

PRIME MINISTER

BUILDING AUSTRALIA'S FUTURE: BUILDING 21ST CENTURY INFRASTRUCTURE FOR A MORE PRODUCTIVE ECONOMY

AUSTRALIA DAY RECEPTION ADELAIDE TOWN HALL 20 JANUARY 2010

I acknowledge the First Australians on whose land we meet, and whose cultures we celebrate as among the oldest continuing cultures in human history.

It is a great pleasure to be here in Adelaide to mark the celebration of Australia Day for 2010. Here in South Australia people will be celebrating Australia Day 2010 in many different ways: at home in the backyard; at the beach; in a local park; and perhaps some taking the opportunity to visit the zoo and meet the latest additions to the list of distinguished citizens of Adelaide - Wang Wang and Funi.

I understand Australia Day will see a strong gathering at West Terrace Cemetery, to remember the pioneers of South Australia and to engage in the customary rousing rendition of *The Song of Australia*, a song that came close to becoming our national anthem at the 1977 referendum.

I understand also that down in Glenelg, hundreds of South Australians will be participating in the Havaiana Australia Day Thong Challenge, an event that, I am advised, will see a large number of South Australians floating on massive, mutant versions of Australia's national footwear. The challenge, I understand, is to beat the record from Bondi Beach last year, where 908 people were afloat. It should be a memorable Australia Day in Glenelg.

Exactly one year ago, in the lead-up to Australia Day 2009, I came to Adelaide and spoke about the enormous challenge we faced with the worst global recession in 75 years. Since then, the global recession has taken unemployment into double digit figures in many countries across the world, but in Australia, we are weathering the global storm.

As a nation, Australia now has the fastest growth, lowest debt, lowest deficit and the second lowest unemployment rate when compared with the major advanced economies. The strong consumer confidence index numbers released today,

showing a 5.6 per cent increase in January, give us further reason to be optimistic about the year ahead.

South Australia's unemployment rate actually fell last year - from 5.7 per cent at the beginning of the year, to 5.3 per cent at the end. That's an extraordinary achievement.

2009 was a tough year, but Australia rose to the challenge of the global financial crisis. It shows what can be done when we all join together and work together, governments of all persuasions – state, territory and local; businesses large and small; unions and local communities right across the nation.

On Australia Day 2010, as we enter this second decade of the 21st century, Australians can be optimistic about our future, but we cannot afford to mistake optimism for complacency.

This week I am travelling across the nation ahead of Australia Day in a series of addresses on our need as a nation to prepare for our long-term future challenges. Today, I want to discuss the role of investment in advanced 21st century infrastructure, in lifting productivity growth and responding to the challenge of an ageing population.

The Government will shortly release the third Intergenerational Report, entitled *Australia to 2050: Future Challenges*. The *Australia to 2050* report analyses the key long-term challenges facing Australia over the next 40 years – three key facts.

The first key fact: our population will grow substantially over the next forty years. By 2050, the Australian population is expected to grow from 22 million to 36 million. That increase alone will put huge pressure on our towns and our cities. We will need more homes, more roads, more rail lines, more hospitals, more schools just to accommodate so many Australians.

Then take into account that the population is ageing. Today, the proportion of Australians who are aged 65 and over, and are therefore most likely out of the workforce, is 14 per cent. By 2050, that figure will almost double to 23 per cent. That's almost one in four Australians, compared to just one in seven Australians in 2010.

The second key fact is that this will significantly affect our economy and working families around the nation. Building the infrastructure we will need for a population of 36 million will require significant investment. On top of that, it will simply cost more to look after older Australians in health, aged care and age pensions.

At the same time, a smaller proportion of Australians will be working, so tax revenues won't keep pace with those rising costs. In 1970, there were 7.5 people of working age to support every person over 65. Today, there are five. By 2050, that number is projected to drop to 2.7.

So we will face higher costs yet slower economic growth, and that is the heart of the economic challenge of an ageing population.

