CHECK AGAINST DELIVERY **EMBARGOED UNTIL DELIVERY**

"IN THE BLACK"

ADDRESS TO THE CHAMBER OF MINERALS AND ENERGY OF WESTERN AUSTRALIA AND THE WESTERN AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY
PERTH
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[ACKNOWLEDGEMENTS OMITTED]

Friends, it's great to be back in this confident and dynamic city looking outwards towards Asia, the region where so much of our future is being written.

The transformation occurring to our north is immense – on the scale of the Industrial Revolution itself.

It's a structural change in the whole balance of world economic growth and it will have huge consequences for Australia, as each of you know only too well.

Now preparing for these changes is the job of everyone in this room, around the board room table and around the Cabinet table.

Ensuring we face the Asian century from a position of strength.

Ensuring we have the right tools – the skills, infrastructure and innovative capacity – to make Australia a winner in this century.

One of the most important tools in the kit is strong fiscal management.

Because as we look at the mountain of debt in Europe and the United States, we know that fiscal discipline matters.

In Australia, we have a clear and simple commitment to ensure that never happens to us.

It's not a commitment to never have a deficit.

It's a commitment to ensure our budgets are in surplus, on average, over the medium-term – easing in the tough times and then moving to surplus as things improve.

Australia’s commitment to fiscal discipline equipped us to enact timely fiscal stimulus to avoid a recession during the GFC.

Stimulus contributed around two percentage points to real GDP growth in 2009, and given GDP only grew by 1.5 per cent that year, we would have been in recession without a strong fiscal response.

So stimulus worked.

But perhaps it’s not surprising that commentators who are unwilling to concede the effectiveness of stimulus are now saying we are overdoing the fiscal contraction.

I disagree.

Stimulus was right then.

Surplus is right now.

When our own economy here at home is returning towards trend growth, with low unemployment and a huge investment pipeline.

And when overseas we see continued uncertainty that means we need to be prepared for whatever challenges the global economy might present.

It’s time to get back in the black.

And friends, let me make this clear once and for all: a budget surplus is not a political target but a potent economic tool.

There's no clearer sign of a strong economy than a surplus.

And we are delivering this despite the global crisis and despite the uncertainty of the current world economy.

A surplus means we will have a buffer in case the global economy gets worse.

It means we can protect jobs.

And we can give the Reserve Bank room to move to move on monetary policy if it chooses to, knowing that an interest rate reduction is good for families and business.

Consider the arguments in detail.

A budget surplus speaks of confidence in Australia's creditworthiness and good economic management.

Just four months ago, Australia was upgraded to AAA by the ratings agency, Fitch.

Now we're only one of only eight sovereign entities in the world ranked AAA, along with a stable outlook, by all three ratings agencies, a status even the US and France have lost.

Our top grade rating is not something we're about to throw away.

If we did, banks would find it harder to access global capital markets which in turn would make it harder for Australian businesses to obtain the funds they need to grow.

So the best way we can demonstrate to global investors that we are a sound place to invest is by the strength and resilience of our economic institutions and policies.

No signal is more powerful than a strong and disciplined fiscal framework.

A budget surplus when the economy is growing also speaks powerfully to the Australian community about having a government that manages their money prudently.

Average real spending growth was 3.7 per cent in the last five years of the last Coalition government.

And even with spending that high, the Coalition was cutting funding to hospitals, ignoring the needs of schools and being miserly with the aged pension and child care benefits.

So we came to government determined to deliver the frontline services and new benefits that hardworking families need and deserve.

But we also came to government with a tougher view of fiscal policy, focused on underlying financial discipline and sustainable spending patterns.

That's why once we had dealt with the GFC, we adopted some of the toughest spending rules of any federal government.

In recent years there has not been a cent of extra spending that has not been offset by savings measures, including our 2010 election commitments.

And in next month's Budget, we will see more of the same:

- targeted, thoughtful savings that assist the return to surplus;

- and protecting frontline services.

A surplus is also particularly timely as we deal with the aftermath of the GFC because the revenue will not flow like it used to.

