



## PRIME MINISTER

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**FINANCIAL REVIEW DINNER  
ADDRESS BY THE PRIME MINISTER  
SYDNEY - 21 AUGUST 1991**

These Financial Review Post Budget dinners have become as much a fixture in the calendar as the Budget itself. My Government has brought down nine Budgets, and I have taken the opportunity to address the business community at this gathering nine times.

I don't suppose any of those addresses has been delivered in so dramatic an international context as this one. The coup against President Gorbachev has profound implications for the whole world, not least in its potential to halt the process of restructuring the Soviet economy.

This is not the occasion to go into the deep problems that the Soviet Union faces, or the threat to the profound hopes which we all had invested in President Gorbachev's liberating achievements through perestroika and glasnost.

The situation is extraordinarily volatile. But I believe that the forces unleashed by President Gorbachev in favour of a more democratic Soviet Union are too far down the track to be turned around permanently.

The totally discredited system of the central command economy has collapsed. It can never be rebuilt. Should those forces which seek to turn the clock back to the 1950s triumph, the result could only be a catastrophe.

Ladies and gentlemen,

One thing I did notice in the coverage of the serious newspapers of the events in the Soviet Union was that on every front page the reaction of "the markets" was noted.

I mention this, because it is evidence of the profound change in the way that we Australians look at the world and our place in it. And that change in attitudes is equally reflected in the way we now look at the annual Budget and its place in the economic and social policy of our nation.

The emphasis the media gave to the impact of the Soviet crisis on the markets is an example of the day-to-day interest the whole community has developed in economic affairs.

Every night on the television news, right up there with the old reliables, sport and the weather, we now see the exchange rate. We have reports on the behaviour of the All Ordinaries, the Nikkei, the Dow Jones and the FT. Selected stocks rise and fall in our living rooms.

And, of course, this new level of community interest - this level of economic sophistication - is reflected in the response to the Budget.

In the old days, Budgets were treated rather like one of those Bruce Petty economy machines. The Budget was the single engine of economic management, which was supposed to prime the pump, push the buttons, pull the levers and patch the cables in the one document at the one time.

Those were the days where Australians waited with their hearts in their mouths and their hands on their wallets for the great Budget headline: Beer, Cigs, Petrol Up. (but not, of course, in a distinguished tabloid like the Financial Review.)

The Budget is no longer seen as the single engine of economic management. Economic management is a continuing process, and it is in that context that the ninth Labor Budget, the first Kerin Budget, must be placed.

May I say in this respect that I am amazed at the mindlessness or plain stupidity of some commentators that this Budget demonstrates a lack of planning or doesn't have vision for the future.

They either suffer from selective amnesia or are being deliberately perverse.

This Budget is the third instalment of policy decisions which have made 1991 the year of the most substantial and far-reaching reforms, not just in the life of this Government, but in the entire post-war era.

The Budget must be seen in the context of the continuing and comprehensive process of reform on which we have embarked. It must be assessed in the context of the pivotal programs we have placed on the national agenda, including those which we are seeing working through this year, such as the abolition of the two airlines policy and telecommunications reform.

But in this year of 1991 alone we have:

The program set in train through my March Statement - the acceleration of unprecedented tariff reform; the refocussing of Australia's trade promotion to the Asia-Pacific region; waterfront reform; taxation reform, notably the simplification of the depreciation provisions and the widening of sales tax exemptions; resource security; the advance towards the Clever Country, with the opening of the first 15 cooperative research centres, and extra funding for higher education and training.

Again in this year of 1991 alone - there are the commitments undertaken through the Special Premiers Conference process:

The National Rail Corporation; the National Road Transport Commission; the Electricity Grid Management Council; business deregulation which will sweep away the stupidity of having six sets of regulations around our nation; and the major reforms of Commonwealth-State financial relations, set down for the November 1991 Special Premiers Conference.

And Tuesday's Budget must be seen as part of this unprecedented program of reform, in this year of unprecedented reform.

Ladies and gentlemen,

The budget aims to consolidate the work of its predecessors. Its aim is sustainable growth with low inflation. It is part of a continuing process toward structural reform and social justice. It continues the work - the task of the past eight years - of building an internationally competitive Australian economy.

It is a Budget designed to contribute to economic recovery, but I emphasise immediately the point I made at the Labor Centenary Conference in June:

- . We are determined that this recovery will be different in character and quality from any merely cyclical recovery this country has seen in the past. We are determined that this recovery will unambiguously repay the pain of the recession with substantial and lasting gain.

That means, in the first place, we must ensure that we hold the historic gains against inflation - an inflation rate now lower than the average of our major trading partners. But it means much more than that.

It means:

- . a recovery which will see the resumption of secure employment growth;

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- . a recovery in which the competitiveness of Australia's manufacturing industry will continue to improve;
- . a recovery in which Australian workers will gain access to improved superannuation and, through the continuation of award restructuring and the introduction of the flexibility provided by enterprise bargaining, will achieve higher levels of productivity, greater job satisfaction and better remuneration;
- . and a recovery in which we will see further improvements in efficiency, through effective micro-economic reform.