The third key fact is that we will need a sustained, strong and long-term national effort to respond to this challenge with a focus on raising productivity and removing barriers to people participating in the workforce. The Government has already acted to lift workforce participation by removing barriers to work for women and young people, but even with these measures, workforce participation will fall over the next 40 years from its peak of around 65 per cent now to around 60 per cent by 2050, so our long-term response to the ageing of our population must centre on a sustained effort to increase annual productivity growth.

We need to lift average productivity growth back towards the 1990s mark of 2 per cent per year, up from the 1.4 per cent that it declined to in the first decade of this century. Achieving that goal would produce enormous benefits for the nation and for Australian families. On average, every Australian man, woman and child would be \$16,000 better off a year in 2050 if productivity returns to the levels under the Hawke and Keating Governments.

But there is a long time lag between implementing the policies that can lift long-term productivity, and experiencing their payoffs. That is why building Australia's future must start now.

Yesterday in Hobart I discussed another dimension of the challenge posed by the ageing population, the challenge to the sustainability of government budgets. As I noted earlier, the ageing of our population will result in higher costs for health, aged care and the age pension. It will also result in a smaller proportion of the population being in work, thus slowing the rate of growth of government revenues.

The task of meeting the challenge of the ageing population has also been made more difficult by the aftermath of higher budget expenditure during the late 1990s and in the 2000s, which has locked in a permanently higher spending base. During the growth period of the 2000s, the average real growth in government spending actually increased to 3.8 per cent, compared to 2.5 per cent during the growth period of the 1990s.

In response to this challenge, the Government has committed to a fiscal strategy that will help us manage the challenge of an ageing population by delivering a permanent structural improvement in Australia's public finances. The long-term consequence of the Government's medium-term fiscal strategy is that by 2049-

50, the Budget outcome will be around 3.5 per cent of GDP better off, or \$130 billion in today's dollar terms. The Government's commitment to fiscal discipline builds sustainability into the Budget.

The ageing of our population demands two strategies: first, that we lift our workforce participation and our productivity in order to lift economic growth, and second, that we pursue a disciplined fiscal strategy to deal with the additional needs of our ageing population.

Building productivity is the key for Australia's long-term economic future. I describe the new decade that we have just begun as Australia's Building Decade, putting in place the building blocks of long-term productivity growth. It is our Building Decade because now is the time when we must implement the big policy changes to drive higher productivity growth.

Advanced infrastructure will play a central role in putting Australia back on track to higher productivity growth. Its productivity impact will be complemented by the productivity benefits of the education revolution and the comprehensive microeconomic reform agenda that the Government has underway.

The *Australia to 2050* report highlights something that is well understood by South Australians, that infrastructure plays a key role in long-term economic expansion.

The key points I want to make this afternoon about the role of infrastructure in building Australia's future are these:

- First, economic evidence, including that cited in the *Australia to 2050* report, shows that infrastructure investment contributes directly to a more productive, growing economy.
- Second, despite this fact, measures of Australia's infrastructure investment in recent decades show a trend decline in our infrastructure investment. That has contributed to a growing backlog of infrastructure projects and an increasing number of choke points that have held back our economic growth.
- Third, in response to the infrastructure backlog, the Australian Government has for the first time made infrastructure a national priority.

We are providing national leadership in infrastructure investment through Infrastructure Australia evaluating and for the first time prioritising nationally important infrastructure projects, and through increasing the Commonwealth's infrastructure investment.

We are also undertaking regulatory reforms to remove roadblocks to infrastructure investment.

This strategy is a key part of how we intend to make the decade ahead Australia's building decade.

The *Australia to 2050* report cites the International Monetary Fund showing that there's a direct link between investing more in public infrastructure and increasing economic growth. According to the IMF research, in developed countries like Australia an increase in the public infrastructure stock by 1 per cent leads to an increase in output by around 0.2 per cent.

It also cites Productivity Commission research showing that improving the efficiency of Australia's energy and transport infrastructure could, after a period of adjustment, increase GDP by nearly 2 per cent.

This research is not surprising. What is surprising is Australia's track record in infrastructure investment.

The long-term trend for that investment is that it has not been increasing, but falling. A 2009 OECD report shows that Australia's investment in transport, storage and communications infrastructure as a percentage of GDP fell between the 1980s and 1990s, and fell again in the first decade of this century. In contrast, across the OECD group of developed nations, infrastructure investment for these sectors has been rising.

