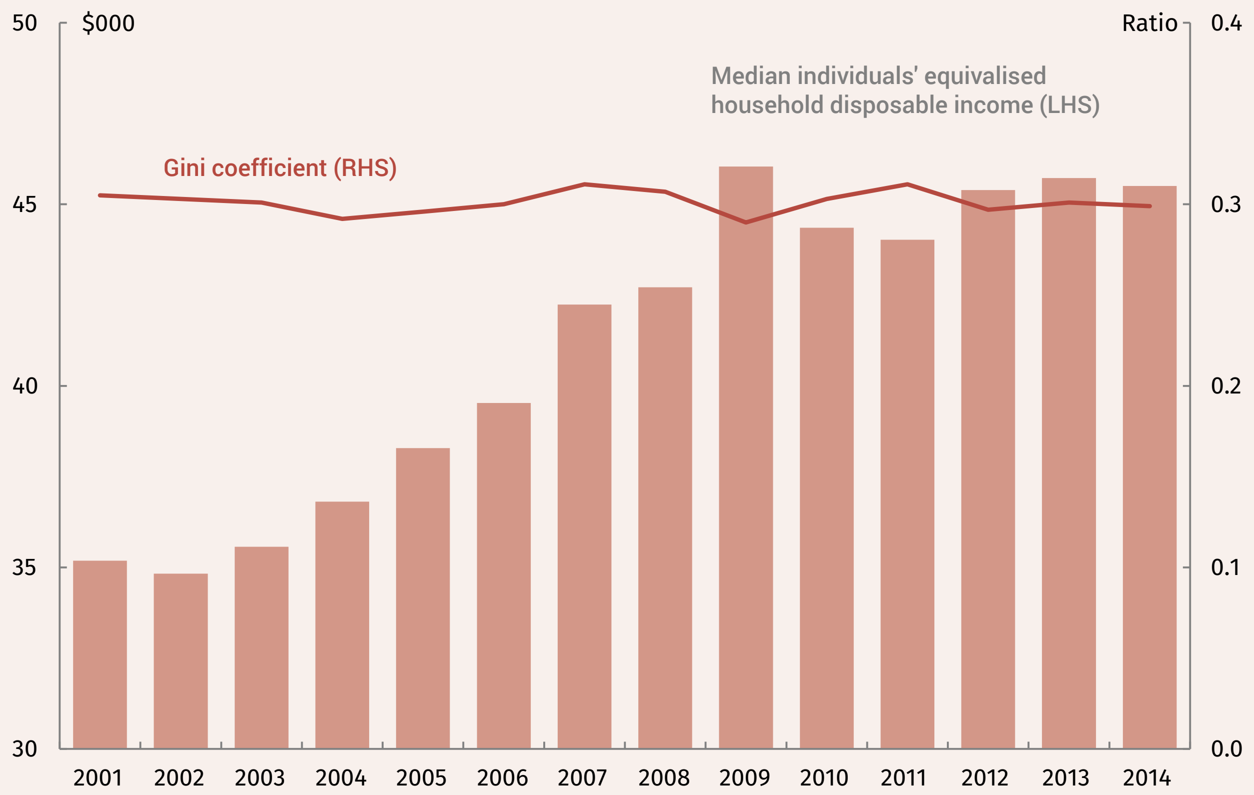
Analysis of the more recent census data for the 2016 Census shows the Gini coefficient based on gross household income has declined from 0.382 to 0.366 since 2011.

Between 2006 and 2014, the largest falls in household wealth occurred in the richer households, with the measure for the top 1 per cent of income earners falling 9.3 per cent, whilst the lowest 10 per cent had an increase of 25.7 per cent.

In addition, the HILDA survey has shown relatively little change in household income inequality between the endpoint of 2001 and 2014.

Also, the proportion of Australians earning half the median wage has fallen to 10 per cent from around 13 per cent in 2010, according to the ABS.

Household incomes and inequality



Source: HILDA

Where income has been constrained in families, our welfare safety net has proved immensely valuable.

According to the ABS, the poorest 20 per cent of households, on average, receive cash transfers and social services benefits worth more than eight times what they pay in taxes.

In addition, a 2010 study showed that the poorest 20 per cent of households received twelve times as much in cash benefits as the richest 20 per cent - the highest ratio in the OECD and 50 per cent more than the next most targeted country, New Zealand.

According to the OECD in analysis released in 2015, while income inequality has risen in most OECD countries over the past three decades, in Australia it had increased by substantially less than many comparable OECD countries.

More recently though, as I have also noted, the OECD acknowledged that inequality in Australia has actually fallen since the Global Financial Crisis on some key inequality measures and the ratio of income of the top 10 per cent compared to the bottom 10 per cent in Australia is below the OECD average.

Also in 2015, the Productivity Commission found that forty per cent of families paid no net tax, after taking into account their transfer payments like the Family Tax Benefit.

By contrast, the top 10 per cent of income earners in this country pay almost 50 per cent of the personal income tax received by the government. The top one per cent of income earners pay a staggering 17 per cent of all tax received.

I'd say that was paying a pretty fair share. To then say that their tax rates should be increased even further is nothing more than a lazy, cynical envy tax.

It is blatant ideology masquerading as fairness, and we embrace or even indulge it at our peril.

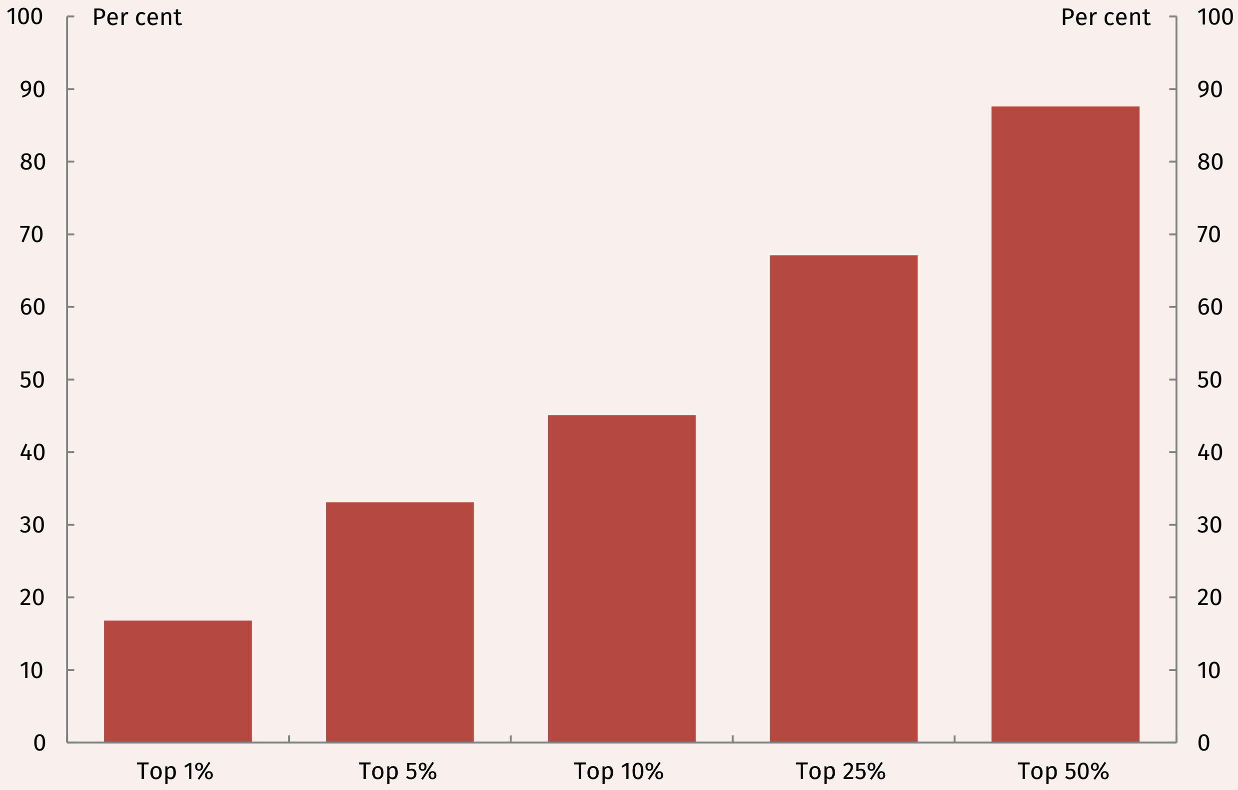
Above all, real fairness requires you to get things done.

You must be judged by what you do, not by what you think or say.

That is why in this year's Budget we committed ourselves to doing four things.

Grow the economy to support more and better paid jobs.

Personal income tax paid by income percentile



Source: ATO

Guarantee the essential services that Australians rely on, like Medicare, the PBS, schools funding and disability services

Put downward pressure on rising costs of living, such as electricity and housing costs.

And ensure the Government lives within its means by responsibly returning the Budget to balance and ensuring today's services are not being paid for by tomorrow's taxpayers.

Our Budget is passing the Senate. Seventeen pieces of Budget legislation have now passed the Parliament. These form part of the 126 pieces of legislation that have passed the Parliament since we were re-elected just over twelve months ago.

The Turnbull Government is getting things done.

When Australians are feeling the pinch, they become acutely aware of the essential government services they rely on.

Our Medicare system is world renowned. Our Pharmaceutical Benefits Scheme slashes the cost of life saving and improving medicines. Our generous child care rebates ease the burden for families to give parents the flexibility to return to the workforce. Our support for early childhood education and public education is where every Australian's journey of opportunity begins - it is the bedrock for fairness and equality.

These are things we can take for granted when the good times roll, when our jobs are stable, wages are rising and the outlook is rosy.

But the moment the family Budget is squeezed and wages growth slows to a crawl - as many households have experienced in recent times - Australians want to know that the services they rely on will be there for them.

When the cost of living starts to bite, suddenly a $40 rebate from a doctor's appointment is crucial to your week.

The discount you receive on your medication over the counter at your local chemist is important and goes to a 'must have' as the raft of other bills pile up under the magnets on your fridge.

Despite the fact our national economy keeps moving forward to a steady beat, we understand that not all Australians have been able to take as much comfort from this as others.

Many families are hurting and struggling under the weight of financial stress and some have broken apart.

Some Australians can't remember the last time they received a decent pay rise, despite putting in the hours and the hard work to provide for their households.

And with no pay rises, the rising cost of living has started to gnaw away at household Budgets, particularly when that quarterly electricity bill arrives in the post.

For these reasons we have acted to give you the guarantees that you can rely on from the Turnbull Government.

We have legislated to protect Medicare and guarantee its vital service is available both now and into the future. As strong as ever.

We have established the Medicare Guarantee Fund to pay for all expenses on the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme from July 1 this year, and already $33.8 billion has been credited to the fund for the sole purpose of meeting the cost of essential health care.

Medicare is being protected and strengthened by the Turnbull Government, not eroded, let alone sold.

We have legislated record funding for our hospitals and schools.

Our $23.5 billion package to fund needs-based schooling for every student in every state, in every school, gives parents the confidence that when they drop their kids off at the school gate, their child is getting the funding based on what they need - not being left out by special deals other schools receive.

This is the fairness that has been sought by parents for decades and has now been funded, delivered and legislated by the Turnbull Government.

From 2017-18 to 2020-21, the government will invest $37.3 billion in childcare, including before and after school care, to ease cost of living pressures for around one million Australian families, and give parents a fair pathway back to work.

These measures help Australians where they are at now, giving them the confidence that when times are tight, the government has their backs on the important things in life - health, education and the care of their children.

Too often, partisan battles occur over critical measures that materially benefit the lives of Australians, particularly our most vulnerable citizens.

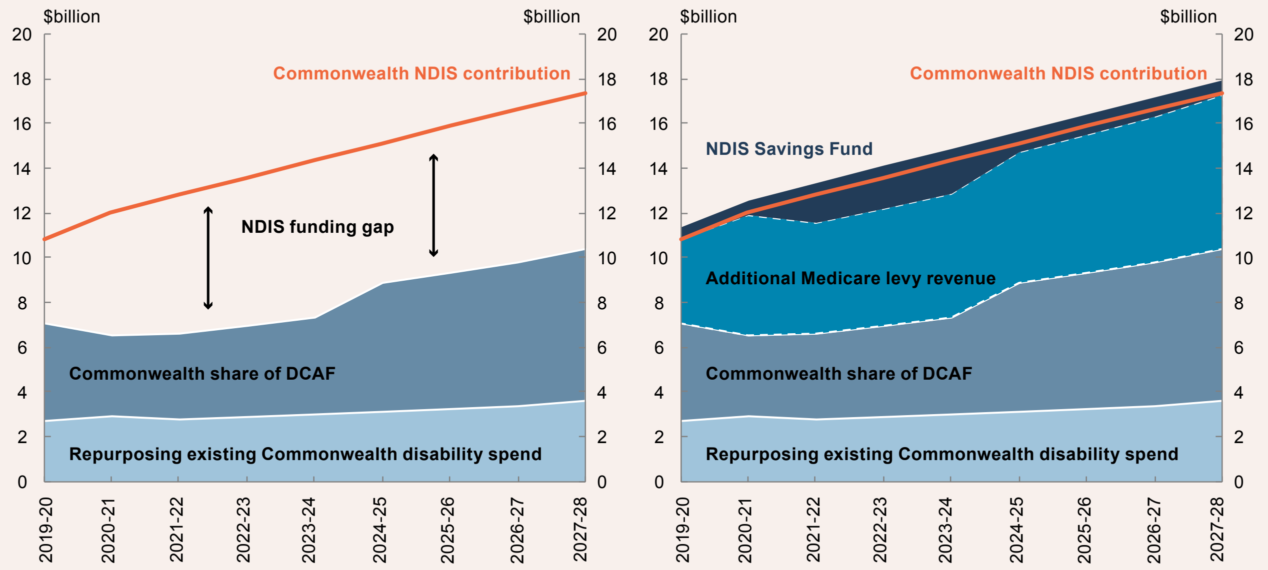
When we return, I am hopeful that our Parliament will reject this approach and support our Budget initiative to once and for all fully fund the National Disability Insurance Scheme.

Governments must care for our most vulnerable Australians.

Australians look after their mates, whatever their own means.

The burden on the shoulders of those who have family members with a disability is already too

Fully funding the NDIS



Note: The NDIS Savings Fund includes one-fifth of the Medicare levy from 1 July 2019, underspends and realised saves redirected to the NDIS Savings Fund, and uncommitted funds from the Building Australia Fund and Education Investment Fund.
Source: Budget 2017-18

great. Nobody can properly prepare for the hardship, nobody can prepare for the cost.

What we are seeking is to lighten their load and provide a quality of care that they deserve as a fellow Australian.

As my brother in law, who suffers from MS, told me - 'it's not flash being disabled, but the only good thing about it is being disabled in Australia'.

The NDIS can continue to make this a reality for disabled Australians and their families and carers. It's not perfect and we still have a lot of work to do, but we must put the partisan squabble about funding to rest.

We have provided the solution in the Budget by filling the $55.7 billion funding shortfall with a 0.5 percentage point increase to the Medicare Levy.

We chose the Medicare Levy - asking all Australians to contribute according to their means - because this is the responsibility of all of us.

Those who earn more will pay more, but all of us above the thresholds that have already been set to protect the vulnerable, have a role to play.

This is the fair approach.

Fairness is sharing the load, each paying according to our means, ensuring we meet this cost as a nation.

To quote the architect of the NDIS, Julia Gillard when she announced plans to use the Medicare Levy to pay for the first half of the NDIS: "Everyone takes out and everyone puts in."

The invitation I presented in the Budget to fund the NDIS was not for Labor to play politics and turn this into another episode of class warfare. It was to step up.

The Labor Party under Bill Shorten that is now refusing to support the Budget measures to fully fund the NDIS is falling short of the fairness standard and commitment to disabled Australians set by the Labor Party under Julia Gillard who initiated the NDIS.

When Bill Shorten rails against funding the NDIS, pitting Australians against Australians and claiming this is a wealthy person's problem to fix, he's fishing for votes, not helping people.

He is crassly playing politics with disability.

Where is the fairness in choosing politics over people's lives?

The same can be said of Labor's plans to oppose our initiative to give young Australians a helping hand to save for their first home.

In the First Home Super Savers Scheme we have a generous system where Australians can turbo-charge their house deposit by saving money inside their superannuation account within existing caps - attracting the tax concessions and a deemed earnings rate.

This has the potential to boost a young person's house deposit by 30 per cent over three years giving them a considerable leg-up in their seemingly insurmountable battle to get the keys to their first home.

Labor won't support them. But we will.

Labor is going to block what is effectively a tax cut for Australians saving to buy their first home. They are saying no, and in doing so, they are prepared to leave young Australians to fend for themselves in a ravenous housing market; an arduous proposition in the property markets of our capital cities.

They have nothing to offer them.

Where is the fairness in denying young Australians the opportunity to boost their house deposit?

Arguably our most important task in the coming year is delivering a fair outcome on energy policy that puts downward pressure on electricity prices.

Australians are sick and tired of watching political parties fight over the right energy solution. Politics as usual means business as usual which means power bills continuing to surge to outrageous levels.

We must reach an agreement, based on engineering and economics, not ideology and politics.

As the States played a large role in creating this problem, the only way forward is a national solution. The last thing we need is for States to continue to go it alone and try and be heroes.

We know very well where that type of an experiment ends. Especially here for the people of South Australia.

In the Budget I delivered in May, I described the Prime Minister's plan to deliver more reliable, more affordable, and more sustainable energy in five ways.

Firstly, we need to keep more of our gas at home to meet our electricity needs.

The availability, or perhaps more correctly, the unavailability of gas in the domestic market has had a direct bearing on the cost of your power bill.

Back in 2015, gas was setting the price of electricity around 10 per cent of the time.

Now it is setting the price as much as 25 per cent of the time, as coal plants retired.

The impacts have been magnified by the rise in the cost of gas, with recalcitrant states who are needlessly locking up their gas supplies, exacerbating the problem. The solution is under their heels.

In Victoria, there is 40 years' worth of gas supply sitting under its soil in the Gippsland Basin, but they, like the Northern Territory government which has an onshore gas resource that would last for 180 years, are refusing to unlock it and pour vital supply into the gas market.

Thankfully, wisdom prevails in the Finkel Report, penned by the Government's chief scientist Alan Finkel, which recommends the States do away with their moratoriums on gas extraction, accept the evidence, and proceed on a case-by-case basis.

Secondly, we are making sure the big energy retailers are not profiteering from your electricity prices and we have tasked the ACCC to 'look under the hood' to determine whether retailers are being fair in the way they price their energy. Hearings started this week.

I won't stand by and let energy retailers and rogue State Governments take advantage of Australians families, by seeking to pull the wool over their eyes and play the system.

In Queensland, around 65 per cent of the energy supply is state-owned and those companies have routinely exploited their market power to push electricity prices higher.

These colluding companies are owned and operated by the Labor Palaszczuk Government.

The result? Queensland has some of the highest electricity prices in the country.

Thirdly, we are working to improve energy regulation, providing extra funding to increase gas market efficiency and transparency.

The COAG Energy Council, led by my colleague the Minister for the Environment and Energy Josh Frydenberg, will stop energy businesses from appealing how much they can re-coup from customers.

Network businesses will no longer be able to appeal certain decisions of the Australian Energy Regulator through the so-called Limited Merits Review process.

In doing this, we are abolishing the opportunity of big energy companies and State Governments gold-plating their infrastructure and passing on the costs to you, the consumer.

Fourth, we are investing in new generation and storage capacity, whether that be our significant investment in Snowy 2.0 or our plans to investigate new gas pipelines and energy infrastructure here in South Australia.

We are talking real solutions.

There is nothing wrong with Tesla's czar Elon Musk coming out to South Australia and trumpeting its revolutionary energy storage solutions for the State; committing to build the world's largest battery right here.

While we welcome any initiatives to boost power and lower electricity prices, we shouldn't get too carried away.

This battery has 129 megawatt hours of storage. This wouldn't get 30,000 South Australian households through watching one episode of Australia's Ninja Warrior.

The Prime Minister's plan to invest in Snowy 2.0 has 350,000 megawatt hours of storage.

So, we would need another 2,712 more "world's biggest batteries" before we get on the same page.

When a gale is blowing in from the Great Australian Bight, South Australia can generate around 13,000 megawatt hours from its wind turbines in a single day. The new battery could only store one per cent of that power.

We are not into showbiz energy policy, we are into real, tangible energy policy that actually makes a difference, not just grabs a headline.

Fifth, we are investing in new low emissions technology.

That does not mean it is out with the old and in with the new.

We remain resource and technology agnostic. While there is an estimated $7 billion currently committed to building renewable energy projects, coal must and will remain a prominent contributor in our energy mix.

It is not a question of either coal or low-emission technologies. It is both, for the longest period possible.

Coal is not going anywhere soon. It remains an integral component of our base load power;

at present, an incomparable component given its reliability and cost. Under Dr Finkel's own clean energy target analysis, coal would still supply 50 per cent of the National Electricity Market up to 2030 at least.

The last coal-fired power station to be built in Eastern Australia was in 2007, in Kogan Creek in Queensland.

By all means let's welcome investment in a new lower emissions coal-fired power station or HELE plant as they are known and are building in places like Japan. But let's also be real about it.

These new HELE plants would produce energy at an estimated two and a half times the cost of our existing coal fired power stations. They would also take up to around seven years to set up. While welcome, where the economics and engineering stack up, we shouldn't kid ourselves a new HELE plant would bring down electricity prices anytime soon.

When it comes to coal, the best thing we can do is simply ensure the power stations we currently have, Liddell, Bayswater etc, stay open, remain economic and work longer into the future. We need to sweat these existing coal fired assets for longer.

Not only does this provide critical base load for our economy in the decades to come, but it also buys important time as other energy technologies are developed and can be evolved to match the stability of more traditional power sources.

Under the Finkel recommendations, large thermal generators like the Hazelwood power plant that shut its doors in Victoria's Latrobe Valley in March, would be forced to give a minimum notice period of three years before closing.

This is about avoiding price shocks and maintaining reliability, by giving the system enough time to plan for new generation.