The fundamental thing about this Budget is that it is fiscally responsible. That may not be a very exciting concept to sell - but it is vital to achieving a recovery that will provide continuing employment growth and improvements in living standards.

We were not persuaded by arguments calling for us to spend our way out of the recession, nor by those who would have had us destroy the social welfare system in an ill-judged quest for savings at precisely the time it is providing greatest assistance to Australians in need.

While the Budget is the first in five years to provide for a deficit, all spending initiatives are fully offset by savings.

We have protected the structural integrity of the Budget, while at the same time directing major new resources to families and disadvantaged groups, the cities and the environment.

We have fully offset all these new policy decisions with savings through a careful reassessment of priorities, rationalisation of existing programs, and making them more efficient.

The deficit is largely accounted for by rising income support payments - and by falling tax revenues. Higher unemployment benefits alone account for around 80% of the real growth in outlays this year.

In 1991-92 outlays, boosted by the recession, will be 25.7 per cent of GDP, considerably lower than the 28.8 per cent of GDP we inherited in 1982-83.

And the forward estimates show expenditure falling as a share of GDP over the next few years.

Because we were determined not to fiddle with the basic structure of the Budget, determined not to compromise its integrity, it means that as the economy recovers, so too will the surplus, and the Commonwealth's position as a net saver.

I have said, and I say again, that signs of the recovery are there. We will see it actually happening this year.

The Budget forecasts a three per cent inflation figure and a drop in the current account deficit of around \$14 billion to 3.5 percent of GDP. Those are very encouraging numbers.

If we turn to exports, we see that the figures for last year, and the forecasts for this year, are proof of the structural changes we have brought about in the economy of this country.

Firstly, the balance of goods and services is forecast to be in surplus in 1991-92 for the first time since 1979-80.

Secondly, net exports are expected to contribute 1.25% to the 1.5% year average growth of GDP in 1991-92.

Thirdly, we can see results of investment in the 1980s reflected in export growth, particularly manufactured exports.

The volume of exports (goods and services) rose by 13% in 1990-91, with manufactured exports rising by 25.5%.

Those are the realities. It is on that basis that we say confidently: the 1991-92 Budget is appropriate for the times. It provides the foundation for a sustainable economic recovery through lower inflation.

While low inflation is not sufficient in itself for sustainable growth it is a necessary pre-requisite.

It allows us to have lower nominal interest rates. It encourages those with spare cash to invest it wisely rather than chasing speculative capital gains from rising prices. It helps business to compete in overseas markets.

We have now joined the league of low-inflation nations for the first time in two decades.

That will bring enduring benefits to Australia - better investment, lower interest rates, improved competitiveness.

Ladies and gentlemen,

Wages policy is, of course, an integral part of the fight to make low inflation a permanent feature of the Australian economy.

With my colleagues, the Treasurer, the Minister for Finance, and the Minister for Industrial Relations, I met the ACTU leadership last week. We discussed a range of issues, and reached a specific understanding on wages outcomes.

The Government and the Trade Union movement are committed to achieving greater flexibility and decentralisation in the wages system through the introduction of productivity based, enterprise bargaining.

This is an essential part of making Australia an internationally competitive economy.

We agreed to work together towards an aggregate wage outcome in the order of 5% for 1991-92. The Government's view, published in the Budget papers, is that the actual figure will come out closer to 4.5%.

If it is higher, it will be because enterprise bargaining, based on achieved productivity, has moved faster and further than we have anticipated, making our industries more competitive, helping cement in lower inflation by providing a productivity dividend to fund higher wages, and lowering the Budget deficit through increased tax revenues.

We also reached an understanding on superannuation.

In the Budget we announced that as part of our retirement incomes policy, the Government would legislate for the phased implementation of a minimum level of employer superannuation support of 9% by the year 2000.

From July 1 1992, subject to a threshold, the minimum level will be 5% of ordinary time earnings for employees where the payroll is more than \$500,000, and 3% for other employees.

We are determined to ensure retirement income security for all Australians. It is an axiom of the Government's Social Justice strategy that we manage the long term effects of our ageing population, that we start paying now so that we can preserve our standard of living in the future.

Ladies and Gentlemen,

Not the least striking achievement of this Budget is the way in which it serves the wider social purposes of this Government, firmly in the tradition of its eight predecessors. There could be no better testimony to the fundamental strength of our achievements over the past eight years than the fact that we are able to do this in a time of recession. Again, I emphasise that new spending has been fully offset by savings.

The Budget advances our Social Justice Strategy in a number of very practical ways.

First, we are increasing expenditure on labour market and training programs by 50 per cent in real terms. In addition about \$420 million has been allocated to TAFE including \$40 million in 1991-92 for extra TAFE places.