If this trend continues, Australia will fall further behind other nations on productivity and in the long term, on future growth and living standards. Australia's shortfall on infrastructure investment has generated a yawning gap between the infrastructure we've got and the infrastructure we need. We see this in ports, in freight, in rail, on our roads and in broadband.

A few years ago the Business Council of Australia estimated the infrastructure deficit at \$90 billion. Addressing the infrastructure gap will involve large scale investment and take a long period of time. One measure of the scale of the task from Citigroup estimates that Australia is set to spend \$770 billion on infrastructure in the decade to 2018 – underscoring the extent to which this must be the Building Decade.

Given the infrastructure backlog, it must be a national economic priority to facilitate and support investment in advanced infrastructure. The Government is committed to providing that leadership, and investing in the infrastructure of tomorrow, from transport and freight networks to the high-speed National Broadband Network.

First, we have established an overall policy framework for infrastructure investment.

In 2008, shortly after coming to office, the Government established Infrastructure Australia. For the first time in our nation's history, with Infrastructure Australia we

have a central body to advise on the long-term planning of our infrastructure needs.

Second, we have increased the national investment in infrastructure. That includes a record \$36 billion national investment in transport infrastructure in roads, railways and ports.

Third, we are acting on the regulatory reforms needs to foster increased infrastructure investment. We are undertaking significant policy reforms including creating single national regulators for heavy vehicles, rail safety and maritime safety.

Finally today, I want to address just one part of the task ahead in the 'Building Decade' that is crucial to the productivity of Australian businesses, both large and small. That is freight transport – our ability to move commodities, food, all kinds of products from one place to another in markets across the nation and across the world.

According to work conducted by IBIS World for a 2009 report by Infrastructure Partnerships Australia, Australia's freight task will triple by 2050 – from 503 billion tonne kilometres to 1,540 billion tonne kilometres. Meeting this task will require a massive effort – companies will have to improve transport and logistics strategies and efficiencies, and governments will have to undertake substantial new investment and policy reform.

According to IBIS World, transport infrastructure investment should be increased by 2050 to \$62.5 billion, almost four times the spending levels of 2008. A 2008 Interim Priority List compiled by Infrastructure Australia, identified as priorities 40 road projects worth \$69 billion, eight freight rail projects worth \$16 billion and six port and airport projects worth \$6 billion.

The needs are truly staggering, but meeting the freight task isn't only about Commonwealth investment. It's also about policy coordination and reform to provide the right incentives for private sector investment as well. That's why in 2010, the transport priority for the Council of Australian Governments will be freight transport.

Infrastructure Australia is currently focusing its work on two new strategies: a National Ports Strategy and a Freight Network Plan. Initial work by Infrastructure Australia in these areas already suggests some important principles for these strategic plans:

- coordination along the supply chain is a major field for productivity improvement for business;
- the freight network is not simply about individual road and rail projects, but a set of 'nodes' that are interconnected by road, rail, sea and air 'links', and

- the case for dedicated road and rail freight infrastructure has become stronger to minimise conflict with passenger transport and economic losses.

I look forward to considering this work in detail later in the year.

Building a better future for Australia requires leadership at the national level on key areas of economic policy, but equally, it relies on the efforts of individual Australians in every walk of life, Australians who demonstrate courage, persistence, ingenuity and compassion.

One of the ways we recognise such individual achievement at this time of year is through the Australian of the Year Awards. South Australia's finalist for 2010, Julian Burton, is a man who has shown great strength of character and dedication to helping others. Julian sustained life-threatening third degree burns in the 2002 Bali bombings, but he has turned that terrible experience to good in service of the community. Through the Julian Burton Burns Trust, he is working to improve the prevention of, care for and research into burn injury.

I know South Australians will be proud of him as he stands alongside his fellow finalists in Canberra next week when the Australian of the Year is announced.

So for each of you this afternoon, I wish you all a very happy Australia Day for next week and I hope you take a moment to enjoy the sense of pride in being part of a great state and a great country. So it's with great pleasure I ask you to raise your glasses filled with the finest South Australian wine as I propose a toast to Australia.