And as outlined in the Finkel Report - which now has the support of the States - you must have a comprehensive pricing approach for renewables which reflects the fact that you also want stability.

Not just when the sun is shining and the wind is blowing.

In addition to guaranteeing the essential services that Australians rely on, we have also acted in the Budget to put downward pressure on rising living costs. Not just because it is the right thing to do, but it is the fair thing to do, ensuring that Australians can get a fair go.

Conclusion

In a speech to the Melbourne Institute last week, I painted an encouraging picture of where the Australian economy is at present and where it is heading, and I am not alone. This view is shared by the Reserve Bank, the IMF and many others.

There are better days ahead.

There is a clear momentum building within our economy, as businesses become more confident and begin to release the handbrake on their investment.

The sustained growth in new jobs is a perfect example of this underlying strength.

Last month, 62,000 Australians went out to find a full-time job and got one, taking the number of jobs created in the 2016-17 financial year to 240,000.

With increased investment and sustained profitability will come increased wages.

These are encouraging signs, but we cannot take it for granted.

The Turnbull Government will continue to make the right choices to secure the better days ahead, as we did again in this year's Budget to grow our economy and ensure that all Australians get a fair go.

Thank you.

We are making strong progress as a Government and a country in a dynamic and uncertain world. Our economy has proved as resilient as it has prosperous and it is our intention to keep it that way by continuing to make the right choices and thereby secure the better days ahead.

The economics of opportunity

Address to Bloomberg, Sydney

31 August 2017

As we move into spring, we can continue to take confidence that a brighter picture is emerging within our economy.

The `better days ahead' I spoke of in the May Budget was not wishful thinking. It is now the emerging economic consensus.

The resilience of our economy has enabled us to push through what has been an arduous post GFC funk for the global economy. This is now turning.

In recent months, we have witnessed a steady stream of positive economic data.

Business conditions have risen to their highest level in almost a decade, to stand at almost three times the long-run average.

At the same time, business confidence has increased to double its long-run average - one of the strongest results since 2010.

What has this meant for Australian households? The answer is simple: more jobs.

In the last six months alone over 210,000 full-time positions were created. This is the strongest period of full time job creation since records began almost 40 years ago.

In the last fiscal year, around 240,000 Australians went out and got a job, the strongest year of job growth we have seen since before the Global Financial Crisis.

The strength of recent job outcomes has seen the unemployment rate decline, reducing some of the spare capacity in the labour market.

This is also directly benefiting Australians who wish to work more hours.

And there is reason to believe this jobs growth will continue, given the ANZ job ads survey was at its highest level in over six years in July, at over 177,000 job ads. Annual growth in the series is at its strongest rate in almost two years.

So hundreds of thousands of Australians who now have a job are the direct beneficiaries of businesses doing well.

Importantly, the strength in the labour market is being matched in other parts of the economy.

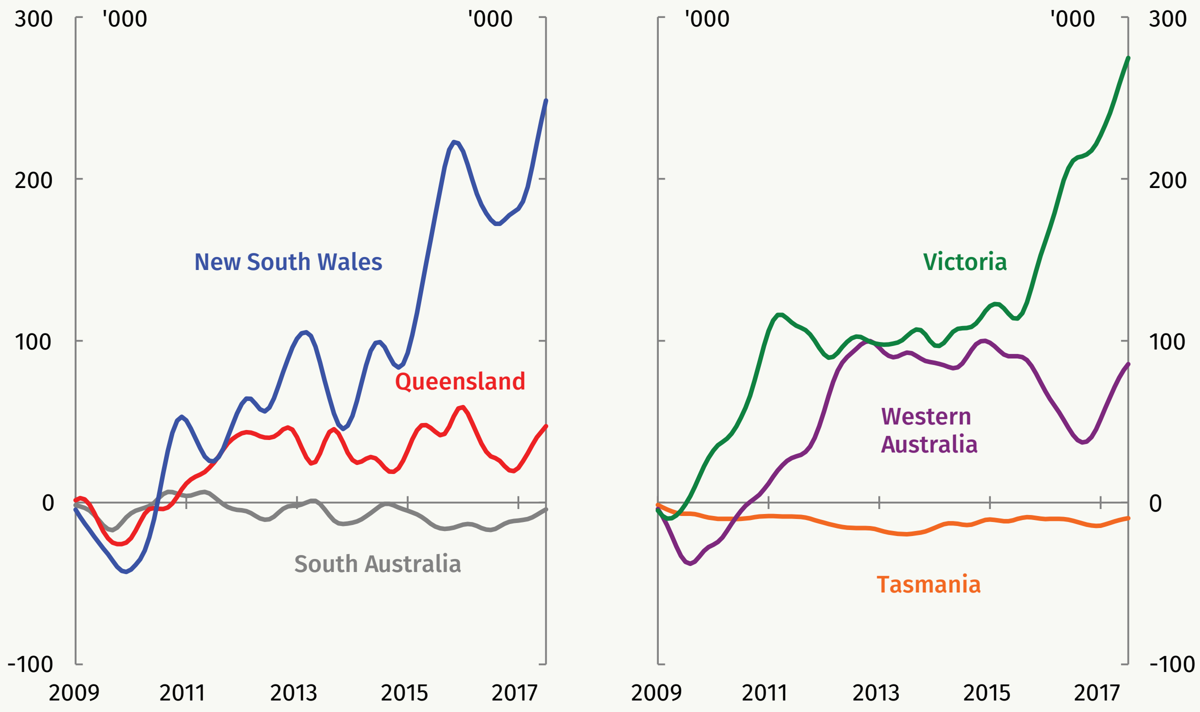
Retail sales have been strong in recent months, with sales volumes increasing 1.5 per cent in the June quarter – the strongest quarterly outcome since early 2013.

And we are also seeing some encouraging signs of a pickup in business investment. New private business investment has increased in each of the past two quarters in the National Accounts, following 12 consecutive quarters of decline.

The latest NAB quarterly business survey had capex intentions above long-run averages and measures of capacity utilisation also appear strong.

This welcome pickup in non-mining investment is ideal in its timing, given we are in the final days of a prolonged fall in mining investment driven by high commodity prices.

Full-time employment

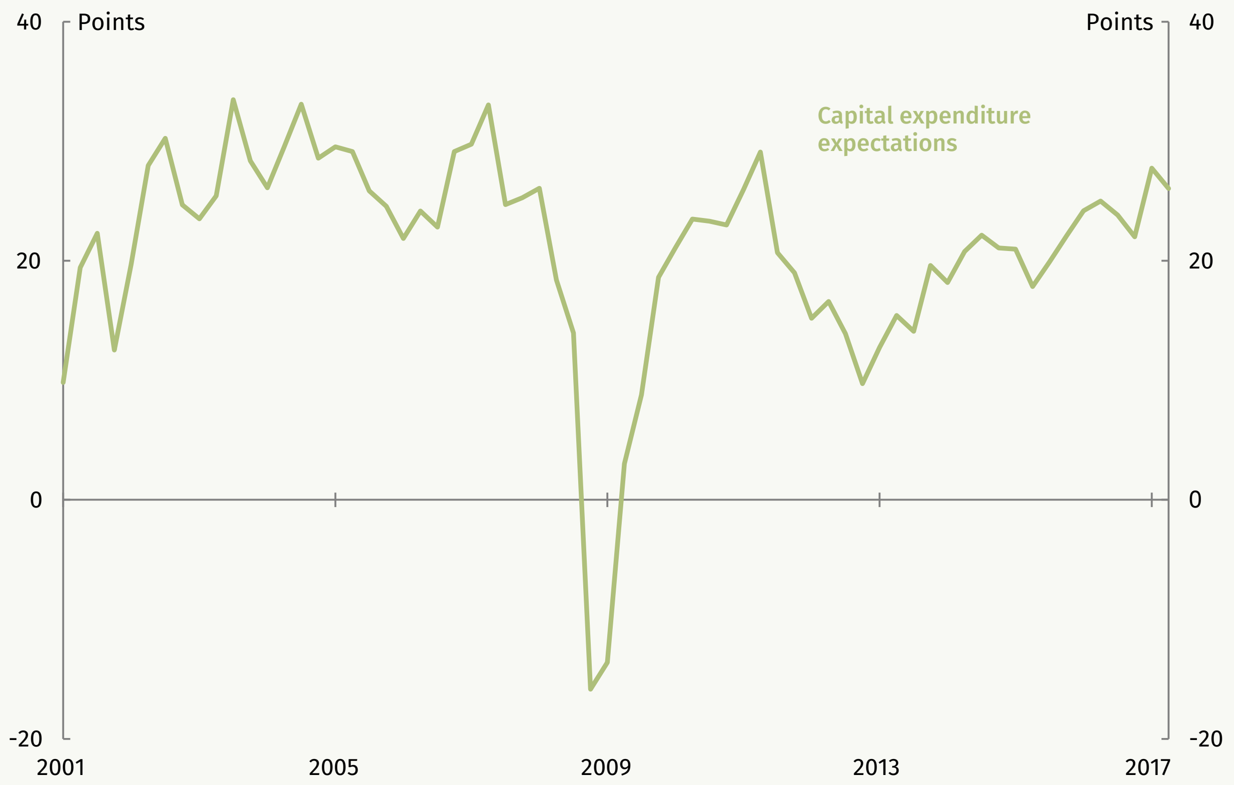


Note: Cumulative change since 2009, trend
Source: ABS Cat. No. 6202.0

Job advertisements

Note: ANZ have subsequently revised this series.
Source: ANZ

Business indicators



Source: NAB Quarterly Business Survey

Mining investment as a share of GDP halved - and detracted more than 1 percentage point from growth per annum over the past few years.

But this drag is almost over, as the Reserve Bank Governor has observed, with the transition from the mining investment boom "almost complete". Without this drag on the economy, we can look forward to increased growth, as outlined in the Budget forecasts.

This increased investment in the private sector is also supported by the necessary investment in infrastructure that is taking place in this country, including the record $75 billion investment at the Commonwealth level I announced in the Budget.

Notwithstanding the strong increase in engineering construction due to some large scale mining projects in the quarter, yesterday's construction work done data, showed that public construction work done rose 4.7 per cent in the quarter to be up 13.7 per cent through the year to June 2017.

The emerging sense of confidence surrounding the global economy, further bolsters our own confidence that better days are ahead.

Global forecasts are being upgraded, not downgraded.

After remaining subdued for several years, global trade volume growth is starting to increase, and there has been some improvement in the outlook for business investment and industrial production in major economies.

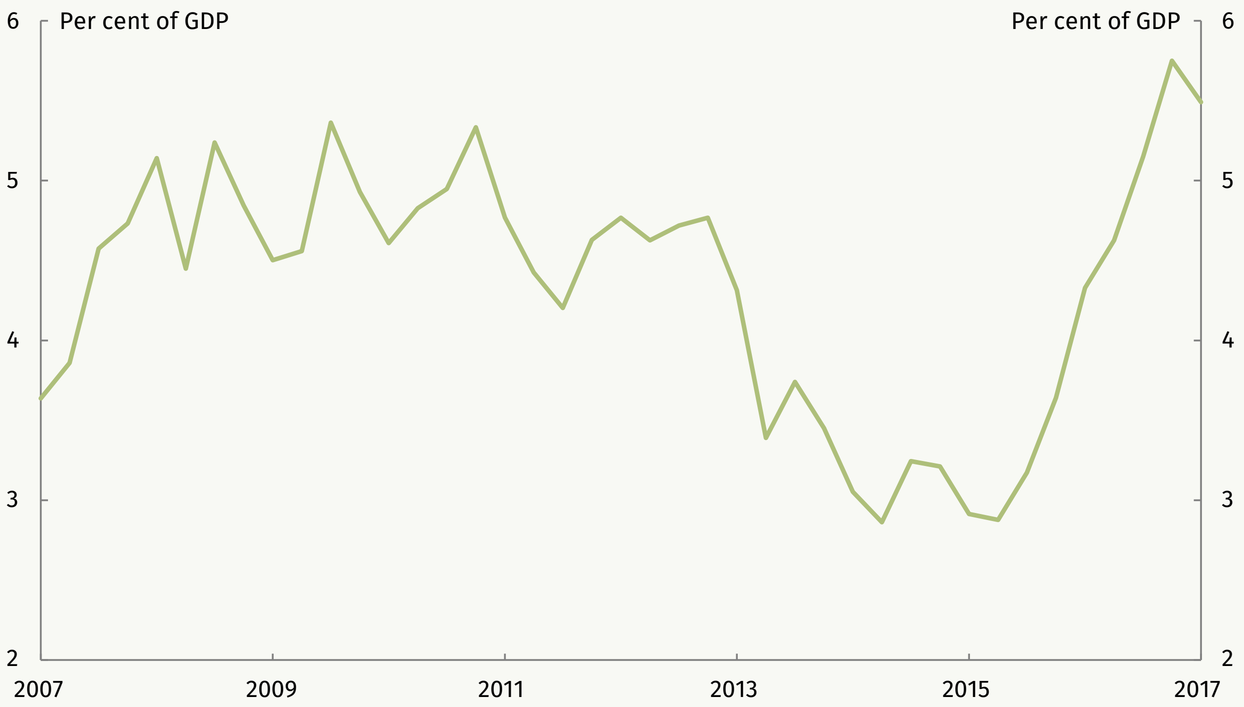
Importantly, our major trading partners are set to continue outperforming the wider global economy, with our Asian trading partners in particular expected to grow strongly.

Chinese GDP growth has ticked up so far this year, growing at 6.9 per cent, but the nation's high levels of debt-to-GDP continue to be of concern, as I flagged here this time last year.

The United States economy is still performing well, with a continued economic expansion and an unemployment rate falling to around its pre-GFC low of 4.3 per cent in July 2017.

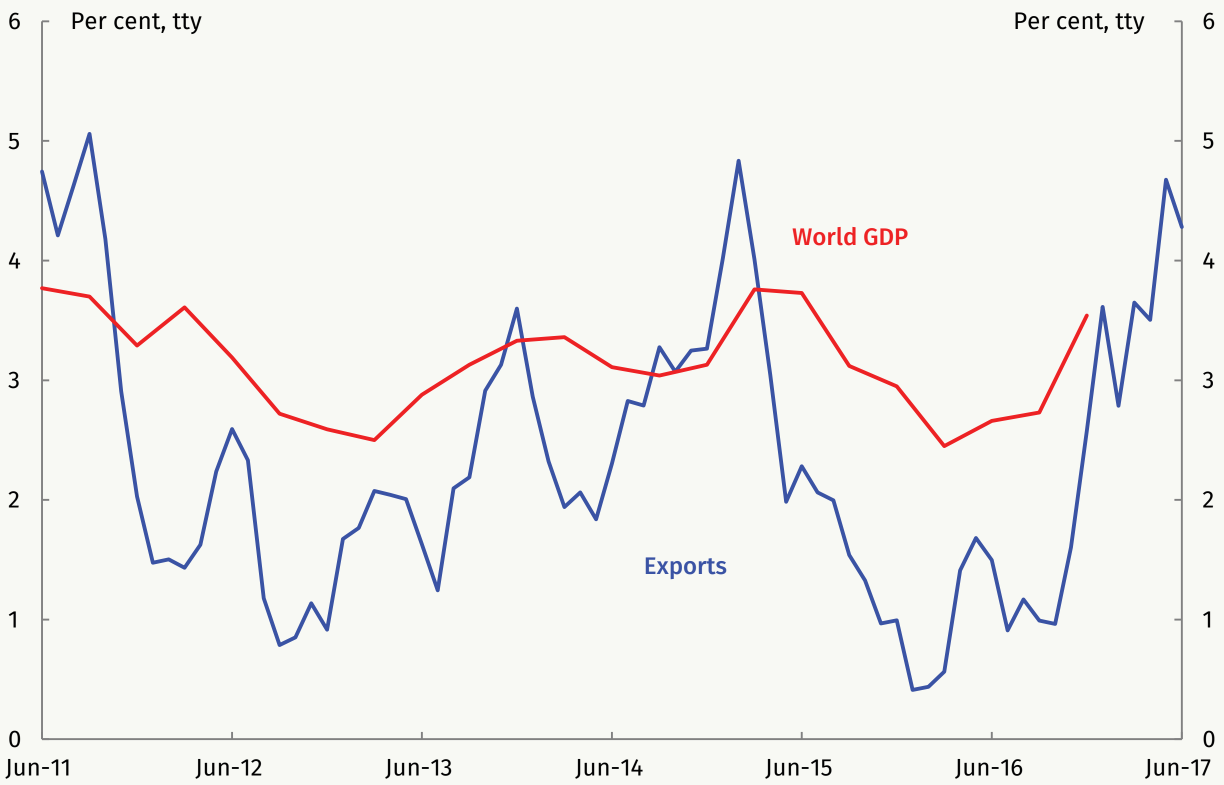
And then there is Japan, where an Olympics-fuelled boom is fostering strong growth in investment, with the nation's unemployment rate

Public infrastructure pipeline



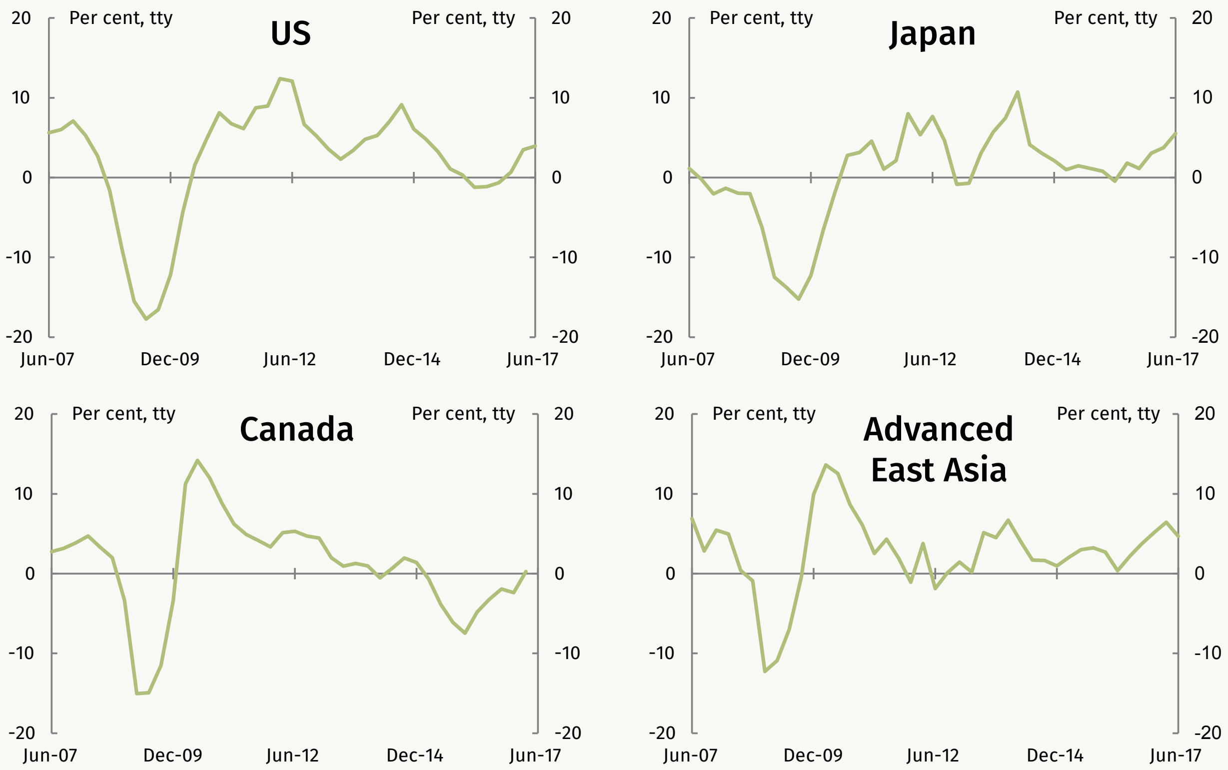
Note: Value of work yet to be done
Source: ABS Cat. No. 5206.0 and 8762.0

World GDP and export growth



Note: Export growth is a three-month moving average.
Source: Thomson Reuters, CPB, IMF Financial Statistics

Global business investment



Note: US measure is private non-residential fixed investment. Japan measure is private non-residential investment. Canada measure is gross fixed capital formation. 'Advanced East Asia' refers to Korea, Hong Kong, Singapore and Taiwan. The measure used is gross fixed capital formation, weighted by each country's GDP on a purchasing power parity basis.
Source: Thomson Reuters, national statistical agencies, IMF World Economic Outlook.

declining to levels last seen in the mid-1990s and the longest expansion in over a decade.

This long-awaited uptick in global growth is great news for Australia.

Because we are well positioned to take advantage of this shift.

Despite some weather related disruptions to commodity exports in the first half of 2017, Australia's economy has been benefiting from its strong export performance for several years.

This performance has been supported by the Government's progress in securing free trade agreements with the powerhouse economies of North Asia.

These FTAs are continuing to deliver significant opportunities to expand Australian sales abroad, and boost employment at home.

And we are now pressing ahead with new FTAs with Indonesia, to show our confidence in ASEAN, as well as with Europe and, when the time is right, the UK.

Australia's export strength is far wider than simply selling mining commodities. Our agricultural exports are up 20.8 per cent through the year to the March quarter and many rural and regional communities have felt the benefits. Likewise, Australia's service exports have grown at a rapid pace in recent years on the back of strong growth in education exports and tourism.

As an example, in 2016-17 around 1¼ million tourists from China visited these shores, boosting the economies of our major cities and regions. As China's middle class continues its march towards prosperity, our ability to capitalise on these opportunities will fuel growth in service exports and create jobs for years to come.

The June quarter 2017 national accounts are due to be released this coming Wednesday. Of course it is too early to tell what the result will be at this stage. There are some early indications that the economy will continue to perform well but this will need to be balanced against other factors, including the impact of Cyclone Debbie which is expected to detract from growth.

Australia's strong growth performance was what Moody's referred to when they released their credit analysis maintaining our AAA credit rating last week - a AAA credit rating that has been maintained with all three major rating agencies.

Over 150 countries are provided with credit ratings by all three major ratings agencies. Australia is one of only 10 countries that are rated AAA by all three agencies.

