FEDERAL LABOR LEADER
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CHECK AGAINST DELIVERY **EMBARGOED UNTIL DELIVERY**

FRESH IDEAS FOR THE FUTURE ECONOMY
TACKLING AUSTRALIA'S HOUSING AFFORDABILITY CRISIS

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Over the past month I have been talking about how we deal with the challenges of the future economy.

I have been talking about climate change and water, about the importance of preventative health, about housing affordability, about the arc of instability in our region, about the cost of living pressures faced by Australian families, and about the availability, cost and quality of child care.

Each of these areas represents challenges to our future economy.

Each of these challenges demand responses, they require forward planning, and they require fresh thinking.

But more than that – they give rise to the question as to what type of economy we need for the 21st century.

They go to the heart of what kind country we want to be in ten, twenty, or even forty years time – because how we respond today will shape our nation for generations to come.

Today, I want to talk to you about some fresh ideas for Australia's future economic challenges.

I see two key challenges facing Australia's future economy:

- First, how we secure Australia's future prosperity beyond the once in a generation mining boom. The Reserve Bank Governor, Glenn Stevens, recently noted that Australia's soaring terms of trade is delivering an economic bonanza to Australia worth eight per cent of the value of our national income this year alone, or around $80 billion.

- Second, how we make our national economy work for the households of Australian families – families who across Australia are facing financial pressures in every day living through the cost of mortgages and rents, childcare, groceries, petrol, healthcare and education.

I firmly believe that with the right planning today, we can have a strong economy in the future – and an economy that works for all Australians.

But after 15 years of economic growth, our economy lacks some of the strengths essential for the 21st century.

Because while Mr Howard and Mr Costello like to trumpet selected figures and boast of general prosperity, many working families are finding it harder and harder to cope with the cost of living – through the rising cost of mortgage repayments, rents, childcare, groceries, petrol, healthcare and education.

Many working families in Australia today are legitimately asking themselves – if the economy is going so well, then why aren't we?

I believe that there can hardly be a more fundamental economic failure, a more fundamental failure of government than to ignore the concerns of Australian families.

The government wants to deny their own responsibility.

I would call it one of the most fundamental responsibilities of government – responding to the pressures working families face in everyday life.

That is why in a few moments I will announce a much needed plan to reduce some of the financial pressures facing young Australians trying to buy their first home.

I will outline my plan for a **Local Government Housing Affordability Fund** which will invest $500 million dollars in housing linked infrastructure which could reduce the cost of a new home by up to $20,000 dollars.

This Housing Affordability Fund will assist up to 50,000 first time home buyers across Australia over the next five years.

The Macroeconomic Consensus

But first, we need to ask ourselves what kind of economy Australia should have in the future.

I want to see us lay the foundations for a dynamic and creative economy capable of lifting everybody up and sharing prosperity, easing the pressures on working families, and setting in place the building blocks for long-term prosperity.

These are the principles which guide Labor's policy direction for the future economy.

If elected to government later this year, a government led by me will adopt a responsible, sound and prudent approach to macroeconomic management – the headline economy.

This means an independent Reserve Bank to keep inflation low.

It means keeping the budget in surplus on average over the economic cycle.

On these key areas of economic management, we are as one with the government.

It is, as former Reserve Bank Governor Ian Macfarlane said, the macroeconomic consensus between the Liberal and Labor parties.

The Microeconomic Divergence

While there is a broad consensus on the macro economic principles governing the Australian economy, where both parties diverge is microeconomic policy.

In other words, how do we invest in the long-term drivers of economic growth to maintain our prosperity and grow our future economy?

And how do we ease the financial pressures on working families.

To have a successful economy in the future, we have to lift our sights higher – we have to prize innovation, celebrate creativity, foster imagination – in all and everything that we do.

We have to expand our horizon well beyond simply being China's quarry and Japan's beach.

We can be much, much more than that – but we can only get there by planning ahead now.

Because by increasing workforce productivity and participation, we can help secure our future economic prosperity when the dividends of the mining boom start to fade.

But rather than increase, Australia's productivity growth has declined in recent years.

Benchmarked against the United States economy, Australia's labour productivity fell back from a peak of 85 per cent to just 79 per cent between 1998 and 2005, almost completely losing the relative productivity gains of the 1990s.

Labour productivity growth in Australia fell from an average annual 3.3 per cent to 2.1 per cent in the latest five year period, 1998-99 to 2003-04, compared to the previous five year period.

During the same period, multifactor productivity growth fell from 2.1 to 1 per cent.