Unlike previous downturns where revenues bounced back fairly quickly, this time there is a structural fall in revenues facing state and federal governments.

We saw the federal tax-to-GDP ratio fall four percentage points to 20 per cent during the global financial crisis.

It will likely return to around 22.8 per cent over the next few years, around one percentage point lower than the long-term average.

That sounds small but it's a gap of around $17 billion a year, enough to run a surplus in 2012-13 without any effort.

But the fact is we don't have those revenues.

Instead we have a structural fiscal gap due to write-offs associated with new mining projects, the carry-forward of losses accumulated during the GFC, as well as lower capital gains and property taxes as growth in asset values has slowed.

Plus we've seen a decade of generous income tax cuts, and a structural change towards lower GST receipts as spending moves from goods to services.

To put it simply: the rivers of gold that flowed into Peter Costello's coffers just don't exist anymore.

We have to cut our cloth accordingly.

Finally, there is another critical aspect of tight fiscal management: a surplus budget provides room for monetary policy.

While interest rates played a role, we relied strongly on fiscal policy when the GFC hit in late 2008, precisely the right tool to use in such circumstances.

In the current economic environment, should the RBA consider it appropriate to change the cash rate, this could deliver widespread benefits for households and business – noting that a number of sectors of the economy most under strain are arguably more sensitive to interest rates.

This is fully consistent with the Reserve Bank's charter obligations to best contribute to economic prosperity and full employment, as well as containing inflation.

Our cash rate today is 4.25 per cent.

That's much lower than the 6.75 per cent we inherited in 2007, but well above the near-zero levels in Europe and the United States.

There is plenty of room for the RBA to move further if need be, and to all those calling for rate cuts, you should also be calling for a surplus – not opposing one.

So friends, a surplus is a fundamental economic imperative.

It lies at the very heart of good economic management.

I find myself in respectful disagreement with every commentator and economist who says otherwise, and in furious agreement with those who see the need.

Indeed it's ironic that for months and years we've faced accusations that Labor will never deliver a surplus.

Now that we're on the very threshold of doing it, there are voices saying that we needn't bother.

First they said we couldn't.

Now they say we shouldn't.

I say we will.

It's the right thing to achieve for our nation now.

As we bring the budget back to surplus, we will have an eye on every Australian household.

I understand that people see a disconnect between the high-level economic indicators and the realities that govern their own lives.

I get that.

I know retirees and others have seen their super fall as a result of the Global Financial Crisis.

I know workers in sectors like manufacturing are facing painful challenges as global forces impose restructuring on our economy.

I know home-owners aren't witnessing the growth in housing prices they were used to before the GFC, impacting the degree of wealth they feel.

I know families are watching their household bills go up.

So people see these things happening and they sensibly take conservative measures in response.

That is why they are saving, putting extra on their mortgages, and paying down their credit cards.

The same sense of frugality and responsibility that households are feeling, the Commonwealth feels too.

That is why we are determined to bring the federal budget back to surplus.

There are no lazy dollars lying around – either in private pockets or the public purse.

The whole economic climate has changed in fundamental ways.

If people feel that things are different now than they were five years ago, they are right.

The global financial crisis and the rise of Asia are forcing a massive wave of change upon us in a very short space of time.

In 2012, Australia is returning to prosperity but it is less exuberant than before the GFC.

Over the years to come, we will need to develop a capacity for innovation akin to countries like Germany and Singapore. These are our yardsticks as we aim to maximise Australia's opportunity for prosperity in this century of spectacular growth in China, India and throughout Asia.

Countries where saving is the norm.

Where skills and education are prized.

Where manufacturing and services achieve a high level of excellence and added value.

So when I talk about a new economy, it isn't just a slogan.

It is new way of thinking and acting that equips us for the century ahead.

A century which will have many opportunities, but which will be much more rigorous and competitive than anything we've seen to date.

We'll fight for every percentage point of GDP.

Our growth will be underpinned by innovation and upskilling.

The road to profitability will run through productivity.