These ratings not only reflect the Government's prudent stewardship of our flexible and diverse economy and our responsible focus on returning the Budget to balance, but the actions taken by regulatory bodies to mitigate risks to our growth story. As Moody's put it "proactive prudential policies" are working to "bolster the resilience of the banking sector" and mitigate the risks of high household debt.

In their analysis, Moody's noted that Australia had seen solid growth for 26 years and that they did not expect it to come to an end for the foreseeable future. And it won't, as long as we make the right choices to secure it.

That's how it works! You make the right choices, you pursue economic growth; you give businesses incentive to expand and innovate; and Australians directly benefit from the tangible opportunity created. **This is the economics of opportunity.**

This is not an ideology or theory, as our critics claim. It is just practical, common sense economics.

It is what has made Australia a prosperous country and will continue to do so, so long as we do not allow this common sense approach to be overwhelmed by the rebirthing of failed left wing economic policies, offering false promises to people who have been caught in the transition of our economies in the post GFC period.

These forces are real. Whether it is Bill Shorten's New 'Red' Labor in Australia, the most left wing Labor Party we have seen in generations, Jeremy Corbyn in the UK or Bernie Sanders in the US.

Equally, we cannot allow the economics of opportunity to be overwhelmed by the New Romantics of Protectionism, who pretend we can engage in some type of economic time travel to the past.

The reason for the rise in neo-socialism and protectionism is the frustration still being felt on wages growth.

Flat wages growth has opened the door to the politics of envy.

The opportunism of Bill Shorten's New Red Labor has embraced these forces to form a new flat earth economic alliance.

Whilst the improvements we are seeing in our economy are welcome, they are of limited comfort so far to households who have not yet seen this translate into an improvement in their incomes.

As I said in the Budget, it has been some time since Australians have received a decent pay rise.

And when your wages haven't budged in a while, despite the fact you are still working hard and putting in the long hours, the stress on your household Budget begins to bite.

This is not just a problem we are facing in isolation; wage growth has been weak in many developed economies, as the global economy transitions out of the post GFC funk that has lingered longer than most had predicted.

Joint RBA and ABS research has found that as at September 2016, fewer than 10 per cent of jobs whose wages were changed received pay rises in excess of four per cent, the lowest level since at least 2000.

Over the past five years, real wage growth is less than half what is was in the preceding decade.

One of the reasons why we have seen such modest growth in wages, especially in the private sector, is because business profits have been subdued for quite some time.

Up until the September quarter last year, company profit growth had been declining for three years by an average 0.8 per cent every year.

This reality is even starker when mining industry and financial firms are removed. The National Accounts show that private profits outside of the mining and financial sectors were declining at an average rate of 1.9 per cent per year between September 2012 at the peak of the mining boom, and September 2016.

Over that same period, private sector wage growth almost halved from 3.7 per cent to 1.9 per cent, coinciding with a 30 per cent fall in our terms of trade.

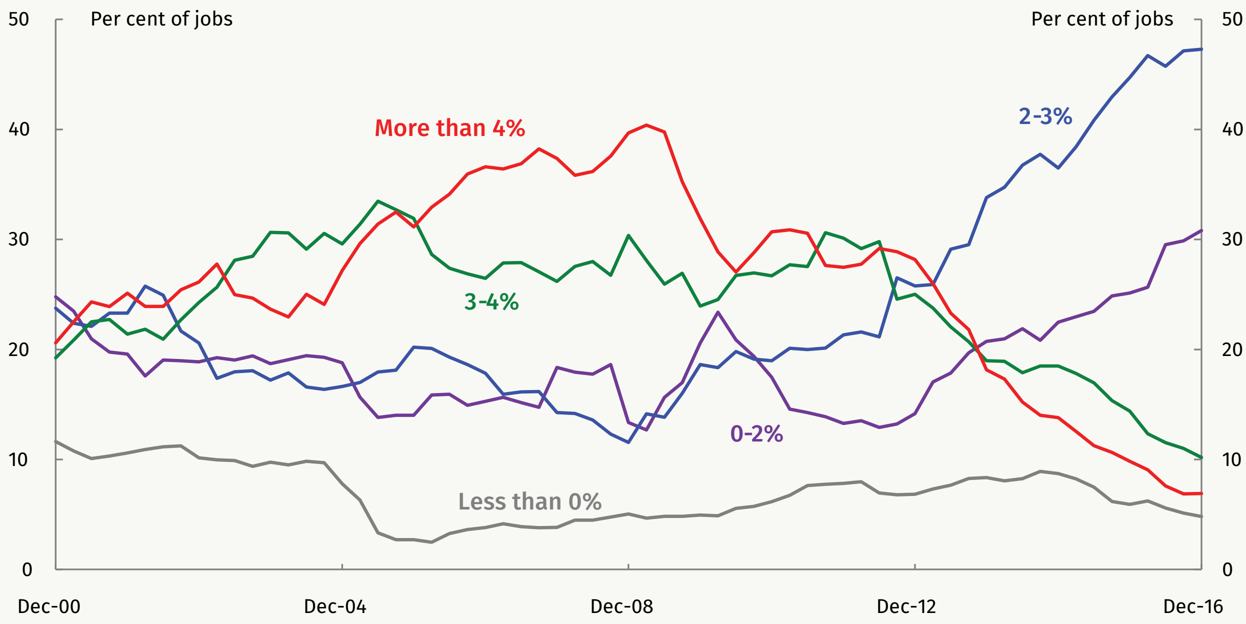
There is no chicken and egg conundrum when it comes to wage growth. For wages to increase, the preconditions of sustained profit growth and improved productivity must be met.

In recent months, we have seen some strength returning to company profits, showcased in the current reporting season.

Of the 43 ASX50 companies to report, 32 reported higher profits, but we're not there yet.

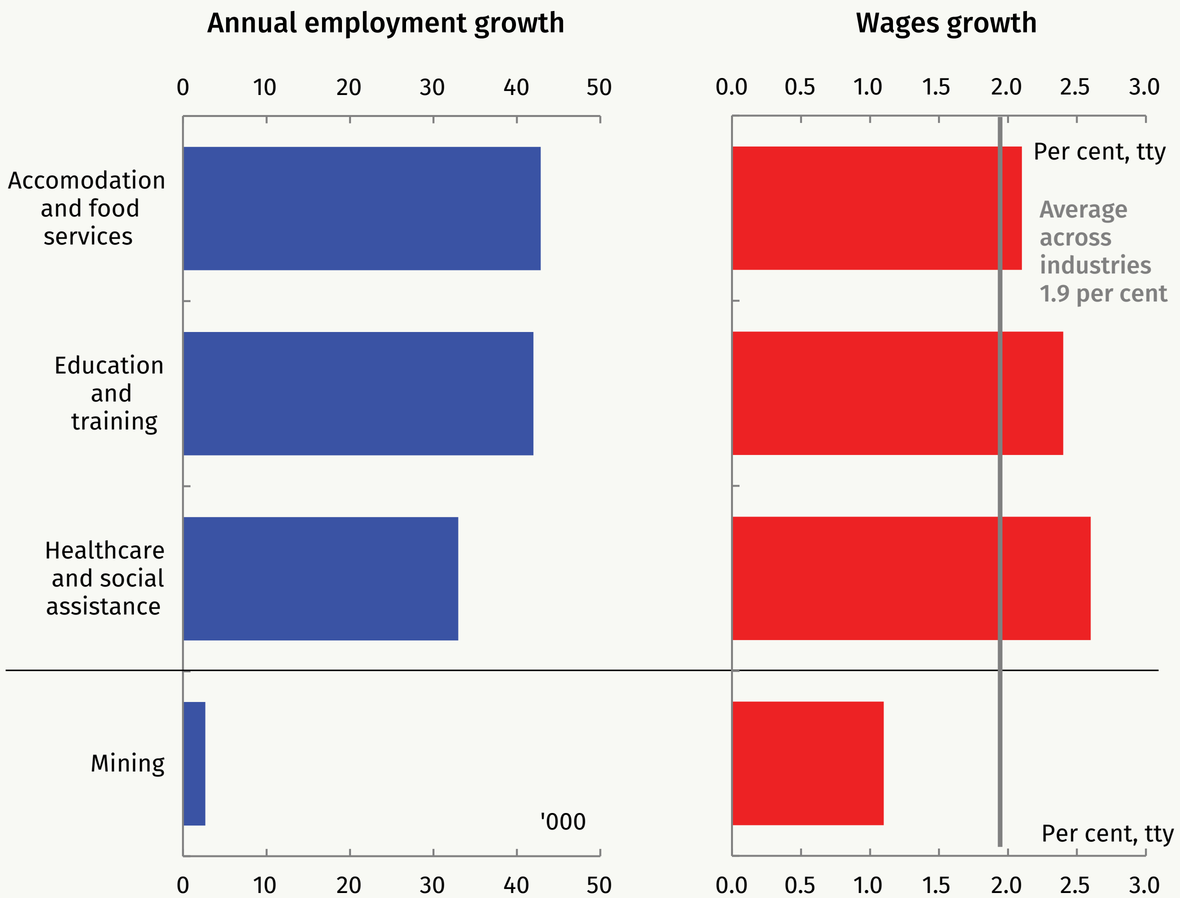
While company profits grew at 40 per cent through the year to March 2017, it was largely a commodities story. Mining sector profits contributed 27 percentage points - that is three quarters - of that growth by itself, buoyed by a temporary recovery in commodity prices.

Wage changes of different sizes



Note: As a share of jobs that experience a wage change; smoothed using a four-quarter moving average.
Source: ABS and RBA

Services sector



Source: ABS Cat. No. 6291.0.55.003 and 6345.0

Nonetheless, there has been an associated pickup in profits across several sectors, including manufacturing, professional scientific and technical services and real estate in the last six months which we anticipate would benefit workers in time. This is a tangible demonstration of the flexibility and resilience of our economy,

The strong jobs growth that we have seen will start to eat into spare capacity in the economy and put upward pressure on wages. And we are already seeing this occur in certain industries.

The very sectors where we are seeing the most jobs created - healthcare, education, and accommodation and food services - are exactly where we are seeing wage growth above the national average.

Likewise, jobs are being lost in the mining industry and wage growth there is the weakest.

Further, Governor Lowe has noted strong demand for certain construction workers, due to an increase in infrastructure spending, is pushing wages higher. Likewise in IT security.

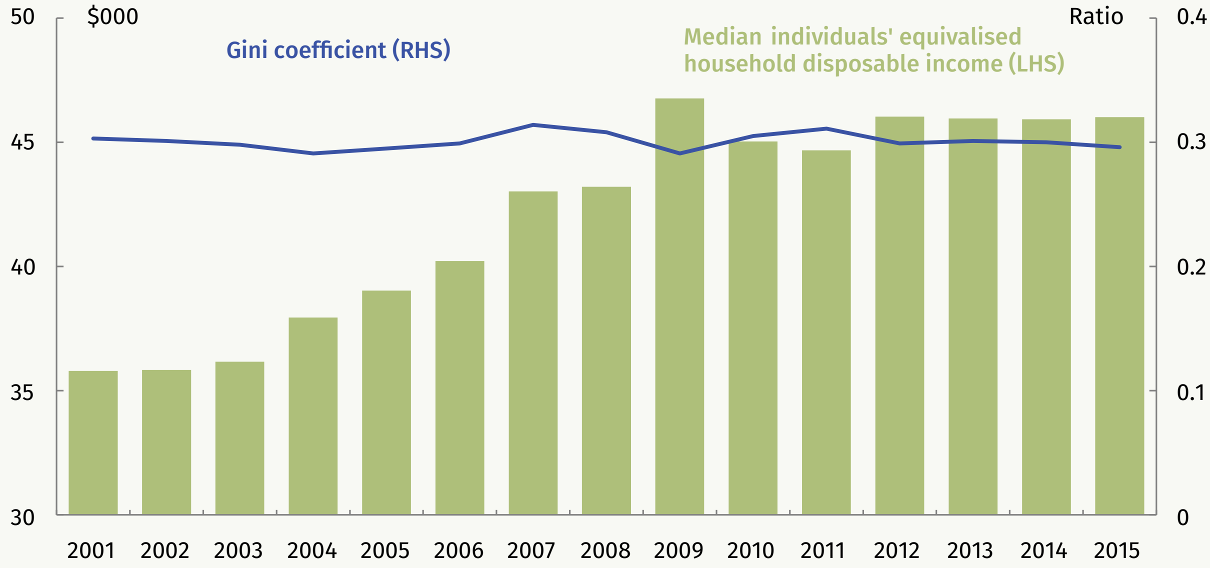
As the Governor said in his recent Parliamentary testimony: "If labour markets are strong, eventually workers will get bigger pay rises."

Or in the case of Qantas employees, generous bonuses. After announcing the second highest underlying profit in its history, the airline last week announced it would pay bonuses of $2500 to around 25,000 non-executive staff, including cabin crew, engineers, ground crew and office staff as well as $2000 to their part-time staff.

In the meantime, flat wage growth remains the reality.

In response the Turnbull Government is not buying the argument being pushed by Labor, that you can do better if we make someone else do worse.

Household incomes and inequality



Source: HILDA

Over generations Australians have built important institutions that protect fairness, particularly fairness of opportunity.

The progressive design of our tax system and our targeted welfare safety net has protected against rising income inequality, particularly since the GFC. That's a fact.

Forty percent of households in Australia pay no tax, after taking account of tax and welfare benefits received. The top one per cent of income tax payers, account for 17 per cent of income tax revenue, while the top ten percent account for almost half.

We cannot increase wages if we extinguish aspiration and incentive by taxing even harder those who succeed to create value, investment and jobs in our economy. This becomes self-defeating for our economy.

In addition, our targeted social safety net, with social security payments in excess of $100 billion per year, has not only also protected against rising income inequality but led to a reduction in poverty.

All of this is welcome, however, it does not mean that people have been taking more home, which is what really matters.

Household disposable incomes, after adjusting for tax and welfare, have also been flat.

Making others' take home less won't help this either. The issue is how much you are taking home and what can be done about that.

As a Liberal National Government, our view is that the problem we have to solve is growth, not how we carve it up, but how we make it bigger. Our answer is to choose the economics of opportunity over Labor's politics of envy.

As a government we are implementing our national economic plan for jobs and growth.

- An innovation and science program, with strong support for start-up businesses,
- Legislated tax cuts for small and medium sized businesses to drive investment and employment, with more to come,
- Investing in our national economic infrastructure - roads, rail and runways - boosting the Bruce Highway, the Inland Rail, Western Sydney Airport, the North-South Corridor in SA and Forrestfield Airport Link in Perth - connecting our economy internally and to the world,
- Record investment in our defense industry, supporting local and hi-tech manufacturing,
- Improving the resilience, strength and accountability of our banking and financial system,
- Restoring the rule of law to the building and construction industry and cracking down on corrupt practices with unions, and
- Export trade deals to generate new business opportunities.

This is supported by policies that work to reduce cost pressures on businesses and households.

Our most recent Budget provided a comprehensive package of measures to address housing affordability, addressing both supply side weaknesses and demand side pressures.

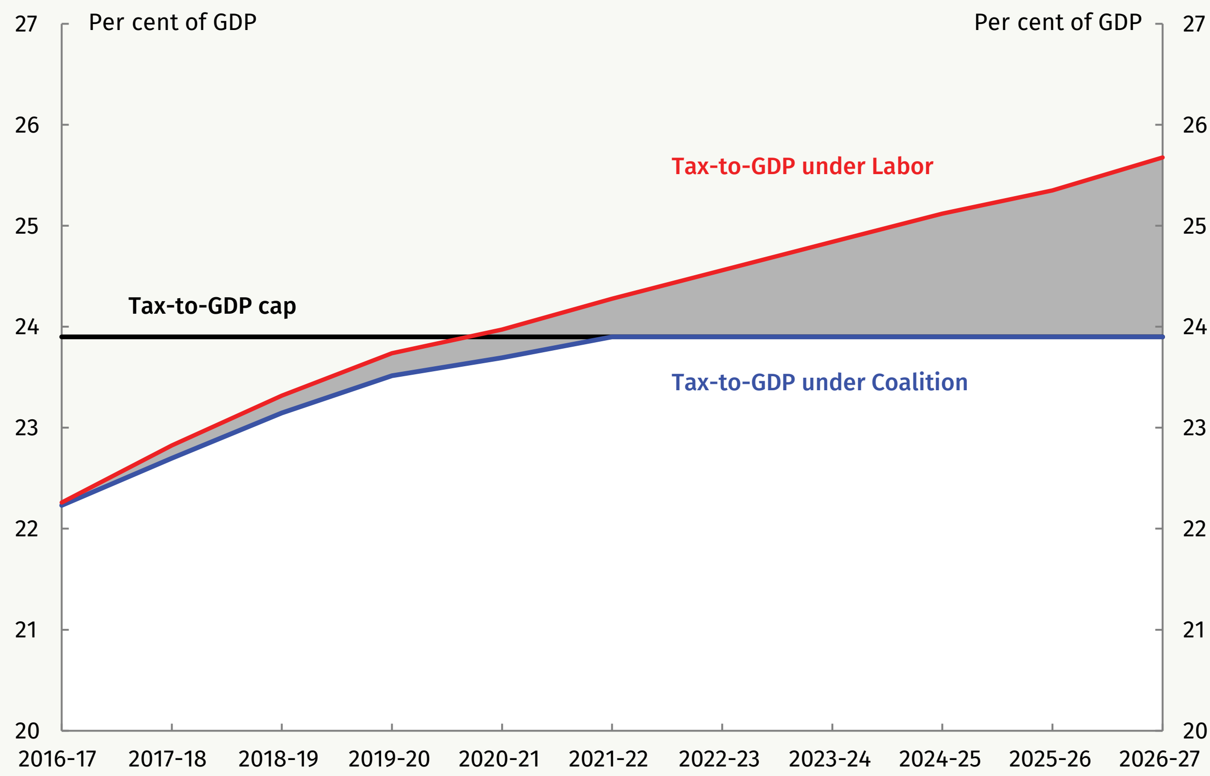
Critical public services in health, education and disabilities were all guaranteed to reassure Australians under wage pressures about the essentials they rely on.

On energy the Turnbull Government is putting downward pressure on rising electricity prices, by focussing on solutions that are about engineering and economics, not ideology and politics.

This is all supported by a fiscal plan to bring the Budget back into a projected balance by 2020-21 and ensure the Government lives within its means by keeping expenditure under control at less than 2 per cent real per annum.

A key part of our plan for growth is to ensure that our fiscal policy settings protect against smothering our economy with higher taxes.

Tax-to-GDP ratio as at the last election



Note: This scenario assumes unconstrained growth in tax receipts plus significant tax policies as announced by Labor as costed by the PBO.

That is why we maintain a tax-to-GDP cap over the medium term of 23.9 per cent. I call it our tax speed limit.

If you do not constrain the burden of taxes on your economy, it will eat itself, like a snake consuming itself from its tail.

Once upon a time, this used to be a bipartisan position in Australian politics.

In fact when we came to Government in 2013, Labor's Shadow Treasurer said that keeping taxes as a share of GDP, then below 23.7 per cent, would be a core test for the new Government.

We have passed this test, but since then Labor have chosen to opt out and not be held to the same standard.

At the last election Labor decided it would abolish the Turnbull Government's tax-to-GDP cap and allow taxes to rise unconstrained. This remains Labor policy.

The tax policies Labor took to the last election would have seen taxes as a share of GDP rise to 25.7 per cent, while still managing to increase the deficit over the forward estimates.

Exceeding the tax to GDP speed limit by 1.8 percentage points as Labor proposed, would ultimately increase the annual tax burden on the economy by $31 billion, in current year terms.

Tax has now been defined as one of the key areas of difference between the Government and the Opposition.

Labor plans to introduce six new taxes, if elected, that are expected to cost more than $150 billion over ten years.

A housing tax, by abolishing negative gearing provisions.

An investment tax, by increasing capital gains tax by fifty percent on everything from investment properties to shops, offices, warehouses and factories.

A small and medium sized business tax, reversing legislated tax cuts and concessions for businesses up to $50 million in turnover.

A family business tax, raising the tax on distributions from family trusts, affecting more than 200,000 family businesses.

A savings tax, increasing the tax on superannuation contributions by wage earners.

A higher wage tax, lifting the top marginal rate to 49.5 per cent.

This means gluing the Australian economy to some of the most uncompetitive tax rates in the OECD, for the next ten years and more.

You don't grow the economy by taxing Australia out of business. You don't support Australian households by taxing Australians out of job.

You grow the economy by pursuing the economics of opportunity, not the politics of envy. By making it easier for businesses to invest, grow and create jobs. That is why we remain committed to our tax speed limit, as well as other important tax measures such as our enterprise tax plan.

Our future living standards will also remain heavily reliant upon growth in productivity.

This point is arguably more critical now than it has ever been.

From the demise of a mining investment boom that once drove national incomes and brought unprecedented prosperity, to the oncoming predicament of an ageing population that, depending how we respond, can be both a brake on and accelerator pedal for economic growth.

The reality is that if we only maintain the current productivity growth rate that we have seen over the past five years of 1.8 per cent, it will not be enough to offset the slowdown of our workforce courtesy of our ageing population.

We need a sustained lift in productivity growth to around 2.5 per cent for us to maintain our living standards at two per cent national income growth.

This must start with updating our productivity agenda to be better aligned with where our economy is today and where we believe it is headed.

The productivity agenda that was successfully implemented throughout the 1980s and 90s led to a significant turnaround in the nation's productivity growth and our economic ranking in the OECD.

For almost two decades, the economic landscape was dramatically altered - trade liberalisation, reductions in tariffs, widespread reform to capital markets, deregulation of government assets, changes to labour markets, competition and taxation reform, and the targeting of macroeconomic policy.

It was a complete dismantling of old economy regulation.

As a result, Australia's productivity was growing in excess of 3 per cent from 1993 to 1999.

Multi factor productivity growth was more than double its previous rate and even higher than the US - boosting our per capita GDP ranking surge from 15th in the OECD in the late 1980s to 8th by 2002.

But that was then. This is now. In a new digital economy, our national productivity software needs an upgrade.