According to the National Accounts data, productivity growth also appears to have deteriorated further since then, averaging just 1 per cent in the first three years of the current productivity cycle.

In the year to March 2007, productivity growth registered only 0.9 per cent.

And in economy-wide projections, productivity according to Mr Costello's Intergenerational Report, is expected to be below its long-term average this decade at just 1.5 per cent per year.

I said in January that as the economic cycle continues, we could expect to see some correction from the steep decline in productivity of recent years - though this is unlikely to be enough to arrest the long term decline which has occurred over the past decade.

Recently the Treasurer made much of the latest quarter's positive productivity growth figures.

But while there may be more positive figures to come - reflecting the state of the cycle – Mr Costello appears to have missed the long term trend in our productivity performance and has said nothing about structurally building productivity growth for our country's future.

An Education Revolution

So how do we address Australia's flagging productivity?

I believe that through an Education Revolution we can increase productivity growth and secure Australia's long-term prosperity.

That's why it is my vision for Australia to become the best educated country, the most skilled economy, the best trained workforce in the world.

I want to turbo-charge the education, training and skills of the next generation of Australians.

Research and experience tell us that education, training and skills – human capital – are fundamental building blocks for creating long-term economic prosperity.

It will be the students of today who will make up the workforce of tomorrow.

And how well they are educated, trained and skilled will define how successful our economy is in the future.

Early Childhood Education and Trades

Getting our kids on the right track begins at the earliest age.

Earlier this year, I committed $450 million dollars to ensure universal access to preschool for all four year olds – providing 15 hours of high quality learning per week to better prepare children for their first years at school.

Professor James Heckman, Nobel Laureate in Economic Sciences, has argued that by learning earlier, later educational experiences will have a greater impact. Moreover, he says that, 'childhood is a multistage process where early investments feed into later investments.'

But it doesn't end there – education needs to continue right through schooling, especially in the latter years when education must better align with work and career.

It is why one of our flagship initiatives is our **Trades Training Centres in Schools Plan** – to revolutionise trades training as we know it today.

I make no apology for valuing a trade certificate as much as a university degree – both are critical to our country's economic future, and to our kids' future.

Right now there are critical shortages in key sectors of the economy like building and construction, the transport and hospitality industries, as well as the mining and resources sectors.

Federal Labor's Trades Training Centres in Schools Plan is a $2.5 billion dollar initiative to build new, or upgrade existing, trades facilities in schools – things like metal or wood workshops, kitchens, computer labs, ovens, lathes and tools.

We will ensure that Trades Training Centres can be established in all of Australia's 2,650 secondary schools – both government and non government – enabling students in Years 9, 10, 11 and 12 to benefit from these centres.

And we will provide $84 million dollars, over four years, for all students studying trades to get practical on-the-job training for 20 weeks per year, for years 9 to 12 vocational education and trades students.

Labor's Trades Training Centres in Schools Plan is one of the biggest reforms ever proposed for vocational education and training in Australian schools – and it will help bring trades training into the 21st century.

Labor's Education Revolution – at all levels – is about building the workforce of the future.

It is about helping secure our future economic prosperity.

It has been designed to compliment our plan for a high speed, fibre to the node, National Broadband Network for 98 per cent of Australians and our policies on red tape reduction for small business operators so that we have the best possible opportunity of boosting long-term, sustained productivity growth.

Health, Productivity and Participation

As in education, smarter investments in health can substantially improve both productivity and participation.

The Intergenerational Report released in April this year foreshadows an increase in Commonwealth health spending as a proportion of GDP, from 3.8 per cent in 2006 to 2007, to 7.3 per cent in 2046 to 2047.

Some of this cost will come from the population ageing and some from new technologies and drugs.

But a large proportion of future direct health costs, and indirect costs through lost productivity and lower participation, will come from the rise of chronic disease.

Chronic diseases such as diabetes, cardiovascular diseases, some cancers, asthma, and mental health problems, make up a significant proportion of the total 'disease burden' in Australia.

And left unaddressed, the situation may only get worse.

More than 50 per cent of the Australian population already suffers from a chronic or long-term condition of some form.

It is estimated that three million people alone will have diabetes by 2030.

Individual chronic conditions, like diabetes now cost individuals and the economy significantly:

- the annual financial cost of cardiovascular disease in Australia is $14.2 billion dollars, including lost productivity costs of $3.6 billion dollars;
- the estimated cost of diabetes each year is around $21 billion dollars including lost productivity, health and carer costs, taxation revenue foregone and welfare and other payments; and
- the annual productivity loss from obesity-related illness is approximately $1.7 billion dollars.