Already we're seeing some of the features of this new economy in the way Australians do business now.

For example, we're seeing firms raise capital through equity and retained earnings rather than debt.

We're seeing banks fund lending through deposits and build stronger buffers to withstand any future crisis.

Likewise I have turned government spending more towards the wealth-generating basics like infrastructure and skills and less in areas where it can be spared.

All of this means a change in the economic life of our nation.

We can't stop this change – but we can make it work for us.

I look at Western Australia, for example, and I see great dynamism and opportunity.

But also I see a State where some families on good wages can't afford a home, and even a beer or a coffee can feel like it costs a small fortune.

I see patchwork pressures here among your own regions and suburbs; your own industries and sectors; perhaps even among different members of the same family.

I also know we can't magically fix those things here and now because the epic global forces creating them are just too great.

But we can bend those forces and shape the change they are creating over the long haul.

So when I look at a Perth family facing the contradictions of the mining boom, I have a very clear idea of the economic future.

I want their children to inherit over the next decade and beyond.

Above all else, I want those children to be skilled because skills equal economic citizenship.

I want those kids to grow up in households and go on to schools, colleges and workplaces all connected to high-speed broadband.

I want them to have the roads and rail lines, the ports and airports that help them get around and let the economy do its job.

I want them to work in smart firms, whether mining, manufacturing or services, that operate at the top of the global league tables alongside places like Germany, Singapore and Sweden.

I want them to be earning 12 per cent super from the day they start work so they retire with the biggest possible nest egg for their senior years.

In other words, writing a prescription for how to take a mining boom and turn it into an opportunity boom, something we've never managed to do in this country before.

All four of our previous big mining booms ended poorly – some in recession, others with little lasting benefit to show.

This time it must and will be different.

That's why we've made the tough decision to price carbon so that clean energy moves from the periphery to the core of Australia's economic structure.

This is not only about what happens in 2012.

It's about where we want to be in 2062.

When the way we generate power, manufacture things, use energy, run our transport systems have all been transformed.

It's the same reasoning that has led us to ensure the benefits of resources growth spread to the whole economy.

Under our plan, small business will benefit and benefits for all businesses will follow.

So our tax breaks for small businesses will benefit 274,000 businesses in Western Australia, including places like cafes and hairdressers who are finding themselves left in the non-mining slow lane.

But we also want 58,000 incorporated small businesses in the West to get a Company Tax cut.

While 710,000 West Australian workers will see their super rise, putting an extra $59 billion in the nation's kitty.

Our plan for prosperity is also seeing unprecedented federal dollars flowing into this State, working alongside your own excellent programs like Royalties for Regions.

That's why since 2007, we've poured $1.8 billion into the modernisation of West Australian schools.

Over $8 billion in hospitals and health facilities.

A 30 per cent boost to undergraduate places across the five universities in this State.

$3.7 billion into critical infrastructure like the Bunbury Port Access Road and the Perth Urban Transport and Freight Corridor Upgrade.

And, of course, the West's share of the NBN, which will end up being an investment of several billions of dollars.

In fact, the Federal is spending, for every West Australian, $261 per head per year on infrastructure, compared to $155 under the Howard government.

Our commitment to this State is measured not just in words and sentiment but in dollars.

Friends, I know a lot of people look across the Nullarbor and feel there is some kind of political rabbit-proof fence separating the components of our nation.

I have a very different view.

This is a moment of opportunity for our whole country.

A time of partnership between Western Australia and the wider national community.

Between east and west.

Between state and federal governments.

Because what's happening here is an Australian story.

Many of the skilled people you need will come from the other States and Territories.

So will much of the legal and financial input.

The equipment and mining services.

The rail and broadband links that only make sense as a network.

But if there is one lesson our nation can take from the tough character of the West, it is this:

Don't be afraid of the future, despite all its challenges and demands.

With the right tools – the skills, the infrastructure, the broadband, the clean energy, the strong finances – we will win the race to the top in the Asian Century.

Geography and history have put us in this race.

With the right decisions, victory can be ours.