Our challenge is not to nostalgically re-heat productivity agendas devised before smart phones and the internet. It is to fill the air gap between these old reform agendas and what we need to do today to lift living standards.

This new productivity agenda will be more relevant to an Australia that is orientated towards the service and knowledge economy, while continuing to draw on our traditional strengths and opportunities in resources, construction and food production. High tech, innovation and niche manufacturing, particularly in growing sectors such as health, will also present specific opportunities.

That is why I tasked the Productivity Commission to undertake the first of what will be a five yearly report on national productivity. This initiative is intended to serve as a twin to the Intergenerational Report.

I have now received the first of these reports and am working through the more than 1000 pages of its contents with my colleagues.

What I can say is the report details the need to shift the dial on our productivity agenda.

The PC is not trying to provide a checklist for governments to achieve, but it is defining a new direction for an inclusive agenda, owned, evolved and progressed by all levels of Government.

The report notes that realising this productivity growth is the most sustainable way of growing incomes - “It is not about working longer hours, rather is about making the most of the resources we have available.’’ It is not about getting paid less for doing more.

It defines the key drivers of productivity as immediate causes that reflect technological advances, underlying factors of competition and an openness to trade and investment, and the fundamental factors such as investment in education and infrastructure.

The Commission argues that delivering health and education more efficiently, and with a serious focus on what improves outcomes for the users of these services, will deliver bigger benefits than even traditional industry reform.

In health, the gains could be more than $100 billion over the next few decades.

Healthier and happier people are naturally more productive and also more willing to look for work.

But despite the fact we have one of the highest life expectancy rates in the world, our years spent in ill-health, some 10 years, are among the highest in the OECD.

Poor health can represent one of the largest brakes on an economy’s labour supply, with preventative health measures potentially having significant positive effects. Ill health and disability also restrict the effectiveness and productivity of those in the workforce.

A working age male with excellent health has a probability of participating in the labour market that is 63 percentage points higher than one in poor health.

The successful prevention of mental health or nervous conditions, can also boost labour force participation by up to 26 percentage points.

Also if you want to reduce inequality, health outcomes are one of the best ways to do it.

More than one in ten people in the lowest two income quintiles are stricken with chronic disease, while the disability rate in the lowest income quintile is 37 per cent.

People in very good health can earn an hourly wage 18 per cent higher than those in poor or fair health, while poor mental health reduces hourly wages for men by about 5 per cent.

Men with a nervous or emotional condition earn 35 per cent less than average earnings, while men in chronic pain earn 15 per cent less.

These sorts of statistics prove the two-fold benefits of a productive and innovative health industry that thinks preventatively: it helps address inequality, and it alleviates Budget pressures.

Close to $210 billion was spent on meeting the various health-related needs of Australians in 2014-15. The government-funded share of this represents around one third of total tax revenue.

A one per cent efficiency gain, not spending more - just spending better, can equal $2 billion every year.

Other key areas that will be critical include improving the efficiency of our cities, which is a key agenda of the Turnbull Government already and progressing open data reforms, including liberating consumer data rights, that will unlock inestimable value in our economy and empower households and businesses in a way we cannot even yet imagine.

This is how we are seeing our economy and the steps we are taking as a Government to drive growth and lift living standards.

As always there are risks, including the risks posed by alternative approaches that we reject, and the volatile environment in which we live.

As a Government we are focussing on what we can control by exploiting the opportunities before us, while strengthening our resilience in the face of the things we cannot control.

We are making strong progress as a Government and a country in a dynamic and uncertain world. Our economy has proved as resilient as it has prosperous and it is our intention to keep it that way by continuing to make the right choices and thereby secure the better days ahead.

More Australians are engaging with the labour market, pushing the participation rate to the highest level in five years, and the female participation rate to the highest on record.

More and better paid jobs

Address to the Business Council of Australia, Sydney

29 September 2017

Australia is enjoying the strongest period of job creation we have seen in decades. Having endured some tough times in the prolonged wash-up from the Global Financial Crisis, Australian businesses are now starting to see the better days ahead that I spoke about in this year's Budget.

Importantly, as they see these better days emerging, they are responding in the best way possible - by giving more Australians a job and investing into their future, laying down the foundation for our next growth phase. We have now seen 11 consecutive months of jobs being created - there has not been a longer run of jobs growth in 23 years.

In the past six months, we saw the strongest gain in jobs since the Sydney Olympics; more than 250,000 Australians stepping out of the unemployment queue or setting out at the beginning of their career. In the past year, over a quarter of a million Australians gained full-time employment - the strongest annual gain in full-time employment in six and a half years. Earlier this year we saw the fastest six-month gain in full-time employment since records began 40 years ago!

In August alone, more than 54,000 Australians went out to find a job and got one. And if you thought that was great news, consider this: 40,000 of those jobs were full time, and almost 27,000 of those jobs went to young Australians. Those workers are to be congratulated, as are the businesses that assumed the risk, took the punt and gave them a job.

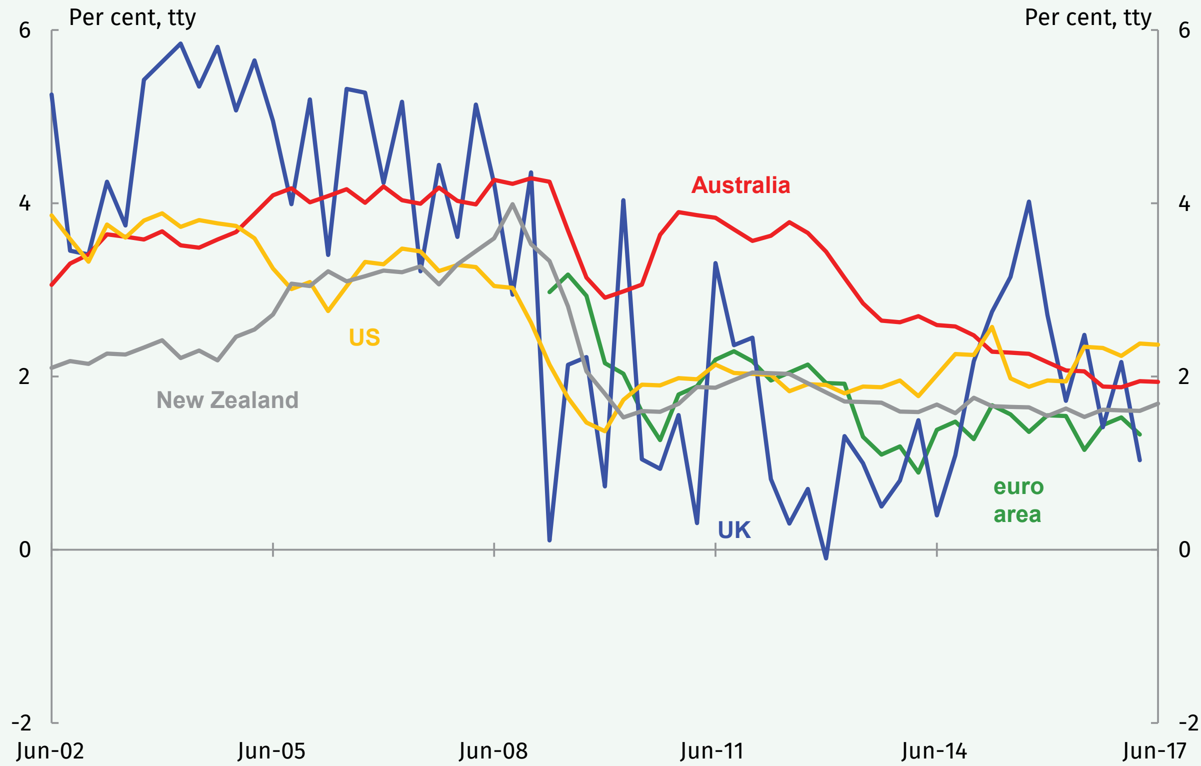
The Turnbull Government's successful record on jobs is now a fact not a slogan. It's an outcome - 800,000 jobs created under our watch, 500,000 in the last two years, and 325,000 in the last year alone. More Australians are engaging with the labour market, pushing the participation rate to the highest level in five years, and the female participation rate to the highest on record. And it is a strength that is broad-based across the economy. In the past year jobs were created in the agriculture, construction and services industries, as well as to a much lesser extent in mining and manufacturing. Within services, the strongest jobs growth came in the health, education and retail trade.

While the recent jobs growth has been great for those 800,000 Australians and their families, for eleven and a half million other Australian workers, it has been a long time since most of them have had a decent pay rise.

And the bills that are jammed under their fridge magnets at home, in particular the ones you can't avoid like power, rent, rates or the mortgage; they aren't going anywhere.

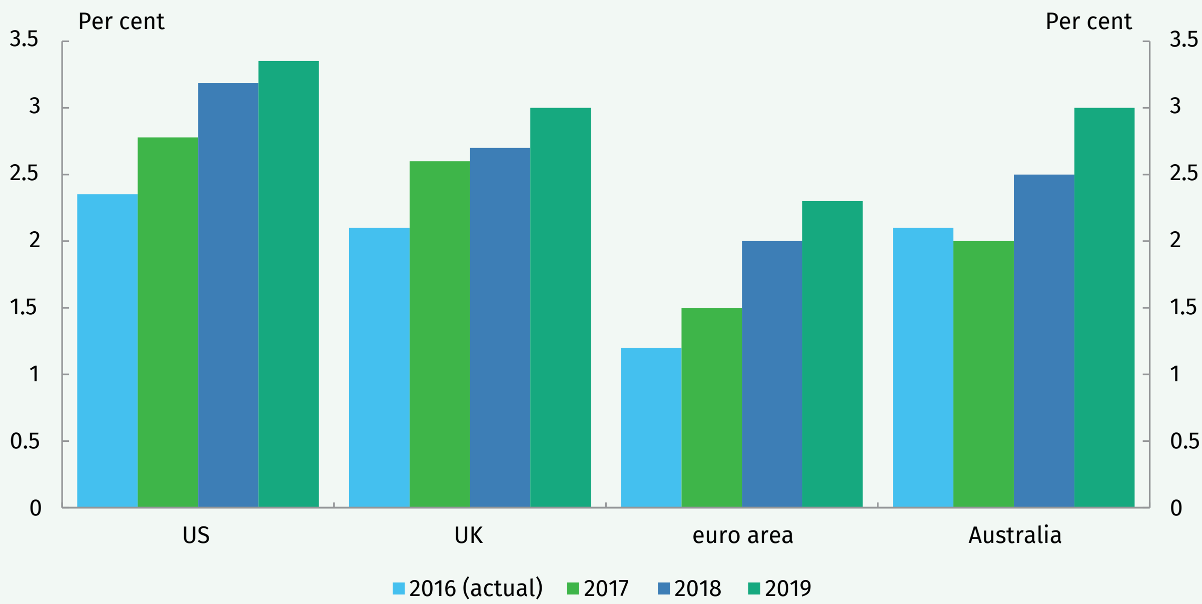
In this year's Budget, I announced a series of initiatives to ease the anxiety of Australians, by guaranteeing the essentials they rely on, such as Medicare and public school funding, while taking action to put downward pressure on the

Many advanced economies have experienced low wage growth



Note: Measures used are Wage Price Index for Australia, Employment Cost Index for the US, and Labour Cost Index for the euro area, the UK and New Zealand
Source: Eurostat, Thomson Reuters

Authorities' forecasts for wage growth



Note: Australian figures are for fiscal year 2015-16 onwards. Measures used are Wage Price Index for Australia, Employment Cost Index for the US, Labour Cost Index for the UK and compensation per employee for the euro area.
Source: Australian Budget, US CBO, UK OBR, ECB

rising housing and electricity costs. But the best way to deal with rising costs of living is to be earning more, to be taking home more pay.

Together with growing our economy and balancing the Budget; increasing what Australians earn is one of my most important objectives. It's not just about more jobs, it's about better paying jobs. This is what our national economic plan is working to achieve.

Consistent with this commitment, earlier this year I tasked Treasury to complete a thorough analysis of what was happening with wage growth in Australia - or more accurately what was not happening. I asked them what were the factors weighing down wage growth and what would be the key drivers to boosting the take-home pay of Australians. This was work that they undertook with the RBA, the ABS, the Department of Employment and other government agencies. It has been a big job and I commend them for what they have been able to pull together.

This evening I want to share with you some of their findings.

As we know, wages grew by a subdued 1.9 per cent through the year to the June quarter 2017 - the slowest annual growth in at least 20 years. This frustrating environment of low-wage growth is neither a unique or sudden phenomenon. Many advanced economies - including the US, UK and the euro area - have been wrestling with weak wages growth since the GFC. The story of advanced economies has been characterised by slow growth in labour productivity; inflation expectations remaining low after the GFC, spare capacity in the labour market being gradually taken up, but without so far a proportionate response in wage growth.

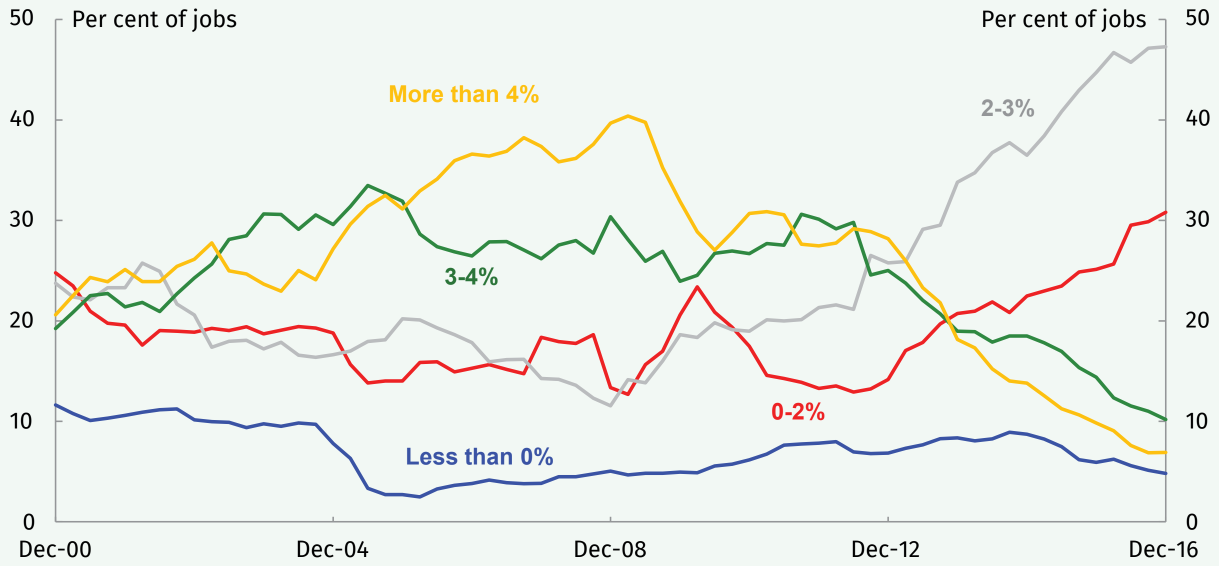
That said, they are expecting things to change. The US Congressional Budget Office is projecting wage growth to lift from 2.4 per cent in 2016 to 3.4 per cent in 2019; the UK Office of Budget Responsibility projects a rise from 2.1 per cent to 3.0 per cent over the same period, while the European Central Bank is projecting wages growth to rise from 1.2 per cent to 2.3 per cent.

In Australia, wages growth has been heavily impacted by mining investment boom washing out of the system, as the economy attempts to rebalance itself from the extraordinary terms of trade boom that fuelled our nation's prosperity for almost a decade.

In the past five years, since around the peak of the mining investment boom, wage growth has eased to an average annual rate of 2.3 per cent, compared to the average of 3.6 per cent between the September quarter 1997 and the June quarter 2012.

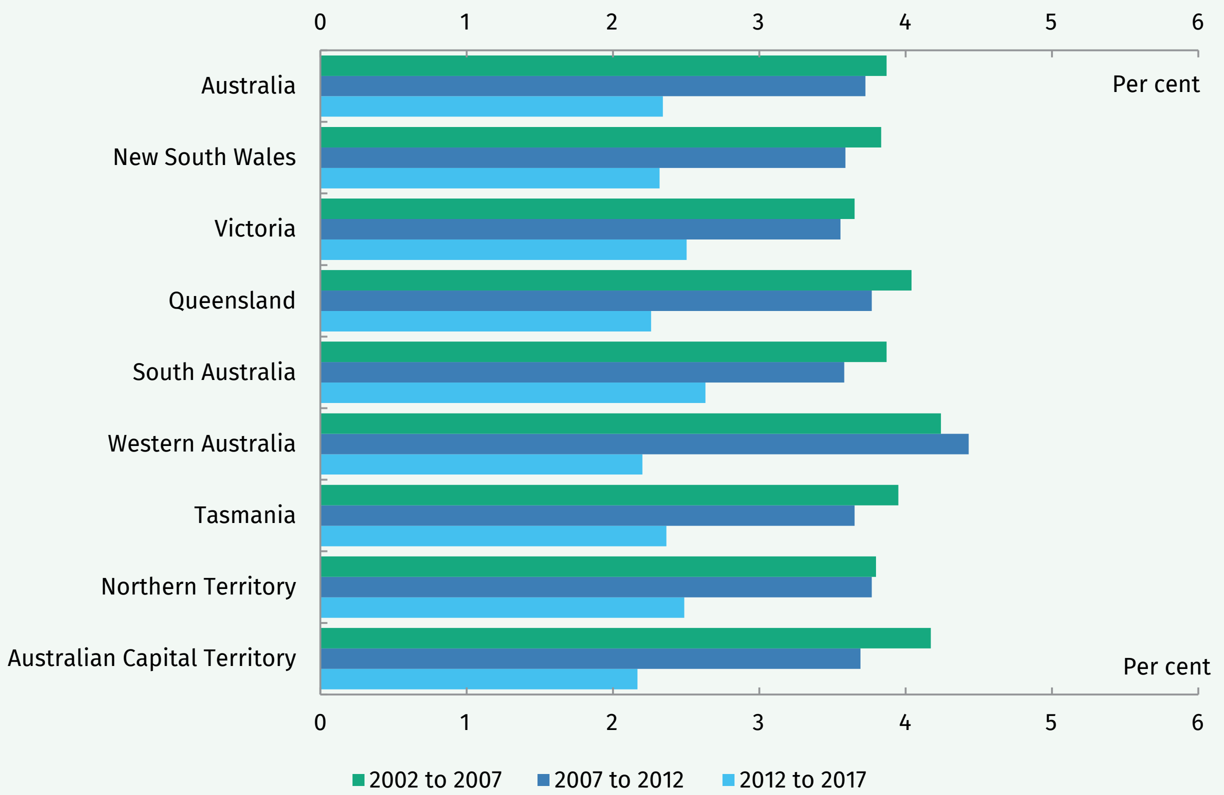
The story is also subdued when looking at real wages - that is wages after accounting for inflation.

Smaller wage increases have become more common



Note: As a share of jobs that experience a wage change; smoothed using a four-quarter moving average
Source: Joint ABS and RBA research

Wage growth by state



Note: Five-year annual average
Source: ABS Cat. No. 6345.0

Real wages in the past five years have averaged half of what they did in the preceding decade.

If you examine the broader measure of growth in Average Earnings in the National Accounts (AENA) - which takes into account if workers are receiving any other benefits - the picture remains stark.

Its growth is back to flat, after showing some promise in early 2014.

At the coal face, fewer than 10 per cent of jobs whose wages are adjusted are receiving pay rises in excess of four per cent - the lowest level since at least 2000. Ten years ago this was around 40 per cent.

In short, growth in household incomes has been subdued for some time - since the global financial crisis but especially since the peak of the mining investment boom. This is not a problem that is affecting one or two states in isolation, nor is it centred on certain industries or pay grades. It affects those on awards, collective agreements or individual agreements alike, and it affects those in regional areas as much as those in cities.

This is largely a nationwide story.

Certainly, Western Australia may have felt the effects more than other states, given it is following some very strong years of wage growth courtesy of the mining investment boom, falling from growth in excess of four per cent for an entire decade down to 2.3 per cent in the past five years.

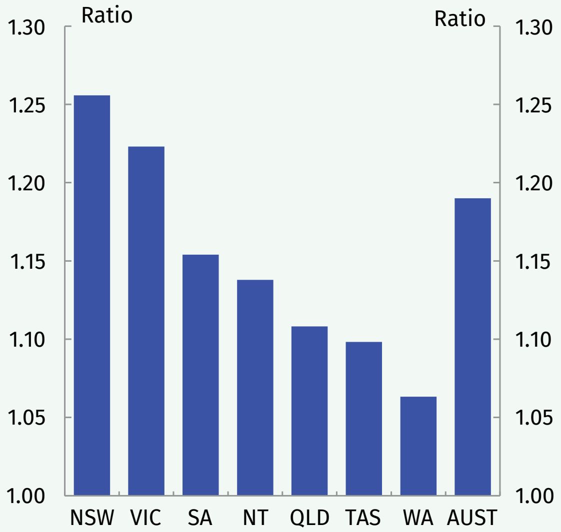
Despite its subdued recent performance, wage levels in Western Australia are relatively higher compared to the rest of the country and remain higher than they were a decade ago. But all States and Territories have experienced the downshift in wage growth, as well as all regions and cities. While average wages in capital cities remain around 20 per cent higher than those in regional areas where costs of living are less, wage growth in recent years has been similar. And this takes in, of course, the sharp slowing in wage growth in mining regions - down from 8.5 per cent in 2011-12 to around 2.3 per cent in 2014-15.

This does not suggest a period of growing inequality, with one nation split into the haves and have nots. Such a notion is backed up by research conducted by the Grattan Institute in its Regional Patterns of Australia's economy and population released last month. It determined the gap in incomes between cities and regional areas was not getting bigger. They called this notion of an economic divide a "misconception".