The cost of treating chronic disease also rises steeply if it is not managed well.

However, many of these chronic health costs, and the impact on fellow Australians, can be reduced or eliminated through better management and prevention.

We will work in partnership with the states and territories to address the rise of chronic diseases which threaten to overwhelm our hospitals and health system.

This includes:

- establishing a **National Preventative Healthcare Strategy** to bring a true preventative focus to the health system;

- a shift from the current focus on six minute medicine towards more effective treatment of patient problems;

- broadening the major health care agreements between the Commonwealth and the States and Territories, to include a new **Preventative Health Care Partnership**; and

- commissioning Treasury to produce a series of reports on the impact of chronic disease on the Australian economy, and the economic benefits of a greater focus on prevention in health care.

Aside from the obvious cost to the good health of the Australian people, there is a looming economic cost from ignoring human capital reform in our health system.

The Productivity Commission recently estimated that in aggregate, the productivity gain as a result of National Reform Agenda-consistent reform could be in the order of 4.6 per cent over approximately the next decade.

This would represent a cost saving of around $2.8 billion dollars of the estimated 2005 to 2006 total health sector costs and be achievable within a decade.

The Commission also estimated that labour force participation rates for those with major chronic diseases and injuries can be between 12 and 40 per cent lower than for the rest of the population.

But unfortunately, the Howard Government has failed to meet the looming personal and economic challenge posed by rising health costs and the growing burden of chronic disease.

Yet the impact of both on our economic performance will be substantial in the future if we do not take action within the next five years.

The Household Economy

Investing in the drivers of productivity growth through an Education Revolution and dealing effectively with preventative health care are critical to ensuring Australia's future economic prosperity beyond the mining boom.

Another key economic challenge we face is how we make our current and future national economic circumstances work for Australian families.

It is clear that many families are finding it hard to match the government's rhetoric on the economy with their reality.

Household savings have fallen through the floor over the past ten years, into negative territory.

Household debt is now $1 trillion dollars.

Credit card debt is now $39.6 billion dollars.

General health, medical and hospital costs have increased at two times the rate of inflation during the life of the Howard Government.

The cost of sending a child to school has increased at two and a half times the rate of inflation.

Out of pocket childcare costs have increased at four times the rate of inflation.

Over the last four years, out of pocket child care costs have increased by more than 12 per cent each year.

Today, parents now pay an average of $246 dollars per week in child care fees.

Petrol prices have increased by 53 per cent over the past five years.

The cost of many everyday supermarket grocery items has skyrocketed.

Over the past few years bread has gone up 25 per cent.

Butter has gone up by over 60 per cent.

Fruit and vegetables have gone up 35 per cent.

The impact of these costs on Australian families was strengthened last week by the quarterly inflation results.

They revealed much of what we've been saying about rising cost of living, with food and petrol costs increasing sharply.

Over the past year, bread rose by 8.8 percent, dairy products by 4.3 percent, vegetables by 6.6 percent, and eggs by 11.2 percent.

Petrol prices leapt by 9.1 per cent in the quarter.

But these sharp spikes were not limited to food and fuel.

Over the past year, rents have risen by 5.2 per cent, education costs were up 4.3 per cent, health costs rose by 4.1 per cent, and housing costs were up 3.6 per cent.

Unrestrained inflation leads to interest rate rises and diminishes the homeowner's ability to pay rent or a mortgage because their money does not extend as far as it used to.

This is the reality of family and household life under the Howard Government.

And it has no answers to address this reality.

Instead, Mr Howard declares that "working families in Australia have never been better off".

I believe there is a role for government in helping address some of the pressures in the lives of working families.

Government can't do everything in this area. There is no silver bullet.

But governments can implement policies which make it easier for working families to confront the financial pressures of everyday life.

Recently I announced that in government Labor would appoint a Petrol Commissioner to monitor and investigate price gouging and collusion, so that families are paying no more than they should to fill up the family car.

I have announced that when it comes to rising grocery bills, a Rudd Labor Government would:

- direct the ACCC to monitor grocery prices and publish a periodic survey of price movements to help families get a the best deal they can;
- instigate a public inquiry into grocery prices to get a better understanding of what is driving up prices; and
- expand Labor's Price Watch to survey supermarket prices and publish them on our website.

I have announced that a Rudd Labor Government would build up to 260 new childcare centres on school sites in order to provide childcare places in areas where shortages exist.

And I have announced that I would create an Office of Work and Family in the Department of Prime Minister and Cabinet to provide a direct prime ministerial link into the development of policies which affect the balance between work life and family life.