As well as providing a safety net for people directly affected by the downturn, these measures are designed to strengthen the skills of job-seekers and workers and to ensure that skill shortages do not emerge during the recovery.

Improvement of skill levels is of direct benefit to business as we embark on the recovery. We must, and we will, avoid the serious shortages of skills that were evident following the 1982-83 recession.

Second, we are adjusting Medicare to make absolutely sure that this great reform in the Australian health care system is irreversibly established as part of the Australian way of life.

The measures being introduced are based on the findings of the National Health Strategy. They adjust Medicare arrangements to promote better use of medical services, higher quality of care and more efficient use of health resources. At the same time, we have improved protection for families from high out of pocket costs for private medical services.

Third, this Budget builds upon the Government's landmark reform in assistance to low income families - the Family Allowance Supplement.

This Budget extends that achievement by making the family support system much simpler and more consistent; by increasing assistance to low and moderate income families; and delivering greater assistance to the primary carer - who is, in most cases, of course, the mother.

And we have moved to change the assets test arrangements to help those families, particularly in rural Australia, who are asset rich but cash poor.

These new arrangements are a further gain to the social wage - which is the other side of the coin to the wage restraint demonstrated by the union movement over the past eight years.

Fourth, the Budget starts to deliver on one of the most urgent social and economic challenges of the 1990s - to make our cities work better. In co-operation with the States, we must start to improve people's access to work, services and education through better transport links, more affordable and appropriate housing, and a cleaner urban environment.

Assistance of up to \$812 million over five years will be provided to State and Territory Governments to help them undertake a range of programs to improve the quality of life in urban areas. I must emphasise that the ultimate success of the Better Cities Program will depend on the cooperation of all levels of government. The involvement of the private sector is crucial to its success. That co-operation, in itself, is a tremendous challenge for us all.

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In addition to Better Cities, the establishment in this Budget of the Commonwealth Environment Protection Agency represents another big step forward in this Government's concern for the whole environment - the urban as well as the natural environment.

Initially, the \$8.5 million allocation in 1991-92 will improve Commonwealth environment protection activities. However, by early next year we hope to have agreement on Commonwealth-State administrative arrangements, through the Intergovernmental Agreement on the Environment. In this way, truly national standards for air, water and land pollution can be established.

I know that business is anxious that there should be more certainty, simplicity and uniformity in the areas of environmental assessment and pollution standards. National action is the only way to achieve them.

Ladies and Gentlemen

I welcome the opportunity this occasion affords to place the Budget in the context of the agenda for the nation set out in the Financial Review articles of last week.

I believe the Budget, as part of the wide-ranging process of reform and renewal we have undertaken, makes a valuable contribution towards meeting the challenges those articles posed, above all the challenge of making the Australian economy more open and more competitive.

There is, however, one matter of fundamental importance on which I must take issue with the Financial Review.

It is about the future of the Accord.

The Review said:

"The accord process has been a remarkably long-lived experiment, given the fate of similar social contracts elsewhere. But just as its time had come in the early 1980s, its demise as a formal structure is close, and it should be buried with due honour."

Now, Ladies and Gentlemen, the Financial Review is absolutely correct in describing the accord as a process. It is precisely because it has been an evolving process - a process of consultation and agreement between Government and unions - that it has endured, with such unique success.



The Financial Review acknowledged:

"The accord's gradualism delivered commitment to a number of important changes in Australia - an attack from within on Australia's moribund awards, a break with the wage indexation fixation of the past, a reinvigorated assessment of the importance of productivity, and the elevation of retirement incomes and training as factors which will see the country cope better into the next century."

Nevertheless, the Financial Review, having come to praise the Accord, proceeded to bury it.

Specifically, it asserted that as we move towards wage decentralisation, the Accord will become irrelevant.

On the contrary, I maintain that a smooth transition absolutely requires the Accord, if we are to avoid needless confrontation and disruption, and the re-emergence of inflationary pressures.

As part of the agreement finalised last week, the ACTU committed itself, in 1992-93 and future years, to work towards wages outcomes consistent with keeping Australia's inflation at levels comparable with those of our major trading partners.

I believe the Agreement reached with the ACTU last Thursday, as part of the Accord process, meets the challenges we face today. In doing so it demonstrates the continuing relevance, the importance, and the vigour of the Accord, and the constructive, cooperative, attitudes it embodies. The Accord process is as vital as ever. Its vitality is as strong as ever.

Mr Chairman, Ladies and Gentlemen

Let me sum up. The 1991-92 Budget is a Budget for recovery, for responsibility, for reform. It is a vital part of the whole process of national reconstruction and renewal which we have undertaken in this first year of the last decade of the 20th Century, to equip Australia to enter the 21st Century with a strong, competitive economy as the essential foundation for our national goals of a progressive, enlightened, just society, uniquely diverse, but unshakably united. It is both a Budget for the times and a Budget for the future.

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