The wage growth weakness we are seeing has also been indiscriminate across industries and occupations. For example, occupations that

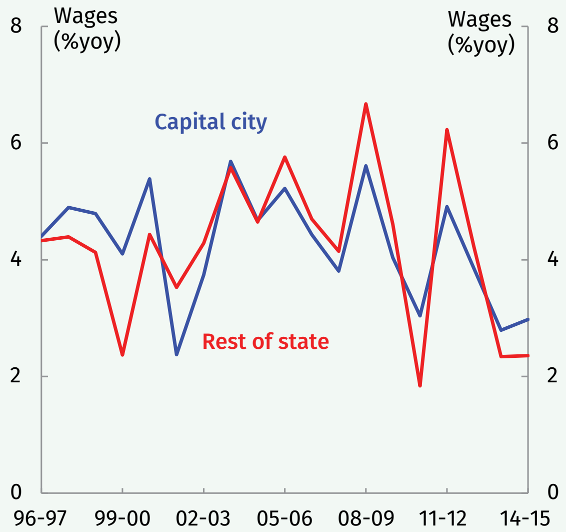
While there is a premium for working in capital cities wage growth in regional areas is relatively similar

Ratio of capital city wage level over rest of state regions



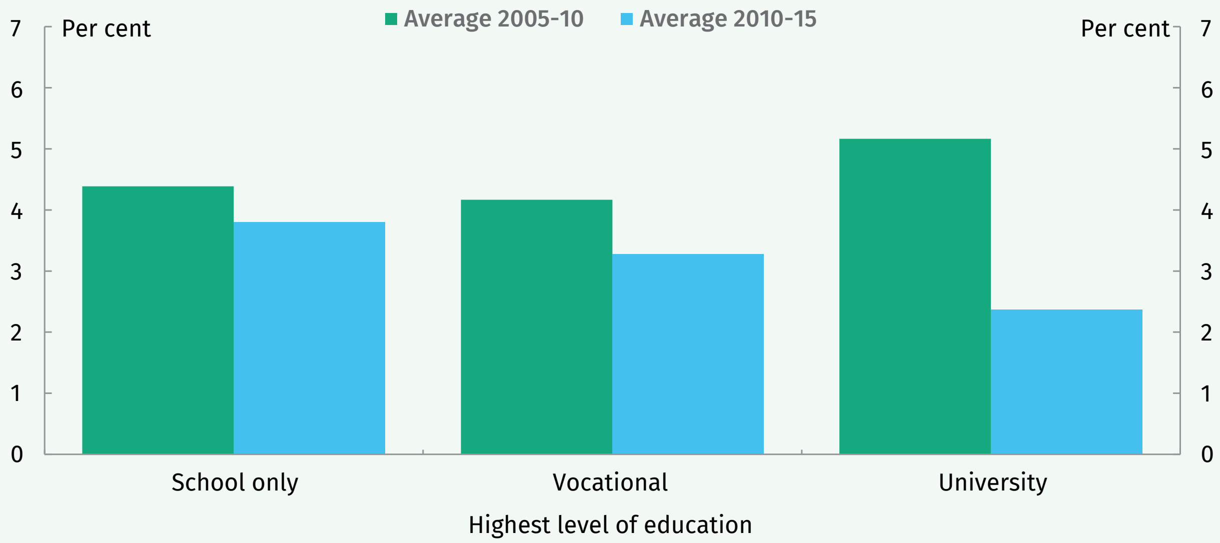
Source: ABS Cat. No. 6524.0, 6524.0.55.002, Treasury

Average wage growth across capital cities and rest of state regions



Source: ABS Cat. No. 6524.0, 6524.0.55.002, Treasury

Annual wage growth for full-time employees has dropped for university graduates



Note: For employees aged 15-64
Source: Treasury calculations on HILDA Survey data, waves 1 to 15

are described as more cognitive or non-routine, such as managers and professionals have experienced wage growth as low as more routine occupations. Everyone is feeling the strain, although some more acutely than others. Full-time workers with a university education fared better than those without from 2005-2010, since then they have experienced lower wage growth than those with no post-school education.

Younger full-time workers under 35 have also experienced slower wage growth.

Treasury's research also debunks the populist theory that soft wages growth has also contributed to growing income inequality. It is in fact the opposite. As I have said on numerous occasions, unlike many other advanced economies, our tax and welfare system has protected Australians against rising inequality since the GFC.

When controlling for hours worked, wage growth has been broadly uniform across the employee income distribution since 2005. A notable exception in recent years has that growth in wages for full-time employees has been fastest for those in both the highest and lowest income deciles, with middle-income earners having more subdued growth.

This result points to the potential emergence of job polarisation, with simultaneous growth of high education, high wage jobs and low education, lower wage jobs (which benefit proportionately more from our tax and transfer system) at the expense of middle-education, middle wage jobs.

These findings do, however, back-up the latest reading of the Household Income and Labour Dynamics in Australia (HILDA) Survey, which actually shows that that there had been no increase in income inequality since the GFC, indeed it had marginally improved in the most recent survey.

These findings were backed in by the ABS Survey of Income and Housing released a couple of weeks ago.

Nonetheless, I understand that in a period of subdued wage growth people can rightfully feel like things are not getting better and can see others doing better than them.

Labor has chosen to cynically exploit this by seeking to leverage these people's genuine concerns, promising that they can only do better if they make others do worse. It's a con.

The Government has not only acknowledged and sought to understand the deep frustrations Australians are feeling over low wages growth, but we are doing the work to understand what is driving these outcomes and implement policies that will turn this around. The strong growth in jobs is a substantial down payment on the success of our approach to date.

Annual growth in wage income has been weakest for those aged under 35

Note: For employees aged 15-64 working full time
Source: Treasury calculations on HILDA Survey data, waves 1 to 15

Central to our continued response is embracing the economics of opportunity, providing hope, rather than surrendering to Labor's cynical politics of envy.

There are three key factors that I wish to pick apart tonight that not only shine the light on what is behind this period of slow wage growth, but also show how those key factors are now becoming reasons for increased optimism.

The first key driver is spare capacity in the jobs market.

During the Global Financial Crisis, Australia's unemployment rate took a noticeably different path to many of our global peers. While the US, and the UK unemployment rates spiked sharply, our increases were measured in comparison. The same feature has occurred on the downside.

So while spare capacity in the labour market was being squeezed in the US and UK due to the sharp downward movements in their unemployment rates, there remained a certain amount of slack in our labour market.

That slack means workers cannot push for higher wages as strongly as they potentially could have if there was less competition for their job.

At 5.6 per cent, while down ½ a percentage point over the past couple of years, our unemployment rate remains above what Treasury would deem full employment at roughly 5 per cent. But this is not a big enough gap to warrant such downward pressure on wage growth.

Wage growth is weaker than the unemployment rate would normally imply. That rate is simply not capturing the degree of slack in the labour market.

There are potentially a few reasons for this.

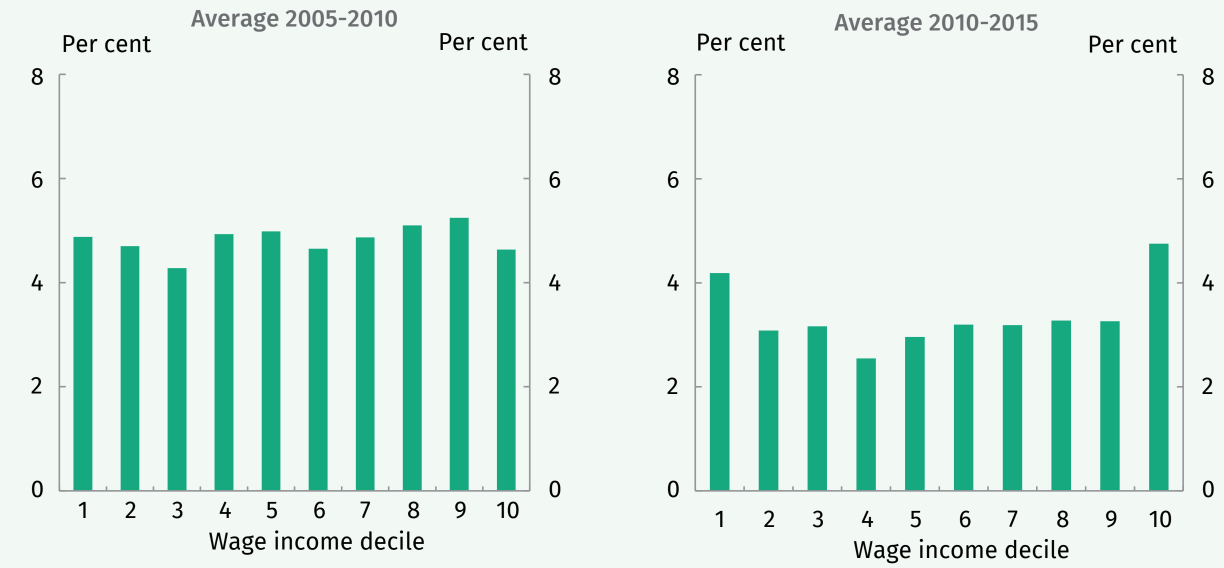
One is the degree of underemployment in the economy. While the unemployment rate has declined in recent years, the rate of Australians who have jobs but wish to work more hours, remains elevated at around 9 per cent.

Our underemployment rate is significantly above the OECD average and while underemployment in the UK, the US and New Zealand has been dragged downward over the last decade, our rate has steadily risen.

But in some respects this is the continuation of a trend that has been occurring for decades.

Australia's share of part-time employment has grown to almost one third of total employment.

Annual growth in weekly wage income for full-time employees across the income distribution



Source: Treasury calculations on HILDA Survey data, waves 1 to 15

In large part, this reflects strong growth in female employment, with the female participation rate reaching a record high of 60 per cent in August, up from around 43 per cent 40 years ago.

Similarly, the economy's transition to a more services-based economy has exacerbated this trend, given by its very nature there is more part-time employment in these industries.

Of course there is nothing wrong with increased part-time work, which can provide flexibility for mums and dads working around school hours, and students who want to work around classes.

Part-time work is a real job, it pays real money and is important to real families and individuals who depend on it to support their standard of living.

This flexibility has allowed businesses to reduce the hours of their employees when things are tight, rather than sack workers or cut wages.

For small businesses owners, this reluctance to lay off workers means they have had to sacrifice and dip into their own pockets to ensure their staff either maintain their wages or receive a small rise.

So underemployment, this spare capacity in the jobs market, may explain some of the weakness we are seeing in wage growth.

But we should keep in mind that, on average, underemployed workers are not seeking the same amount of additional hours as an unemployed person, so they don't contribute to spare capacity to the same extent.

But we still want to see that underemployment rate start to fall. Which is why the recent strength in full-time employment growth has been so encouraging.

And looking at a broader measure of capacity, Treasury's Labour Market Conditions Index, there are some positive signs for all to see.

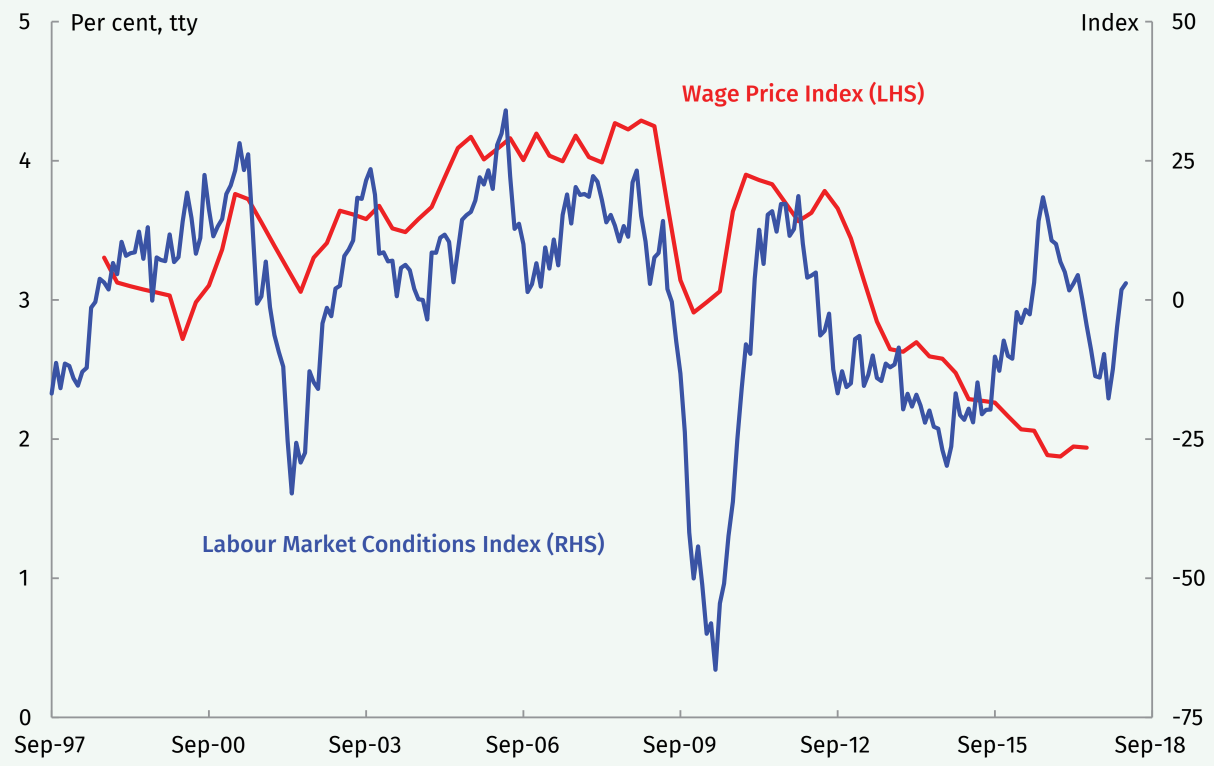
This measure takes into account things like unemployment figures, participation rate, and hours worked.

Pleasingly, the index is back in positive territory, having spent the majority of the last six years in the negatives, confirming that labour markets are tightening, and some of that spare capacity is now being removed.

And importantly, job advertisements which continue to increase at a pace that suggests this revival we are seeing in our jobs figures is not a flash in the pan.

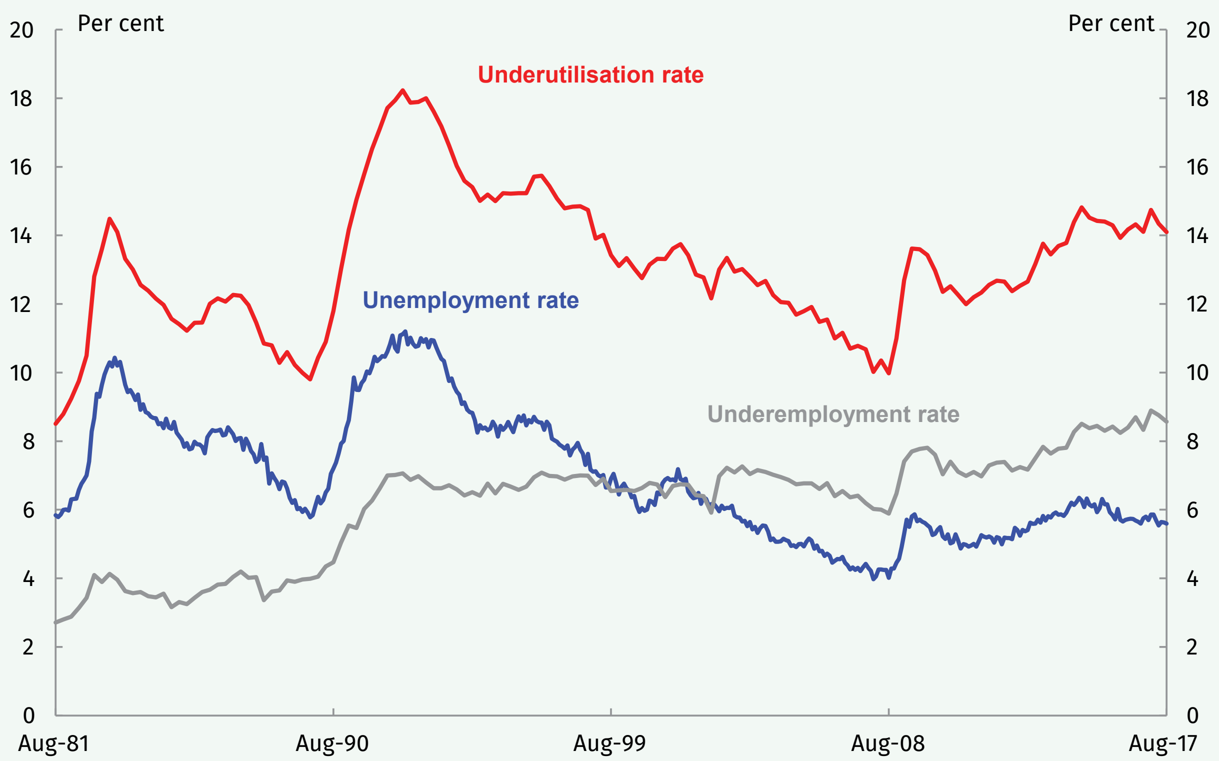
We have seen the underemployment rate fall over the past six months and the underutilisation rate - that is unemployment and underemployed - has fallen to its lowest level in eighteen months.

Treasury's labour market conditions index



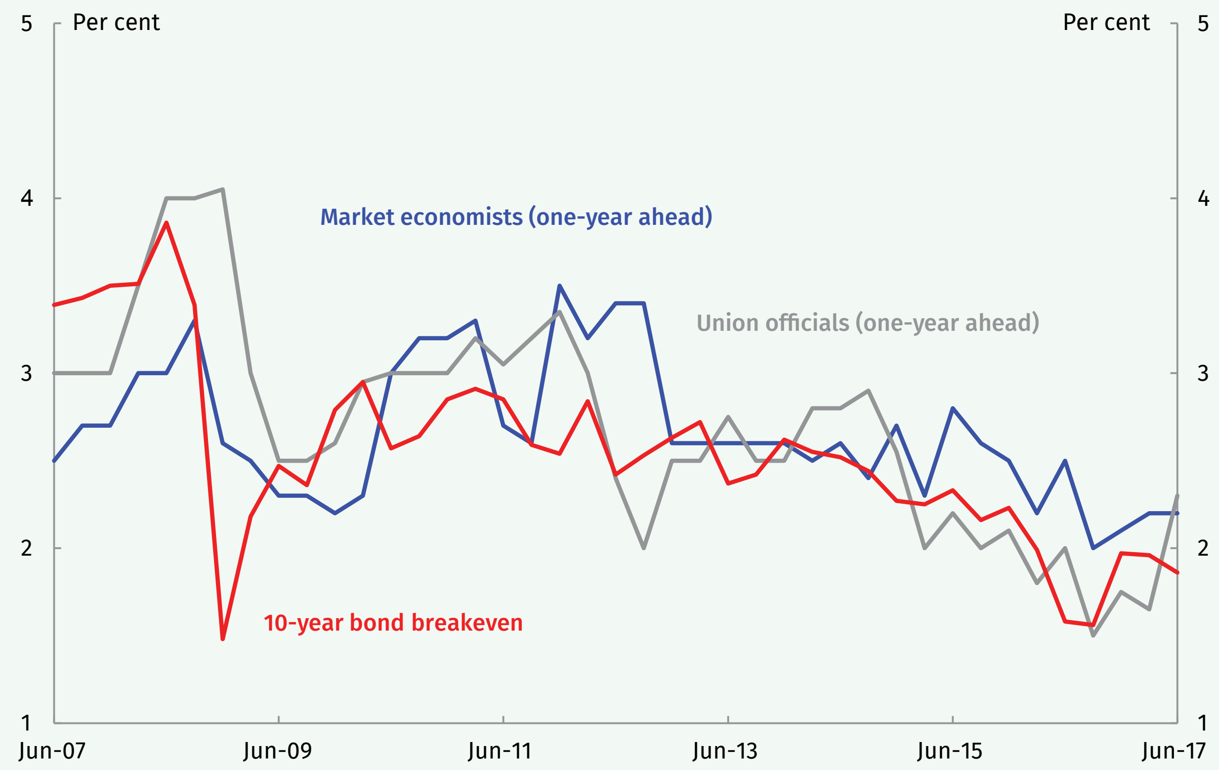
Note: Labour market conditions index is lagged 3 quarters
Source: ABS Cat. no 6345.0; Grant et al (2016) and Treasury

Measures of labour market spare capacity



Source: ABS Cat. no. 6202.0

Inflation expectations



Source: RBA

And in the most recent NAB quarterly business survey, capacity utilisation was at its highest level since the GFC.

In other words there is now clear evidence that the pressure is building again. RBA Governor Phil Lowe noted that the RBA has seen evidence from its liaison program that "where the demand for labour is strong, wages are increasing a bit more quickly than they have for some time".

The second key driver of nominal wages is inflation expectations - how businesses and employees view where inflation is headed directly influences wage negotiations.

As has been noted publicly before, including recently by Governor Lowe, in the long-run we would expect nominal wage growth to be equal to productivity growth and the rate of inflation.

Inflation expectations have certainly declined in the aftermath of the mining investment boom.

In periods of rising inflation, workers become more empowered to seek out a pay rise to alleviate cost of living pressures.

If inflation is trending below average as it currently is at 1.9 per cent, businesses are likely to set their base for wage negotiations with employees and unions relatively low.

Although the fall in nominal wage growth has been sharper than the fall in inflation since the peak of the mining investment boom, the two have largely tracked each other from June 2014, partly explaining the current weakness in nominal wage growth.

But importantly, because wage negotiations are largely infrequent, businesses approach the task looking forward, basing their decisions on what inflation will be in a year's time, or two years time.

And in the past couple of years we had seen measures of inflation expectations fall to their lowest levels in quite some time. Indeed, market measures of inflation expectations were more likely to have a 1 in front of them than the 2½ per cent that we had been accustomed to for a long period.

Affirming our optimism around wage growth, we have more recently seen a rebound in these measures of inflation expectations, and while they are still subdued, signs are encouraging

and we can have confidence that inflation will move back towards the medium-term target of around 2¼ per cent in 2018-19, as expected by the Budget and the RBA forecasts.

Just like Mary and her little lamb, wherever inflation will go, wages will be sure to follow.

And finally, the third and most important driver of wage growth is productivity and investment.

The amount of output that is produced per hour is a measure of labour productivity, and the price business' pays for that labour, compared to the price they are able to get for what that labour produces, is referred to as the real producer wage. These two concepts - labour productivity and the real producer wage - should grow together at the same pace over time.