Housing Affordability

Last week, I hosted a National Housing Affordability Summit in Canberra, bringing together the best minds and the best ideas to reach a consensus on what is needed to improve affordability for those buying and renting houses.

Few dispute that we are experiencing a housing affordability crisis at present.

It is a crisis that is putting at risk the great Australian dream of home ownership.

It is a crisis that adds to the pressures faced by many families burdened by rising rents and rising mortgage payments.

And it is a crisis that threatens our economic prosperity.

A major driver of the deterioration of housing affordability over the past decade or so is rising interest rates.

We have had eight interest rate rises in five years – and looking ahead, unbridled and accelerating inflation threatens further interest rate rises.

Already, the impact of the four interest rate rises since 2004 has added almost $3,000 dollars to interest repayments per year for an average loan on a median priced home – or almost $73,000 dollars to the overall cost of a mortgage.

Ten years ago, according to the Parliamentary Library, the average home cost about four times the average annual wage, whereas today it costs seven times the average annual wage.

Today, according to the Reserve Bank, the percentage of household income used to pay mortgage interest repayments is 9.5 per cent – up from 6.1 per cent in September 1989, when interest rates were 17 per cent.

According to the ABS, today one million households spend more than 30 per cent of their gross household income on mortgages or rent, and are deemed to be living in 'housing stress'.

As the affordability problem in the homeownership market and the rental market remains bleak, it naturally flows on to higher public and social housing lists, and homelessness.

Housing affordability in South Australia

Housing affordability is not just a concern for cities and towns along the eastern and western seaboards.

Here in Adelaide and in other regions of South Australia, many families are in housing stress.

One only has to look at the dramatic increase in income required to meet the costs of a mortgage over the last ten years.

Adelaide families now need an income well above the average in order to keep up with mortgage repayments on an average loan for a median priced home.

Today, families in South Australia need an income of $81,845 to service a mortgage on a median priced home, more than double the income of $31,230 required in 1996.

According to the Housing Industry Association, in Adelaide mortgage payments as a proportion of average first home buyer income was 14.6 per cent in March 1996.

Today it is 25.5 per cent.

In the rest of South Australia, it has increased from 11.8 per cent to 21.3 per cent.

New 2006 Census data indicates that the level of housing stress – that is households paying more than 30 per cent of their gross income in housing costs – has risen by 75 per cent in South Australia.

The level of housing stress has increased most markedly in the Federal Electorates of Kingston and Makin, where the number of households paying more than 30 per cent of their income on mortgage repayments has increased 112 per cent, and 96 per cent respectively.

The picture is also troubling for renters.

New data from the 2006 Census paints an alarming picture of the number of households losing over 30 per cent of their income in rent payments.

33,477 households in South Australia – 35.7 per cent of all households in this state that rent their homes - were paying more than 30 per cent of their income in rent.

Metropolitan areas accounted for 23,497 households – or 36.8 per cent of households that rent.

And there were 9,980 households in non-metropolitan South Australia – or 33.3 per cent of households - that rent.

Recent research conducted by the Housing Industry Association and the National Centre for Social and Economic Modelling suggests that this widespread rental pressure is likely to deteriorate even further over the years ahead.

Some of the Federal electorates with the highest proportion of renters losing over 30 per cent of their income to rent payments include:

- Wakefield, where 41.6 per cent of all households that rent are in stress;
- Kingston, where 41.5 per cent of households that rent are in stress; and
- Mayo, where 39.2 per cent of households that rent are in stress.

Labor's National Housing Affordability Summit

Despite this picture, there was a considerable amount of consensus reached at the Labor's National Housing Affordability Summit on the range of solutions needed to deal with this crisis.

First and foremost, it is fundamental that we keep downward pressure on interest rates.

Beyond interest rates, there was recognition at the Summit that a core challenge was getting the balance right between supply and demand.

While demand-side initiatives such as boosting savings to bridge the deposit gap and expanding private finance into the provision of affordable housing should to be on the table – significant action is required on the supply-side of the equation.

Supply-side initiatives like boosting infill housing, dealing with taxes and charges, plugging the infrastructure gaps, reforming planning and development assessment, and tackling building costs were all identified as areas for future action.

Two concrete initiatives came out of the Summit.

First, Federal Labor, Australia's eight State and Territory governments and the Australian Local Government Association committed to work co-operatively to improve housing affordability.

They agreed to negotiate a **National Affordable Housing Agreement** that:

- improves access to first home ownership;
- creates new affordable private rental accommodation;
- boosts the supply of public, social and crisis housing; and,
- by these and other means, helps to reduce housing stress.