The real consumer wage is the wages that people receive for their labour, compared to the prices of goods and services they consume. This is measuring how people's wages are keeping up with inflation.

Traditionally, during normal circumstances, the producer and consumer wage also move together.

This means that the value of what people are producing through their labour is growing with the value of what they can buy from their work.

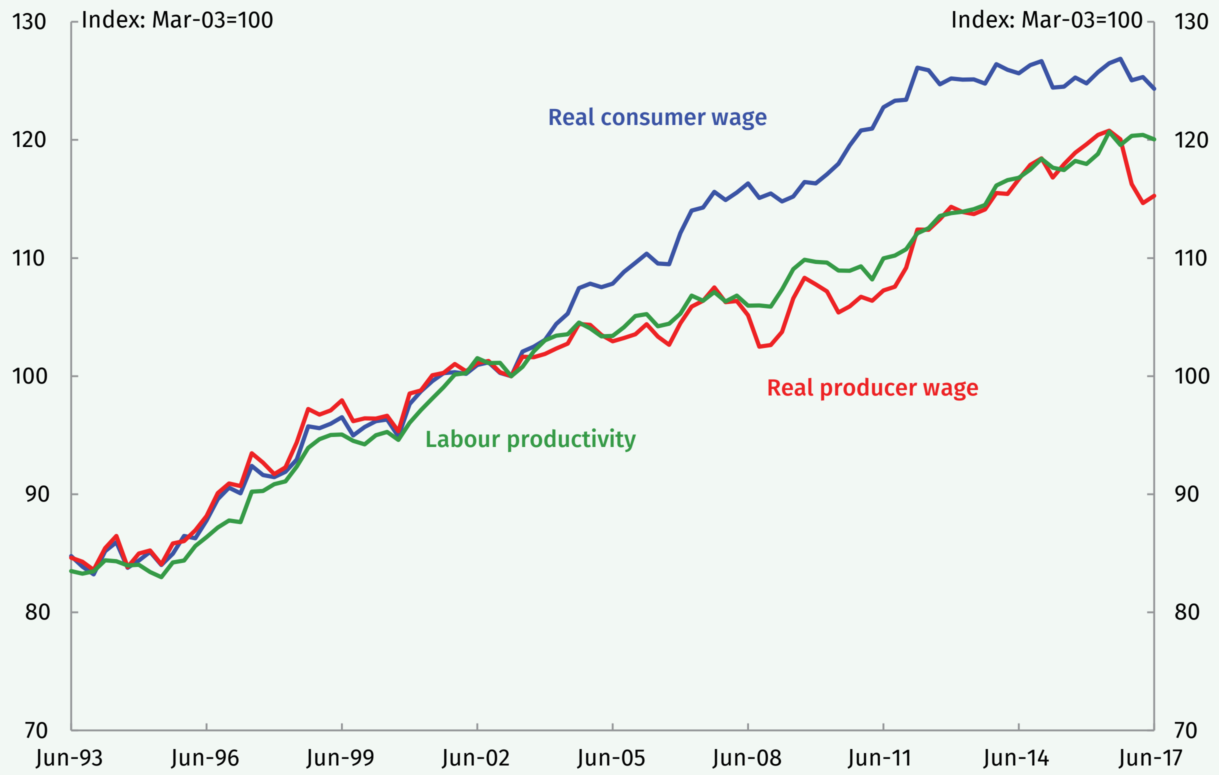
Between 1993 and 2004, this is what happened. But after that time as the mining boom set in, they drifted and have remained apart.

The windfall gains of higher commodity prices meant firms could sell their output at much higher prices. At the same time, consumer prices did not increase nearly as rapidly, in part because of a high Australian dollar.

This meant the consumer wage rose more quickly than the producer wage, which kept growing at about the same pace as labour productivity.

The result was that people were now able buy more than they could previously when their wages were hardwired to their own productivity. This was not a normal period.

Real wages and productivity



Note: The real producer wage is AENA (per hour) deflated by the GDP deflator; the real consumer wage is AENA (per hour) deflated by the household consumption deflator; labour productivity is per hour
Source: ABS Cat. No. 5206.0, Treasury

This balloon was always going to come down once the terms of trade began to return to more normal levels.

The good news is this has been happening gradually, through slower wages growth, rather than a dull thud that would have had a far more punishing effect for our economy, for workers and their households. That said, such slow wage growth is no picnic and is not going to make anyone feel fortunate, and we understand this.

This has been a painful process, but there are reasons to now be hopeful that we are near the end of this adjustment process and consumers will start to see their real wages growing in line with their productivity again.

Labour productivity has grown in line with the real producer wage for much of the past 25 years. There is no reason to suggest that this should now change.

As the real consumer wage and real producer wage converge again to labour productivity, and spare capacity in the labour market is absorbed, we can expect labour productivity to once again drive the growth in real wages.

Normal transmission will have been restored.

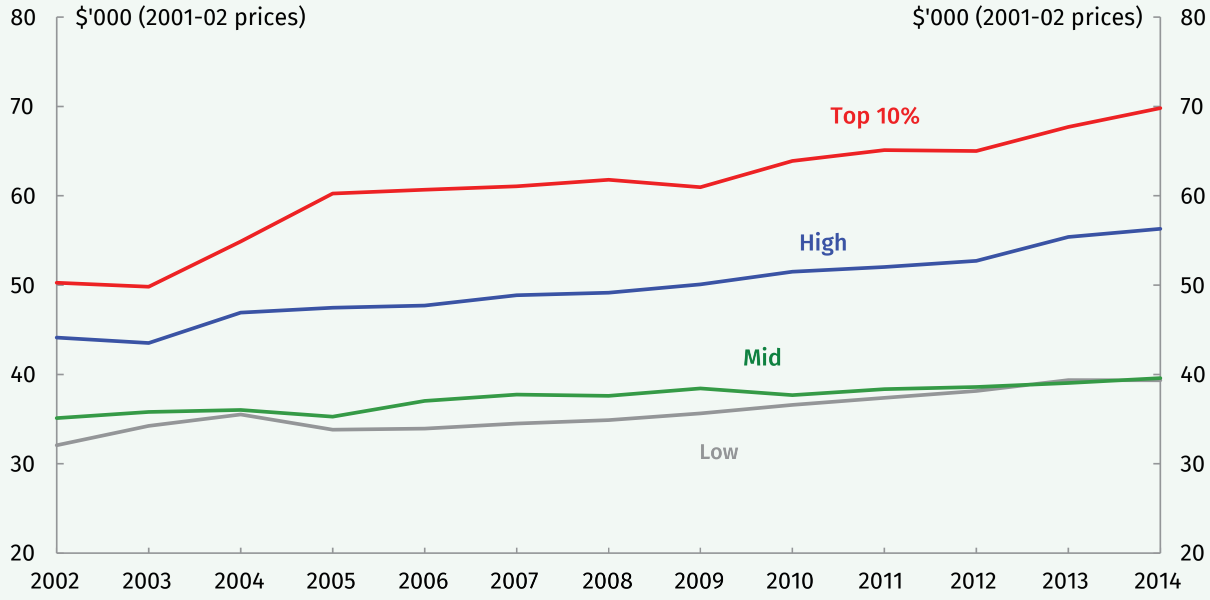
This supports the outlook for wages growth that was set out in this year's Budget. This highlights the key role driving productivity growth will have on wages going forward. It is why the government is focussed on improving productivity.

To boost our productivity, we must use the two main building blocks that determine growth in our living standards - we need to get smarter and get investing.

For the economists in the room this means boosting multi factor productivity and capital deepening through investment.

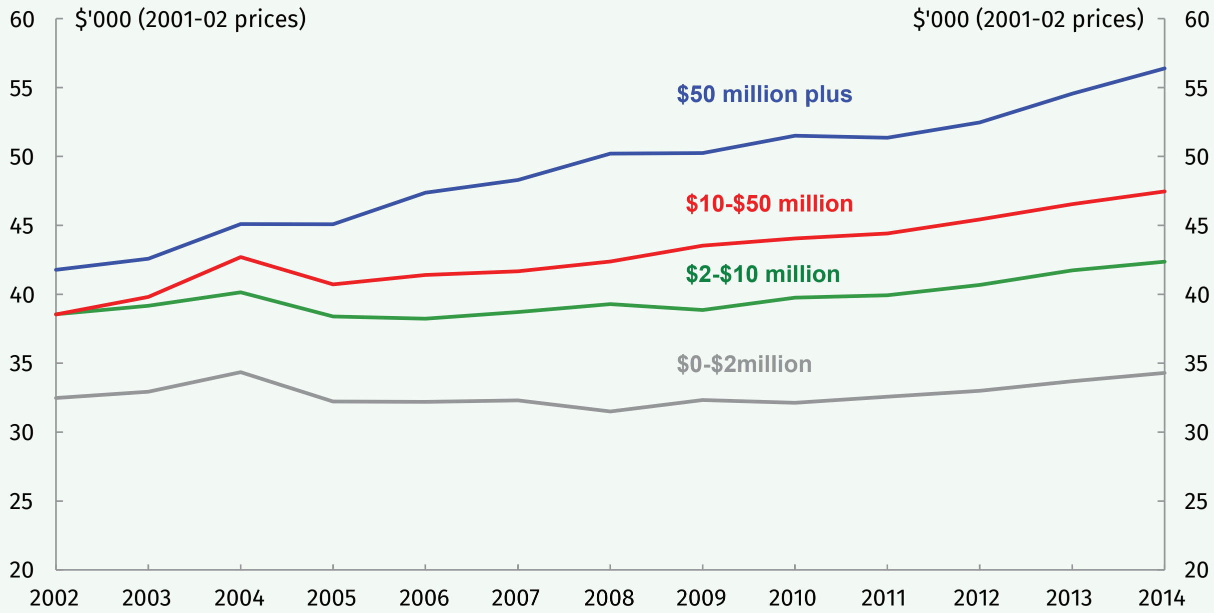
The long-run average for labour productivity growth is 1.6 per cent over the past 30 years. Of this, capital deepening contributed 0.9 per cent, while MFP added 0.7 per cent, reaching 3 per cent in the first term of the Howard Government.

Average real wages by business productivity



Source: BLADE and Treasury calculations

Average real wages by business size



Source: BLADE and Treasury calculations
Note: Business size refers to business turnover

This peak followed the widespread market reforms instituted in the 1980s and 1990s.

Today, capital deepening is returning as the main contributor to productivity growth following the mining investment boom.

But regardless of how we have achieved our recent productivity performance, it will need to improve in the future - because of our ageing population we need productivity growth to lift to 2.5 per cent to maintain the same rate of growth in our living standards.

This will require us to embark on a new productivity agenda.

The productivity agenda that was successfully implemented throughout the 1980s and 90s dismantled old economy regulation and led to a significant turnaround in the nation's productivity growth and living standards.

Our challenge is not to reheat this previous agenda developed and implemented before the iPhone, but to create one fit for our times.

As I stated in my recent Bloomberg speech, it is an agenda that must focus more on the productivity software of our people and leverage the traditional advantages that we expect to serve us well into the future.

A year ago I tasked the Productivity Commission to begin the process of a five yearly productivity review as a sister act to the Intergenerational Report initiated by Peter Costello. It is my intention that these two reports provide the context for framing economic and fiscal policy, not just for the Commonwealth but for States and Territories as well.

I have received the first of these reports and am now working carefully through the draft with my colleagues. The report will shift the focus on how we think about productivity, and the need to focus on pursuing gains in the services industry, in innovation, agriculture, health and education and in government process.

It will also require us to change how we think about, discuss and understand productivity, just like we are doing with competition policy.

Effective competition policy is not about trying to replicate an episode of Australian Survivor.

It is about making customers stronger and placing their needs and interests at the centre of what we want businesses to be able to deliver for them. Customers, in an enlightened competition policy environment are the point. They are not a resource to be exploited to service the interests of the peak primate in the market jungle, the firm.

Customers are the reason the firm exists, in the same way the fans are the reason Rugby League or the AFL exists.

Productivity similarly needs a makeover.

While the term 'productivity' might light up the eyes of employers, policy makers and economists, for most workers it's just code for 'paying me less to do more for you'.

It's almost as frightening as terms like reform, transition, globalisation or innovation. All of these things are critical to increasing our living standards, but when most Australians hear these words they get that look in their eye that says 'well that's gunna hurt'.

We need to change this if we are to have any hope of kick-starting a new productivity surge, like we saw in the eighties and nineties. A productivity surge that is necessary to not just lift living standards, but to ensure they don't fall.

Productivity needs to be about improving the services and supports provided to help employees do things smarter to add even greater value, rather than some Dickensian process of extracting more sweat from the employees brow. If Australians are enabled to be more productive, businesses will benefit, demand more staff, putting upward pressure on wages.

To lift productivity and therefore lift wages, we must also lift investment.

According to the Business Longitudinal Analysis Data Environment (BLADE), average real wages are higher for businesses with higher labour productivity. And workers at the businesses that have the highest productivity have the fastest growth in real wages.

In other words, the staff lucky enough to work in a business that is growing, expanding and generating solid returns, are themselves benefiting by their firms' success. So their pay slip says.

The data suggest further that as businesses invest, increasing the amount of capital per worker, it increases the average real wages within the business.

The BLADE data also confirms that larger businesses pay higher real wages and are more productive.

From 2001-02 to 2013-14, businesses with $50 million plus turnover had average annual real wage growth of 2.5 per cent compared with real wage growth of only 0.5 per cent for businesses under $2 million.

Put that down to economies of scale if you will, or that productive businesses are more likely to increase their market share and attract highly skilled and more productive workers.

But this divergence proves an important point: that our reasoning to deliver tax cuts to small business now, and large businesses later, was the right choice.

We have already lowered tax for 3.2 million small and medium-sized businesses, taking the tax rate for incorporated businesses with a turnover less than $25 million down to 27.5 per cent - the lowest level in 50 years.

It is small and medium businesses that need those cuts here and now, to lift their productivity and deliver higher wage growth for the 6.7 million workers they employ.

To drive greater investment, we have also announced the following tax initiatives: the extension of the instant asset write-off, tax incentives for early-stage investors in startups and innovators, modernising the tax system to recognise digital currency and reforming the depreciation of intangible assets. This complements related corporations law reform around competition, relaxing the rules for financial services innovators and the introduction of crowd sourced equity funding.

Now, just as our small business tax cuts begin to deliver a shot in the arm to the economy, it is time to go further.

This is why we are doubling down on our Enterprise Tax Plan, seeking to extend our significant tax cuts for small and medium businesses to all businesses - to give them the

breathing space to grow their business, to invest in the economy, to hire more Australians and to give their workers a well-deserved pay rise.

Burdening our businesses with uncompetitive tax rates that our global peers simply got up and left behind a few years ago, is a sure fire way of killing off any decent recovery in wages and economic growth.

Which is why Labor's reckless refusal to support these tax cuts is tantamount to economic sabotage.

Earlier this month I travelled to China to lead our participation in the Strategic Economic Dialogue between our two nations. There were some very productive discussions around investment, trade, competition policy and income policy.
But I was pleasantly surprised to hear how China was seeking to lower the tax burden on its businesses to encourage more investment.

So we had a previous socialist government in France that thought company tax cuts were such a good idea, they legislated them. Now we have the Chinese Government making the same noises.

And here is Bill Shorten, appearing to the left of both of them, when it comes to cutting company tax, this is Chairman Bill's Great Leap Backwards.

And now we have Donald Trump confirming his plan to lower US company tax to 20 per cent, laying down the challenge to the rest of the world to keep up, or risk your economy losing its competitiveness.
In his own words, such a move was "pro-growth, pro-jobs, pro-worker, and pro-family", designed to rebuild the nation. The "biggest winners", President Trump said, "will be the everyday American workers as jobs start pouring into our country".

The Labor party seem hell-bent on leaving Australian businesses stranded on a tax island, uncompetitive with the US, uncompetitive with the UK, uncompetitive with our biggest trading partner, China. The clear reality is, what Labor fail to recognise, is that it is the more productive businesses that pay higher real wages.

It should come as no surprise that the renewed confidence we have in wage growth comes as the global economy begins to move forward with renewed vigour, shaking off the post-GFC funk.

Last week the OECD upgraded global growth forecasts for 2018 to 3.7 per cent, pointing to an increase in investment, trade and employment that will support "synchronised" growth across most countries.

In our own economy, the better days ahead are now beginning to emerge. In recent weeks and months we have seen evidence of more jobs, more investment, and more exports.

The recent National Accounts for the June quarter showed solid and more balanced growth for our economy, with consumption, government demand, net exports and investment all contributing.

The contribution from new private business investment was particularly encouraging, as it rose for the third consecutive quarter - after 12 falls - with more in prospect given the signs from the Capital Expenditure Survey showed expectations for non-mining investment in 2017-18 improving strongly to be around 5 per cent higher.

Many of these businesses are benefiting and gaining confidence from the Government's increased infrastructure investment and our pursuit of productivity-enhancing policies.

This is the confidence we have seen lead to record jobs growth, and that will lead to a much-needed pay rise for Australian workers.

So we are at a crossroads, the Productivity Commission has shown us a path to update our national productivity agenda to ensure we not only maintain our living standards, but lift them.

Protecting our living standards

Address to CEDA, Canberra

24 October 2017

Almost a decade after the GFC hit, a brighter picture is now emerging for the global and domestic economy, providing evidence of better days ahead.

Over the past 12 months, 371,500 Australians got a job, the strongest jobs growth since before the Global Financial Crisis.

Twelve months of consecutive jobs growth is the best result in over 23 years.

Annual jobs growth is now running at over three per cent, fifteen times greater than it was in 2013 when the Coalition Government was first elected.

Since then, 825,000 jobs have been created and almost two thirds of those jobs have been secured in the past two years.

And the performance on full time jobs has been even better. In the past twelve months 315,900 full time jobs were created, the strongest growth in full time jobs in the almost forty years since records have been kept.

Hours worked has also increased, with the rate of growth in hours the best in almost seven years.

These results recently led Deloitte Economics to conclude that 'Australian job growth is a thing of beauty'.

Business conditions are also at the highest level since 2008 and firms are beginning to ramp up their investment and hire more workers, shrugging off the economic funk that has clouded their outlook since the GFC and the end of the mining investment boom.

While there is record jobs growth and the unemployment rate has fallen by more than half a percentage point in the past two years, there is still slack in the labour market.

Inflation expectations also remain low and wages are continuing to adjust from the impact of the mining investment boom.

During the mining boom, wages growth ran well ahead of productivity growth, and the movement in producer and consumer wages split apart.

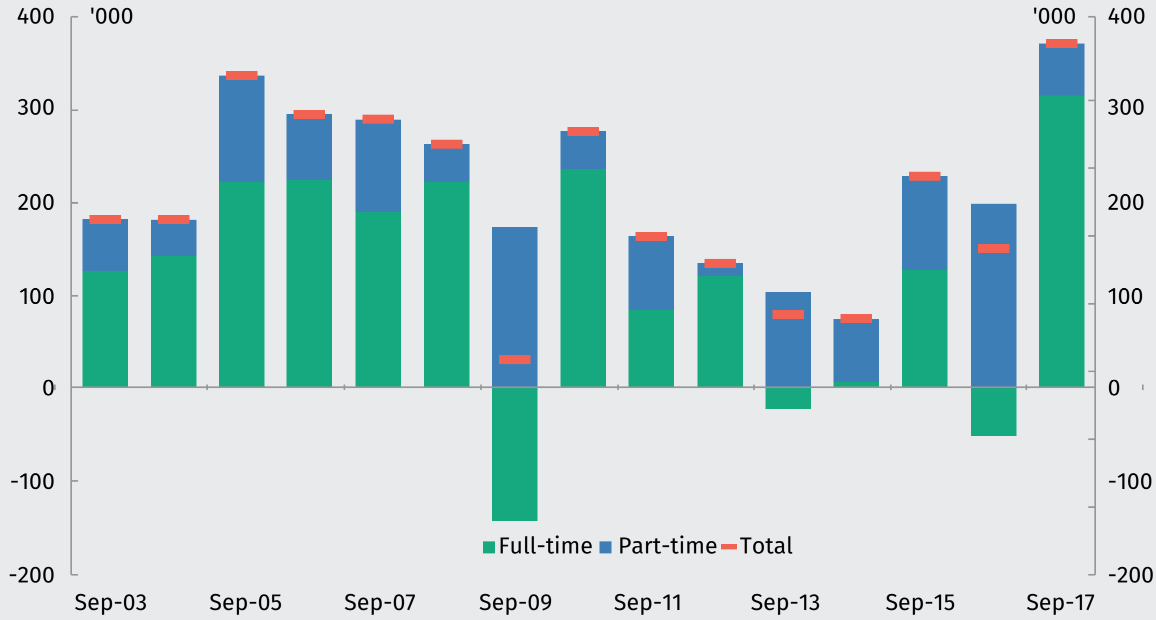
The windfall gains of higher commodity prices meant firms could sell their output at much higher prices. At the same time, consumer prices did not increase nearly as rapidly, in part because of a high Australian dollar.

This meant people were able to buy more than they could previously when their wages were hardwired to their own productivity.

In its wake, wages growth has pushed sideways.

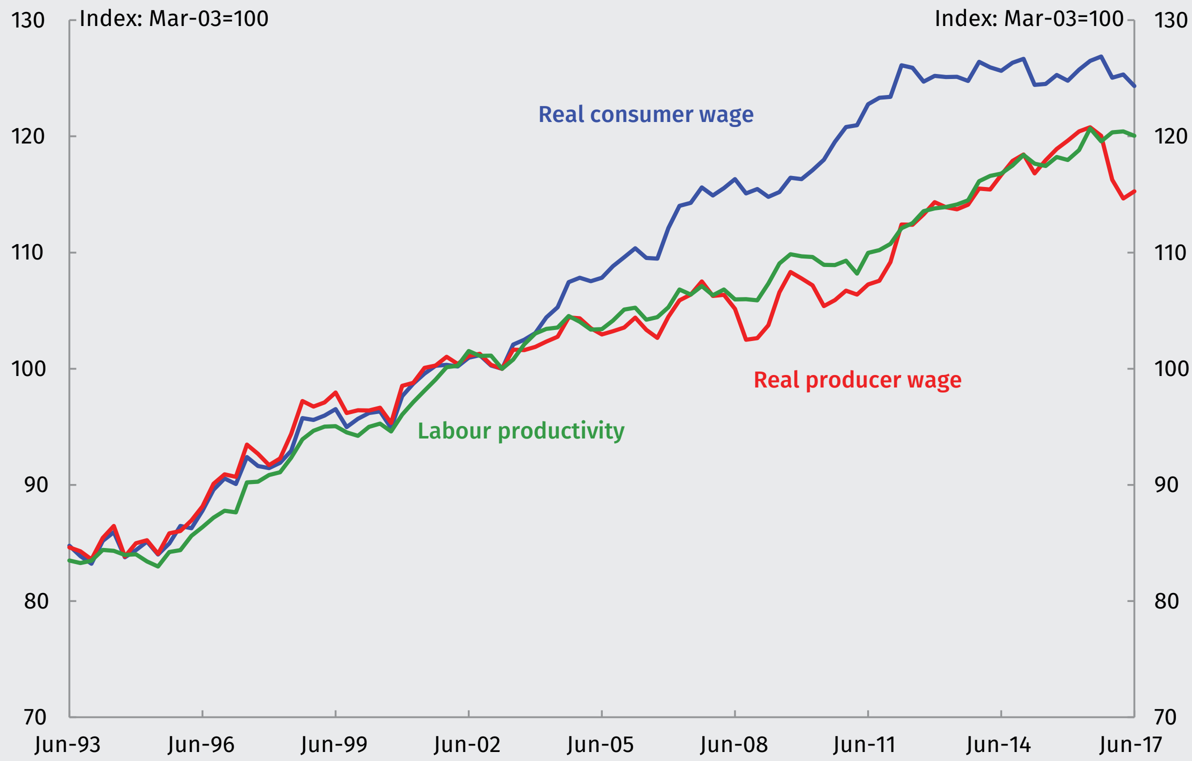
Wages grew by a subdued 1.9 per cent through the year to the June quarter - the slowest annual growth in at least 20 years.

Employment growth



Note: Change in year to September
Source: ABS Cat. No. 6202.0

Real wages and productivity



Note: The real producer wage is AENA (per hour) deflated by the GDP deflator; the real consumer wage is AENA (per hour) deflated by the household consumption deflator; labour productivity is per hour
Source: ABS Cat. No. 5206.0, Treasury

Our challenge now is not just to create more jobs, but as I outlined in this year's Budget, better paid jobs as well.

And there is reason to be optimistic, as Deloitte Economics also recently observed:

"Profits are up, jobs are up, and the next train to leave the station will be wages. … the job gains that have already occurred light the path for the turn in wage gains."

This assessment is shared by the Government and underpins the 'better days ahead' outlook presented in this year's Budget.

But we cannot be complacent.

Spare capacity in the labour market must continue to reduce and inflation expectations recalibrated. Both Treasury and the RBA expect inflation to move back towards the mid-point of the target range of around 2½ per cent in 2018-19.

But for wages to increase we must also increase business investment and drive a new wave of productivity growth.

Deepening our capital stock through investment has contributed 0.9 percentage points to our long-run productivity growth of 1.6 per cent.

This is supported by data from the Business Longitudinal Analysis Data Environment (BLADE), which shows that businesses with more capital per worker pay higher average real wages. It also shows that real wages are higher for businesses with higher labour productivity and that workers at the businesses that have the highest productivity have the fastest growth in real wages.

This is why the Turnbull Government is seeking to extend the tax cuts we already legislated for businesses with a turnover of up to $50 million, to all businesses. Treasury modelling demonstrates that such policies will deliver a boost to before-tax real wages of up to 1.2 per cent.

This is now an urgent matter given moves by the UK, France and US to lower rates of corporate tax to drive investment. We risk Australian businesses becoming stranded on an uncompetitive tax island if we fail to act accordingly.

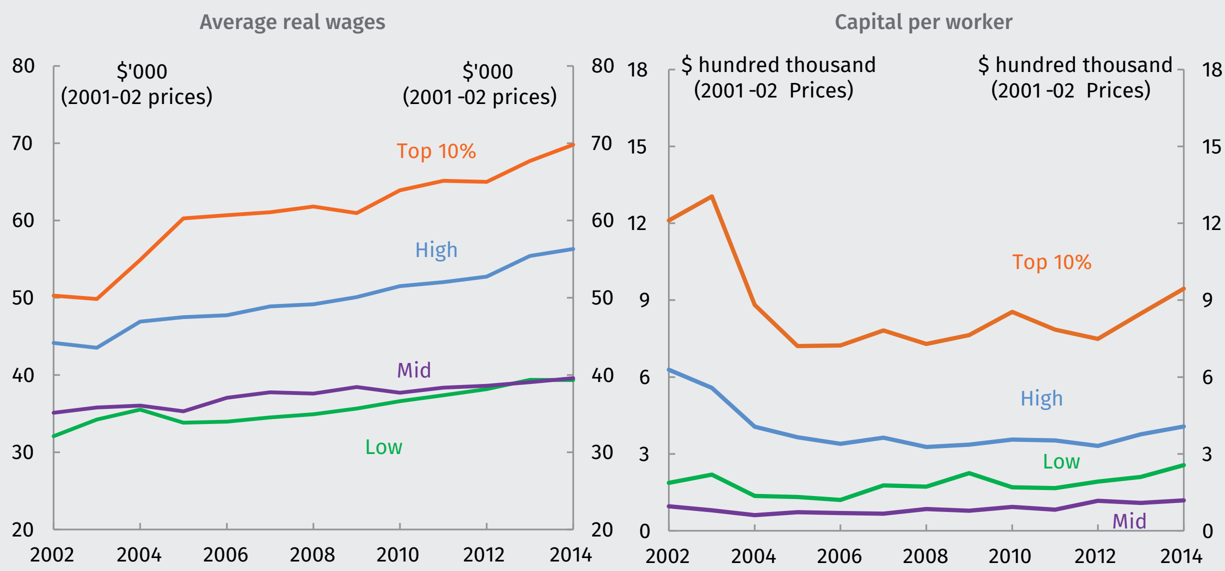
It is also why we have committed to a $75 billion national infrastructure agenda, already impacting our economy.

However all of this will still not be enough.

We must also get more out of the investments that have already been made, otherwise known as multifactor productivity.

In the first term of the Howard Government, Multifactor productivity growth (MFP) was adding three per cent to total labour productivity

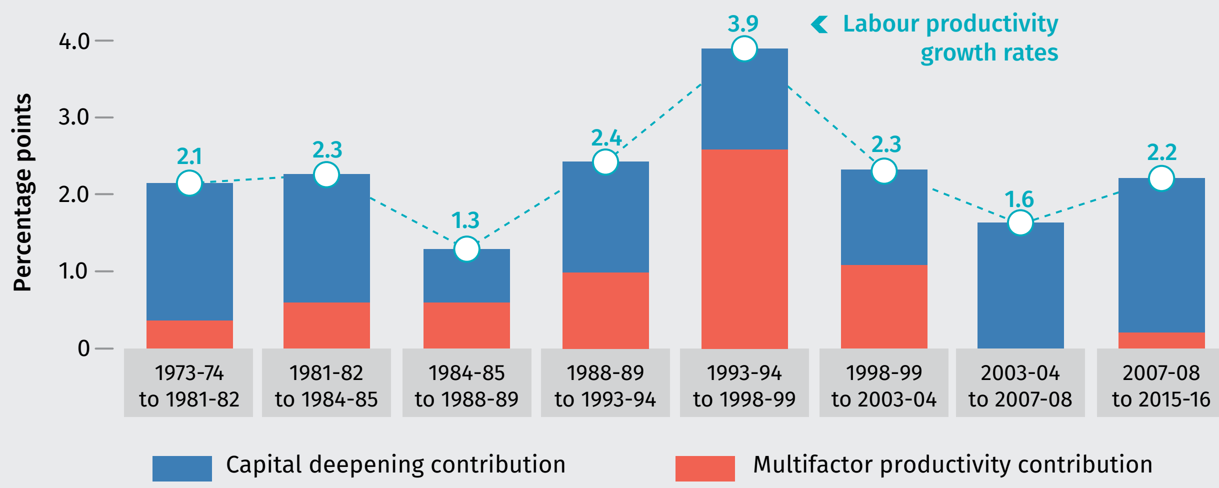
Wages and capital by labour productivity category



Source: BLADE

Market sector labour productivity decomposition

Measured using aggregate market sector productivity cycles

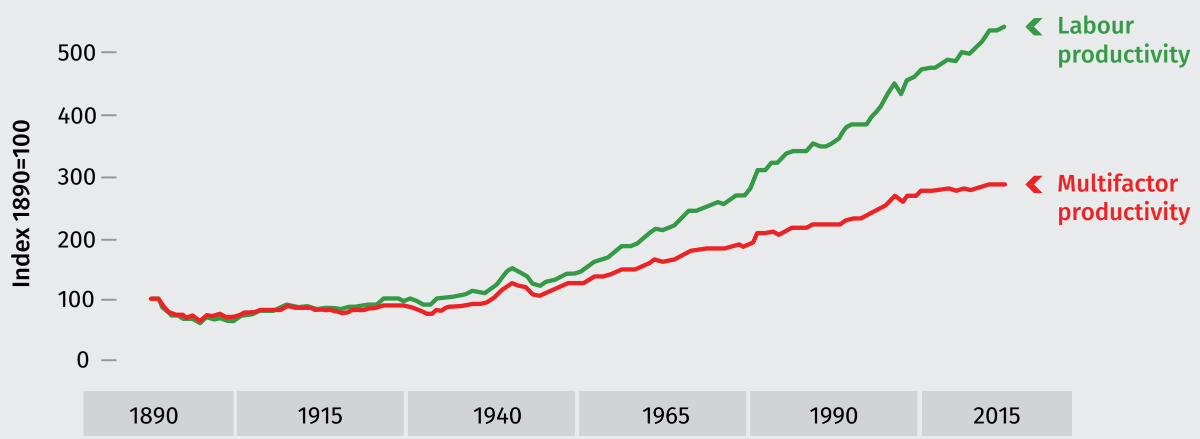


Note: 12-industry market sector (ANZIC Divisions A to K and R). The long-term trends are not always easy to detect in annual data because of the effects of economic downturns (when labour and capital are only partially used, depressing productivity over the short run). For that reason, most productivity analysis examines trends across the peaks of the business cycle.

Source: ABS Cat. No. 5260.0.55.002 and Productivity Commission estimates.

The long run – MFP and labour productivity

1890 to 2015



Note: The series diverge from that presented above due to different methods for interpolating data, though the results are not markedly different for the overlapping time periods.

Source: Bergeaud el al. (2016) and Productivity Commission (2017).

growth. It has only contributed 0.7 per cent on average over the past five years.

So all up, if we only maintain the rate of labour productivity growth we have seen over the past five years of 1.5 per cent, it will not be enough to offset the slowdown in the growth of our workforce courtesy of our ageing population.

We need labour productivity growth of around 2.5 per cent to maintain the growth in our living standards.

This is why a year ago I tasked the Productivity Commission to undertake the first of what will be a series of five-yearly reviews into boosting Australia's productivity, as a sister publication to the Intergenerational Report.

We must set a discipline for continually scrutinizing our productivity agenda.

Today I am releasing the PC's first five yearly report.

The report seeks to provide a direction, rather than a specific `to do' list for governments to immediately achieve, or be forced to rule in or out. No one change is sufficient, they conclude.

The report also states:

'The Commission has deliberately floated ideas that cannot always be implemented immediately, but where preparation and further testing is needed for fruition'.

The report provides a roadmap to higher living standards that should be owned, evolved and progressed by all levels of Government and the Australian people over many years.

These are the views and observations of the Commission. This report is not from Government, but produced for all Governments, State and Federal.

Similar productivity agendas from the 1990s were crucial to lifting our productivity.

The changes that were made then overhauled old economy regulation - trade liberalisation, reductions in tariffs, widespread reform to capital markets, sale of government assets, changes to labour markets, competition and taxation reform, and better targeting of macroeconomic policy.

These changes brought about a new generation of prosperity.

There was a lot of low hanging fruit back then and as Professor Hilmer mentioned recently, back then reform was easier to achieve.

Back then, the burning platform provided by the early 1990s recession focussed the debate and compelled greater bipartisanship.

We are thankfully no longer standing on a burning platform. But nor should we wish for one. On a burning platform people get burnt.

The price of a generation of Australians growing up without ever having known a recession is that reform comes more stubbornly and incrementally.

We also need to understand that many Australians are now far more sceptical of change. Whenever governments mention the word `reform' or `productivity', they get nervous. They've seen this movie before.

Unlike last time when economic reform was a mystery to most, this time around Australians are more alive to the costs of change as well as the benefits.

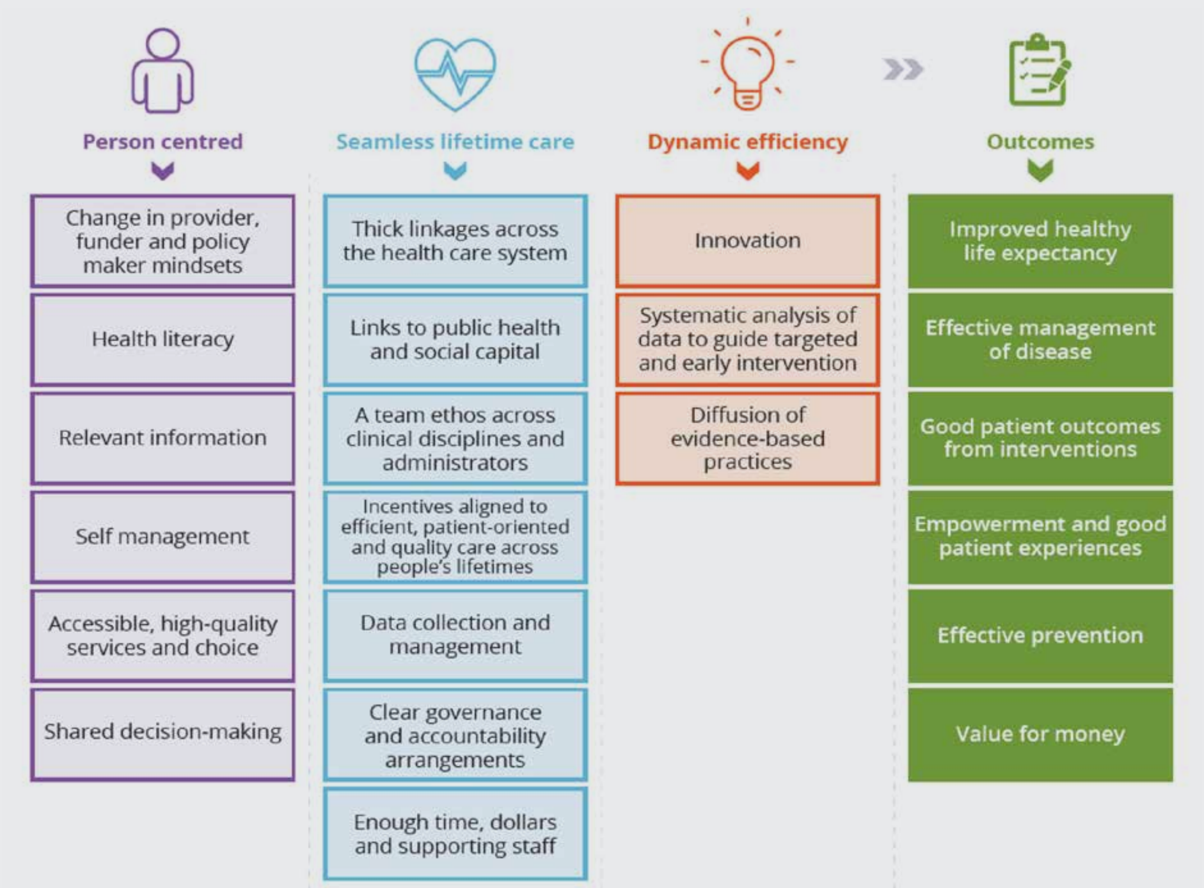
Plus, the economic and political bandwidth available for change is narrower than it once was, made more difficult by the binary way change is viewed and exploited. Who are the winners and who are the losers? Where is the conflict?

The Commission in this report has sought to bring the agenda up to date and ensure it is aligned with where our economy is today and where it is headed.

The world is getting more complicated and more connected at the same time.

The report references 'the cloud', the 'internet of things', google chrome, social media apps, 3D printing, drones, machine learning, gene technologies, robotics as new on the scene or exponentially advanced since previous agendas were crafted.

The essential elements of integrated care



Source: Productivity Commission (2017).

But the Commission also highlights the fact that despite these developments, the gains in productivity from technical change appear to be diminishing.

We no longer have a mining investment boom to fuel our tanks.

And of course we have the prospect of an ageing population firmly in our headlights. Fewer people of working age will have to support a growing number of people who have left the workforce.

The PC's first five yearly review seeks to make sense of this and provide some direction.

The new path we are encouraged to embark upon is signposted by a series of key insights pointing to the need for:

- more integrated and patient centered healthcare to create more healthy workers;
- a more proactive education system that supports better teaching to create more proficient, more resilient and more adaptive workers; and
- more functional cities that will not choke our economy.

The Commission continues its advocacy for more efficient Government delivery of non-market services, recognising government performance is critical for productivity with our economy now dominated by services.

As the biggest provider and regulator of these services, Government cannot be the weak link in the chain.

And they continue their advocacy for stronger, more efficient and competitive market systems. Like the Harper Review before, the Commission argues this should be done by placing the customer at the apex - not the firm or any service provider.

Observing that 'user needs are often not given priority … there is therefore strong scope to empower people so that their needs, not those of service providers, are the key focus'.

Improving the efficiency of markets remains core to the agenda, with specific attention given to the energy sector, fostering innovation, and reducing unnecessary regulation.

The Turnbull Government has already intuitively moved in all of these directions.

This is a large report, some 1,200 + pages, including 16 supporting and working papers. We do not have time to address all that is in these reports today, but I would like to address some of the core issues raised in a bit more detail.

Estimated impacts of health recommendations

2016 prices

	UNIT	AFTER 5 YEARS	AFTER 20 YEARS
Personal welfare gains from improved health	$m	100	300
Personal welfare gains from less waiting	$m	200	600
Workforce impact (as a GDP gain)	$m	400	4200
Health expenditure dividend	$m	7900	33400
Total economic impacts	$m	8500	38500
Health expenditure dividend as a share of total health spending	**%**	**3.0**	**6.5**

Note: The interpretation of these measures is discussed at length in SP6.
Source: Productivity Commission (2017).

We have the third highest life expectancy in the OECD at 82.8 years, but also spend the most years in ill-health. An entire decade, on average, spent on the sick bed. If we had the same level of 'healthy' life expectancy as Singapore, Australians would on average live 2.6 years longer.

We have reduced smoking and car accident deaths, but we have one of the highest obesity rates in the world.

We have decreasing rates of disability, but 17.5 per cent of Australians have mental or behavioural problems and we have a suicide rate that is double the rate of the best performing countries.

The PC notes that successful prevention of such mental or behavioural problems can boost labour force participation by up to 26 percentage points.

To answer the conundrums that exist in those statistics, we must consider our own health and the effectiveness of our health system.

Improving the health of Australians is not just about enhancing our quality of life, it's an economic growth strategy.

Healthy and happy people are naturally more productive people. They are more likely to be out looking for a job, more likely to be free of dependency on welfare and more likely to be earning higher wages.

Health is a genuine wealth enabler.

In contrast, poor health can be a handbrake on labour supply and the economy, lowering the standard of living for all Australians.

While our health system is the envy of much of the world, there are some clear "fault lines", the Commission suggests, this may be both holding back our march forward to health, and therefore impacting our productivity.

Less than 20 per cent of Australian GPs are told when one of their patients has been seen in an emergency department, compared to 68 per cent in the Netherlands and 56 per cent in New Zealand.

The pathway of patient care in Australia is all too often fragmented and plagued by poor or non-existent communication between different parts of the health system.

This veil of ignorance, where a doctor may not even be aware of significant health issues affecting their patient, can slow down the process of care, put the patient at risk, and lead to unnecessary procedures being performed.

The narrative of its findings centre on the lack of integration and information sharing in the health sector, arguing that greater cohesion between hospitals, GPs, specialists, administration and community health clinics would ensure patients receive the best care at the lowest cost.

It means teamwork to deliver care, and sharing knowledge about each patient in the system, using a system-wide approach to not only managing chronic illnesses, but preventing them. Prevention, as always, is better than a cure.

The Commission also decries the waste that exists in the system and the unnecessary procedures that still take place despite evidence that the likely benefit to the patient is nil.

More than $200 million could be saved every year by reducing knee arthroscopies that research shows have little benefit in most cases.

At the core of the Commission's recommendations on health, is a clever play on words borrowed from US author Eric Topol - The Patient will See you Now.

Making the patient the centre of care - improving the care of the patient through all parts of the health system and ensuring there is a "teamwork" approach to their care.

The Turnbull Government has already recognised this critical need to coordinate health services, with our Health Care Homes trial beginning earlier this month.

These 200 practices, when fully rolled out, will focus on the holistic care of a patient, tailoring a care plan that addresses all their current health concerns across all parts of the health system, and working to prevent further illness.

GPs and nurses will act as health care navigators, serving the patient via a standard visit, a video conference call with other specialists, a home visit, or even an SMS reminder.

Putting the patient at the centre of care.

The trial will use a blended system of payments that encourages GPs to provide broad health care.