Second, I announced that a Rudd Labor Government will establish a **National Housing Supply Research Council** and will publish an annual **State of Supply Report**, to analyse the adequacy of future housing and land supply.

The Council will provide research, forecasts and policy advice, and will publish an annual State of Supply Report.

The Report will coordinate local, state and national supply and demand research and adopt a consistent national standard for measuring and assessing the supply of land and housing, and its relationship with demand.

It is widely recognised that the nation's land supply research efforts are not properly coordinated, which limit our ability to understand the problems, examine our options and make decisions.

Labor's Housing Affordability Fund

Labor's National Housing Supply Research Council is an important step towards utilising the supply-side levers needed for action on improving housing affordability.

Another critical area lacking national leadership on the supply-side of the housing affordability equation is the provision of infrastructure and the imposition of taxes, charges and levies on land development, housing and transactions.

The Property Council of Australia estimates that State and local government housing linked infrastructure charges cost as much as:

- $68,000 dollars in Sydney's North-West; and
- $44,000 dollars in Sydney's South-West.

In addition, there are many more costs on house and land such as GST, stamp duties, land taxes, council fees and rates.

New home buyers bear the financial burden of "holding costs" incurred by the private sector during periods of planning and approval delays – such as interest, land taxes, council rates and staff costs.

These additions to the cost of a home can be considerable.

The Housing Industry Association says some young families have to pay up to an extra $20,000 on a new median priced home in Melbourne, Adelaide and Perth – and more in Sydney and Brisbane due to these charges.

Currently new home buyers pay for essential housing infrastructure such as water and sewerage and community-wide infrastructure such as roads, parklands and libraries through local and state government taxes and charges.

Often this is not infrastructure essential for building a house, but infrastructure that will benefit the whole community, for generations – yet the cost is being met by new homeowners.

A large part of this is due to the fact that the federal government has failed to fund urban infrastructure, while State, Territory and local governments are footing the bill – or are adding it on to the cost of development, which is passed on to new homebuyers.

So today, I announce that if we form the next government, Labor will establish a **Local Government Housing Affordability Fund** to invest $500 million dollars in housing linked infrastructure which could reduce the cost of a new home by up to $20,000 dollars.

Labor's Housing Affordability Fund will assist up to 50,000 first time home buyers across Australia over the next five years.

It will form the basis on a new partnership between the Commonwealth and local governments to tackle housing affordability.

Under Labor's plan, local governments will apply through a competitive process to receive grants to cover some of the cost of new housing infrastructure.

Of course, any innovative, development specific, proposals from state governments that significantly cut development costs will also be considered under this plan.

Local governments, in conjunction with the private sector, will have to outline how their proposals for cutting red tape and reforming planning processes will reduce holding costs – producing an 'efficiency dividend' – and passing the savings on to home buyers.

The plan will be available to new dwellings in both new land release and infill developments.

The Housing Affordability Fund will target areas:

- where the lack of infrastructure acts as a barrier to the release or development of land;
- where infrastructure is needed to enable homes to be better linked to where people work and use services like shops, transport and community facilities;
- where high dwelling growth is forecast in Greenfield or infill areas; and
- where there is already a demonstrated lack of infrastructure.

In future years, Labor will consider expanding the program subject to the private sector's ability to increase the supply of houses.

Because funding will be provided on a merit basis, Labor will encourage the most competitive proposals to reduce the cost of new housing for families.

Labor's Fund will also favour proposals that reduce the upfront financial burden of infrastructure costs on new home buyers by spreading the cost of infrastructure over time.

Infrastructure costs and planning delays are two key factors restricting the supply of housing in Australia – and Labor's plan addresses both.

It won't meet the cost of all new housing linked infrastructure, but it will go a long way to make homes more affordable in the future.

Conclusion

Mr Howard believes that 'working families in Australia have never been better off.'

But the reality is that many working families are facing great pressures, and as the cost of living and housing rises, they are right to ask if we are heading in the right direction.

They are asking themselves whether or not we are using the once in a generation mining boom – washing millions of dollars through the economy – to secure the benefits of prosperity, or if we are merely squandering them.

The fact is that if we fail to plan for the future today, then the future will surely fail us all.

That is why I am focused on the future – with new policies and fresh ideas.

Australian families are looking for economic policies that provide security, stability and prosperity for all of us, not just some of us.

This is what good economic management is all about.

And it is good economic management which, if I am elected to govern this country in a few months time, I intend to deliver.