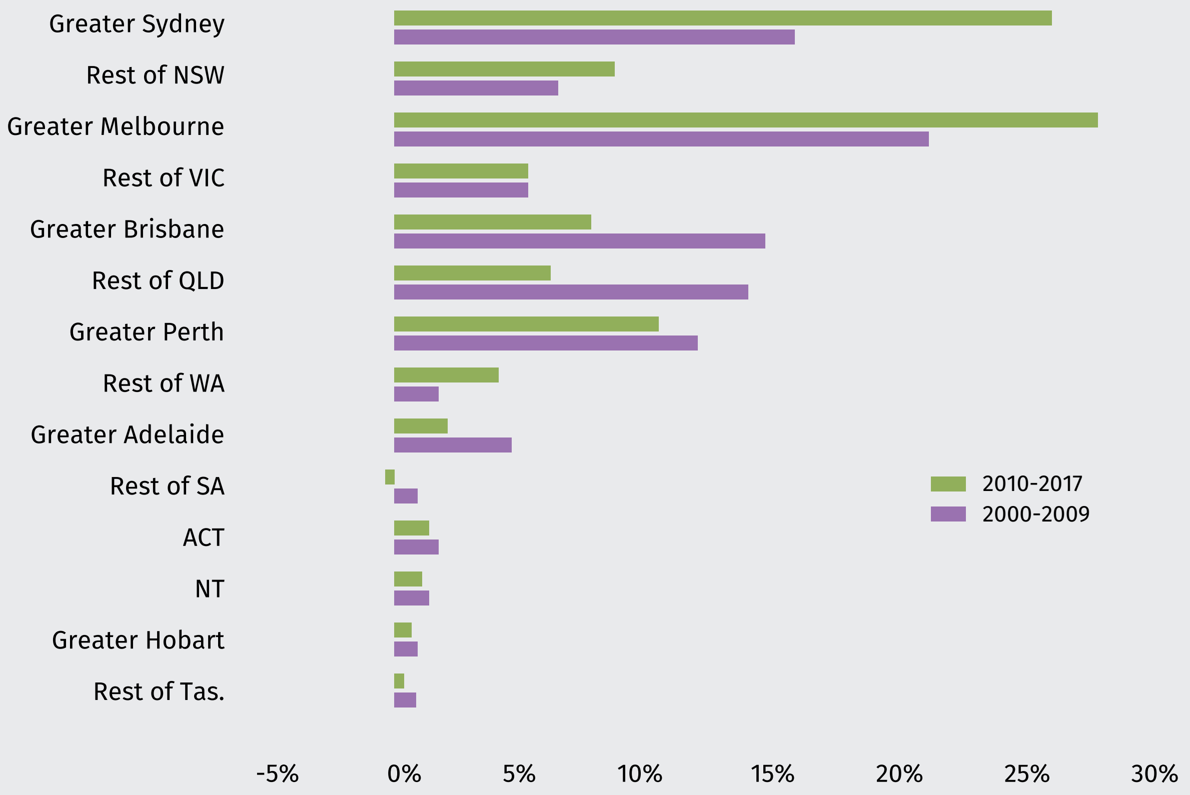
Often just picking up a phone may be all that is required to help patients along their health journey, rather than spending hours every year in waiting rooms, a clear drag on productivity.

A one-year trial of telehealth conducted by the CSIRO saw a 45 per cent reduction in MBS spending, a 25 per cent reduction in PBS spending, a 50 per cent reduction in hospitalisation, and a 40 per cent reduction in deaths. Just by delivering care over the phone.

Data sharing remains the system's Achilles heel, and the predominant reason why communication through the system, from emergency departments to your local GP, remains poor. Or as the PC report puts it, discovering information about a patient is 'akin to pinning the tail on the donkey'.

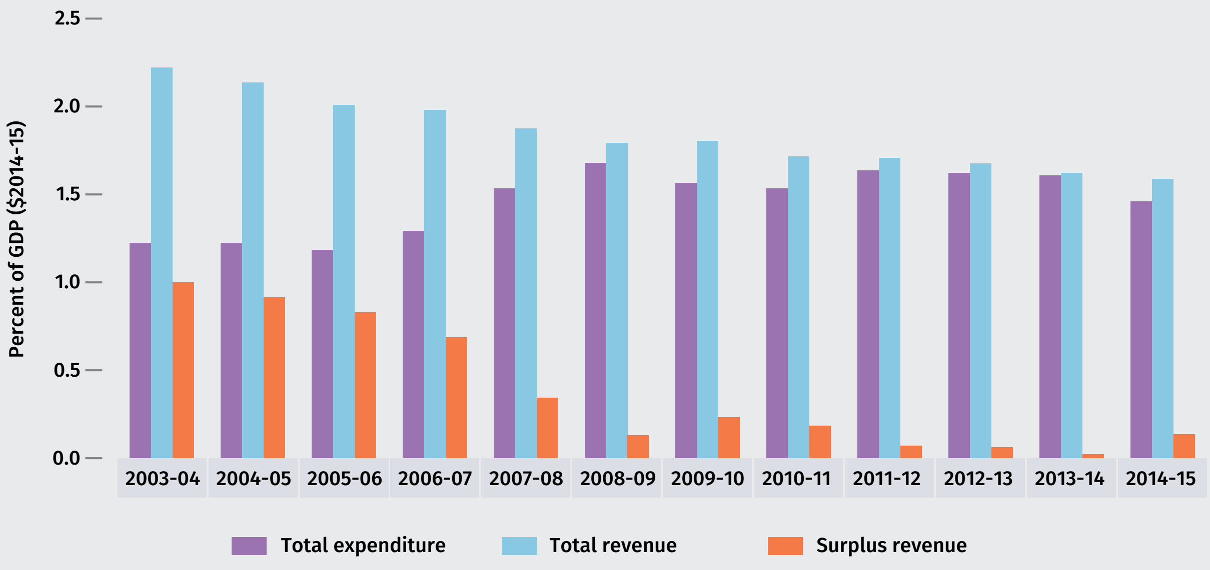
In 2012 only 37 per cent of specialists and 22 per cent of surgeons use computers, compared to 96 per cent of GPs. It's awfully hard to collect and share data when you are still using a fax machine!

Contribution to total employment growth by decade



Source: ABS Cat. No. 6291.0.55.001 and Productivity Commission (2017).

Real revenues and expenditures to GDP



Note: Aggregated over all levels of government. Includes work done for and by the public sector, but excludes that done by the private sector for the private sector.
Source: Productivity Commission (2017).

This is why the Turnbull Government's opt-out My Health Record platform will come into its own, giving practitioners and patients immediate access to records to improve their care and drill down on the specifics.

The Commission estimates the economic benefits from a health system reboot could be worth up to $200 billion over the next 20 years.

This is not about allocating more resources or conversely cutting health Budgets.

It's about doing more with the investment in health we have already made. Doing things smarter.

And ensuring our increasing longevity is matched with quality of life.

In 2014, more than 26 per cent of university students had not completed their degree program within nine years of commencing. Short-term attrition rates have risen from 12.5 per cent in 2009 to 15.2 per cent in 2014.

To make matters worse, underemployment among university graduates has surged from nine per cent in 2009 to 20.5 per cent in 2016.

And over a quarter of recent graduates have jobs that don't match up with their degree.

The strength of our future workforce will be determined by the choices we make today to re-arm and refocus our education system.

Professions come and professions go, as technological change and an ageing population create new demand and new opportunities. This process has been accelerated by globalization, technological change and market disruptions like the shared economy.

The Commission makes the important observation that 'technology adoption, use and diffusion - the long run drivers of productivity - require people with the right skills'.

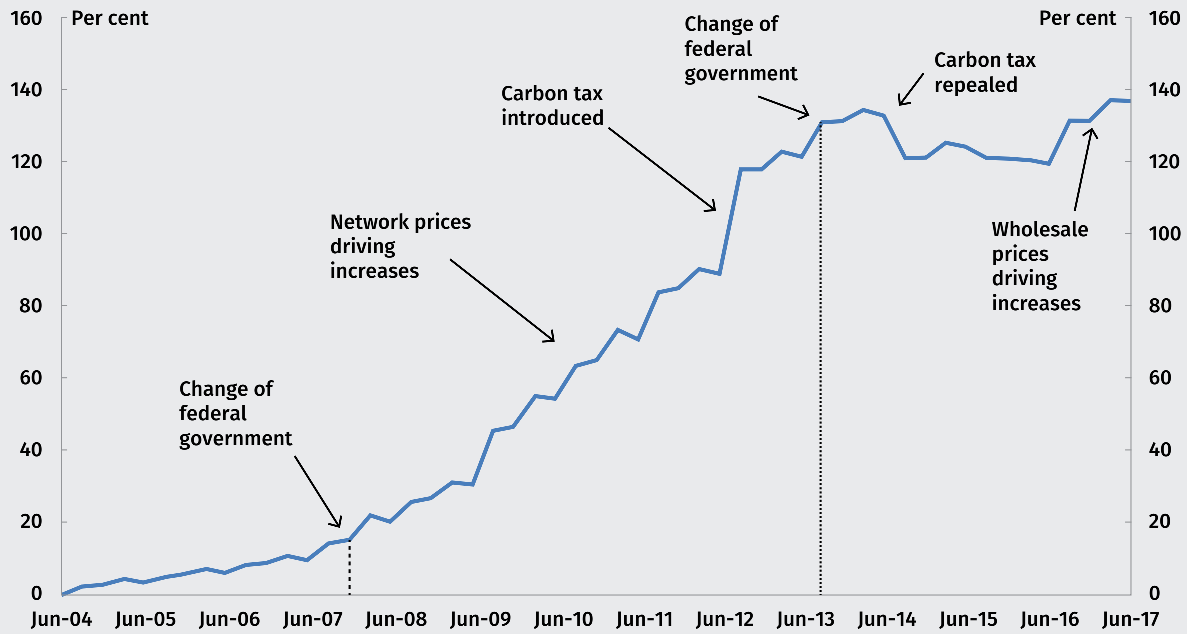
This means that not only does skills development protect employees from these disruptions, it is an accelerator for the benefits that flow from these disruptions to our economy and our living standards. That is, it helps create more and better paid jobs.

This requires a shift in how we approach education, placing more of an emphasis on meeting the needs of our future jobs market; building a supply chain in preparation for jobs where there is currently little demand.

National energy guarantee

- Puts downward pressure on household and business power bills and reduces spot price volatility
- Encourages the right investment in the right place at the right time
- Improves reliability – increasing investment in new and existing dispatchable supply
- Reduces emissions at lowest cost – emissions targets can be met using a range of technology, including existing resources
- Is not a subsidy or a tax – allows the lowest cost range of technologies to meet overall targets

Average retail electricity price increases



Note: Cumulative increase since June quarter 2004.
Source: ABS Cat. No. 6401.0

But just like in health, the Commission pinpoints some fundamental flaws in our education system that are holding us back from realising our future potential, and restraining productivity growth.

The Commission claims our school results are stagnating. Our VET system isn't delivering the type of employees that employers want. And we have a university system that is more preoccupied with publishing than improving teaching standards.

It recommends boosting salaries in subject areas where there are teacher shortages, to attract high calibre people and stop teachers from teaching out of field - like the 30 per cent of high school IT teachers who have never even studied the subject.

It recommends:

- creating a graduated assessment system that measures the proficiency of VET students, rather than straight competency, and
- creating a fair credential embracing massive open online courses (MOOCs) that lower the cost of education and make learning more accessible. Embrace the disruption.

The Commission argues that universities are too focussed on publishing research, given the career prospects of lecturers depends more on their publishing resume than their teaching record. This is an upside down world.

Universities are about knowledge, but they are also at least as much about learning and the transference of that knowledge to students.

Thanks to the financial windfall of attracting foreign students, universities can become obsessed with boosting their international rankings that are narrowly based on their research capabilities.

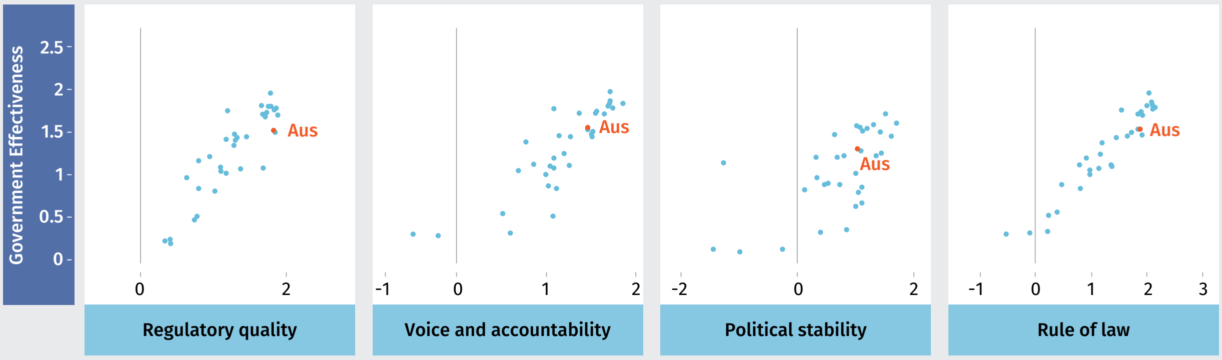
The Commission calls it a "gladiatorial obsession'' - hire the best researchers, increase your ranking, and the cashed-up foreign students will come.

There appears insufficient incentive to improve teaching standards, no data to measure the teaching strength of universities, and no accountability for how successful students are at getting jobs when they walk out the front gates.

One way to realign the incentives, the Commission notes, would be to give university's some 'skin in the game' - funding that is linked to the success of their students, not their research findings.

This is something the Turnbull Government sought to address in this year's Budget - announcing plans to link 7.5 per cent of funding to universities on their performance. Employers are looking for graduates who are skilful, not just competent. It doesn't matter if you can perform a task, as your school certificate or degree says so. It matters how well you perform the task.

Measures of government performance, OECD countries, 2015



Note: Measures are from results for all countries, with data extracted for OECD countries.
Values on the vertical axis are standardised deviations from the global mean.
Source: World Bank (2015) and Productivity Commission (2017).

Determining the difference has often been difficult for employers and they have often been disappointed with the process.

There must be accountability built into the university and VET systems to ensure students are prepared for the workforce of tomorrow.

In the 2016-17 Budget, I announced a range of initiatives to improve teacher quality, including linking teacher salary progression to classroom impact, rather than just how long they have been in the staff room.

Our recent performance in the OECD's PISA tests showed we had a growing share of lower performers and absolute falls in average scientific, reading and mathematical ability.

Alarmingly, that landmark test showed that young Australians may be less capable than teenagers of the same age 15 years ago, which is an economic problem as much as it is a social problem.

The spotlight naturally falls on how we are teaching our school kids and who we task for such an important job.

Our recently legislated Gonski 2.0 schools funding package will see an extra $23 billion poured into schools over the next decade. It's not just money we are kicking out the door with no accountability. It is transparent, consistent and needs-based.

And just to back that in, we have our Gonski 2.0 Review to Achieve Educational Excellence in Australian Schools which will provide advice on how schools can best allocate these additional resources to achieve better results.

We have also strengthened course accreditation standards to ensure teachers enter the classroom prepared to have an immediate impact on student learning, in addition to the rollout of performance assessments for new teachers graduating from 2018.

And we have taken action now to reset our VET scheme, with our VET Student Loans program which consigned Labor's flawed VET FEE-HELP to the history books. Students can start to rebuild their trust in vocational education and taxpayers can ensure their money isn't rorted.

In the Budget I also announced our new Skilling Australia Fund - a major commitment of $1.5 billion that will be matched with funding from the States to support up to 300,000 apprenticeships and traineeships.

All of these measures are building the workforce of tomorrow.

The Commission estimates that the potential productivity gains we can bank from getting our cities functioning better is about a $29 billion increase in GDP.

Around eighty per cent of Australia's GDP is produced in cities, and forty per cent in Australia's two largest, Sydney and Melbourne. By the time we reach 2050, almost 11 million extra people will squeezed into our capital cities.

I should note that these facts are not intended to diminish the relevance of regional Australia. If anything, given the high level of urbanization in Australia, it highlights the fact that Australia's regions punch well above their weight for our economy.

That said, the huge weight of our cities means that if we get them wrong it costs all Australians, but if we get it right?

Currently our cities compare favourably with global peers, but there are growing strains, particularly on our roads and public transport which has a material effect on our productivity. The social costs of congestion in our capital cities will grow from $18.7 billion in 2014-15 to at least $31.4 billion by 2030.

The Commission highlights better planning and building major infrastructure as a significant driver of productivity, but only if we get it right and it improves the quality of people's lives.

Many of the recommendations have already been recognized by the Turnbull Government.

The housing affordability plan and reforms to state housing agreements announced in this year's Budget, require the establishment of housing strategies that better match supply and demand, which include reform of planning and zoning systems. This is backed up by our small business red tape reduction fund, that is incentivizing State Governments to reduce regulation.

Work on infrastructure reforms is also underway as part of the Turnbull Government's Smart Cities Plan. Our record $75 billion commitment to infrastructure will be wisely spent, with the government staying actively involved as an investor.

The establishment of our new Infrastructure and Projects Financing Agency will assist the Government to make and implement the right choices on infrastructure and how we use taxpayers money in the smartest way possible.

A 10 per cent reduction in the cost of delivering infrastructure would save $2.9 billion a year.

While acknowledging the importance of public transport, the Commission urges governments to maintain a strong focus on roads.

To pay for the upkeep and construction of our roads, motorists currently pay an average $1300 every year to drive a car - courtesy of rego, fuel excise and various State taxes.

While that revenue is enough to cover the funding requirements now, time is ticking. Revenue raised from fuel excise is falling as fuel efficiency, electric cars and the popularity of Uber is rising.

The Commission poses a hypothecated funding model built around demand, where drivers are charged for how much they use our roads, and at what times.

Would it be more efficient and lead to more investment in roads?

The Commission thinks so, estimating a permanent increase to annual GDP of $20 billion.

The Turnbull Government, through Urban Infrastructure Minister Paul Fletcher, is discussing these issues with the states and industry to evaluate the merits of how best to we fund and deliver the roads Australians will need in the future. The Commonwealth and the States are proceeding cautiously and highly consultatively.

The Commission is right to conclude that improving the efficiency of our markets takes us closer to peak productivity.

They are also right to highlight that in particular 'the costs of getting the energy system wrong are too large to contemplate', which is why households and businesses are paying too much now and why this needs to change.

The PC also rightly backs in their earlier proposals on data reforms quoting annual benefits of $5.5 billion, while pointing to $1.9 billion in benefits in reforms to intellectual property.

Here, the Turnbull Government has some substantial runs on the board.

Over the course of this year, we have rolled out a comprehensive energy policy that now clearly addresses the costly faults in the system in an enduring way. Our energy plan will deliver more reliable energy, at a lower cost to households and business, while still meeting our environmental obligations.

Our comprehensive energy policy delivers on the Commission's demand for Government to provide certainty, set clear policy direction, let the expert bodies deliver, as well as removing moratoriums and bans on gas exploration that have slowed supply and pushed up prices, rather than deal with each case on its merits.

The Commission rightly priorities fixing the energy mess and we are fixing it.

In the government's National Energy Guarantee announced last week, we have delivered the investment certainty that the sector has been crying out for, as was confirmed by the Australian Industry Group, the Australian Chamber of Commerce, and the Australian Business Council.

We have given energy retailers clear rules on how they purchase their electricity - a minimum amount of reliable energy from traditional sources and a minimum amount from low-emissions energy. The rest? Well, whatever is the cheapest source, thanks to the efficiency of markets.

Importantly, as the Commission suggest with great foresight, this is a plan recommended by the Energy Security Board, a COAG appointed independent body of experts that have no ideological allegiance, but merely a mandate to put forward the best solution based on their extensive experience.

We are also well advanced in implementing policies that support the direction of the recommendation to create an environment more conducive to innovation and giving consumers rights over their data.

The Turnbull Government has been methodically positioning Australia to be the leading FinTech hub in Asia-Pacific, leading the world in payment innovations, RegTech and blockchain.

Our Fintech agenda, which includes a regulatory sandbox, exposure draft legislation released today, to give entrepreneurs and businesses a safe space to trial innovative platforms, builds on the government's $1.1 billion National Innovation and Science Agenda.

Governments can often be caught napping on innovation and have to scramble to either facilitate or regulate innovation sectors.

We have been on the front foot.

Finally, it is pleasing that the Commission notes that Australian governments perform relatively well by OECD standards. But it is always true that Governments must always seek to do better.

The Commission is principally saying that as a Federation we need to work together better, to play nice, including on securing productivity gains.

This fundamental position flows through to their suggestion for ensuring greater fiscal discipline by aligning revenue raising with accountabilities for expenditure and having even clearer and even more transparent fiscal processes.

The Commission also raised regrets about the need for the Commonwealth to have to buy reform and the evergreen need for better data to inform and keep programmes focussed.

These issues are not new and remain frustrating.

More directly, the Turnbull Government has been demonstrating our effectiveness through successfully legislating our agenda, keeping our fiscal discipline to maintain a prudent and consistent path towards Budget balance projected for 2020-21, and the broad strategy of strengthening our regulators to ensure markets are both effective and fair.

Since elected last year, the Turnbull Government has passed 169 pieces of legislation. We made $100 billion of Budget repair measures in three years and have reduced average real growth in government expenditure to below two per cent.

We have taken strong action to ensure our banking and financial system is unquestionable strong, but is also fair, accountable and competitive.

We are also well served by the ACCC and the AER, who recently provided invaluable insight into the energy market, while our new Energy Security Board is a prime example of COAG cooperation, which in its short life has had a sizeable impact.

So we are at a crossroads. The PC has shown us a path to update our national productivity agenda to ensure we not only maintain our living standards, but lift them.

This is not the sole responsibility of a Federal Government.

Experience shows that sustained growth in productivity is reliant upon governments working together, not going it alone.

The Commission makes this point crystal clear, urging reform of COAG and the development of a national reform agenda.

This week I will be sitting down with State treasurers at our Council of Federal Financial Relations meeting on Friday.

State Treasurers will have the opportunity to hear directly from Peter Harris and his team at the Productivity Commission, about the benefits of working together to boost Australians' living standards - not just in their own states, but in all states and territories.

In order to boost Australians' living standards, it's critical that all levels of Government work together across partisan lines - in the interests of all Australians and the nation as a whole.

That's why I'm hopeful my state counterparts will give Peter Harris a good hearing on Friday and I'm looking forward to a good discussion with them, the first of many, ideally one that can continue constructively until the next productivity report in five years' time.

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