EMBARGOED & CHECK AGAINST DELIVERY

SPEECH BY THE PRIME MINISTER, HON. R.J.L. HAWKE, AC, MP., FINANCIAL REVIEW DINNER - 24 AUGUST 1983 - SYDNEY

Last night's Budget brings together our first five months' work on macro-economic policy. It incorporates many of the policies that the Labor Party had developed in Opposition, and upon which we were elected in March. It necessarily reflects our adaptation to the markedly different economic, and especially fiscal environment in which we found ourselves after the election.

We were elected to arrest the decline in the Australian economy, symbolised by the huge loss of employment, the explosion of unemployment and the entrenched inflation in the period leading up to our election. We were elected to reverse the trends towards greater inequality in Australian society that seven years of conservative policies had greatly exacerbated. And we were elected to bring Australians together: to end the confrontation and division that had marred Australian economic life, perhaps most notably in industrial relations and relations with the States.

These three areas of commitment are closely inter-related. Sustained economic recovery - sustained non-inflationary growth - will not be possible without a greater sense of common purpose than Australia has known in recent years. And it will not be possible to build that greater sense of national purpose around the restoration of growth unless the benefits of growth, and the inevitable costs, are shared equitably.

So our commitments to the restoration of non-inflationary growth, to bringing Australians together, and to the building of a more equitable Australia are parts of the same great program. The links between these commitments were an important focus of the National Economic Summit Conference.

It is clear from the Budget that we have made a strong start on that program. The Budget embodies decisions announced in the May Statement and the Premiers' Conference, together with decisions in related areas, especially monetary and wages policy.

The task facing us after our election was daunting, especially after we learnt on March 6 that the prospective deficit for 1983-84 was several billion dollars greater than the Australian community, and the Australian Labor Party, had been led to believe.

We were committed to introducing a range of new programs in the interests of national economic recovery and equity. But at the same time we had to reduce the prospective deficit, so as to avoid exessive strain on financial markets in the process of recovery.

My Government formed the view that a deficit around $8.5 billion would provide substantial direct stimulus to economic activity, while avoiding excessive pressures on financial markets. In the event, we were able to come in slightly below that figure.

Estimates of the prospective Budget deficit if the policies of the previous government had been left intact have varied through the year, in the light of changing economic conditions and prospects, and of additional information on the full-year costs of new spending proposals introduced in the last months of Liberal National Party government.

Revised estimates of the costs of Fraser programs in 1983-84 added substantially to the prospective deficit, by over $800 million from the March figures. In the other direction, a better outlook for economic growth in 1983-84, itself partly attributable to greater confidence in the economy under the policies of my Government, lowered the prospective deficit somewhat.

The final official figuring indicated that, even with the better growth prospects under our policies, we required net reductions of over six hundred million dollars through discretionary changes to revenues and outlays, to achieve the final deficit of $8.4 billion.

You now all have a reasonable idea of how we got there.

It is a matter of considerable pride to me that we have achieved our goal of restraining the deficit to under $8.5 billion while putting into place a number of our most important programs, in job creation, housing, social security and welfare, including Medicare; and without major general tax measures.

We have in the May Statement and the Budget:

- directly assisted employment through the allocation of over $300 million on job creation schemes for the long-term unemployed and by expanding Government capital expenditure both directly via Commonwealth spending and through the States;

- concentrated additional gross social welfare payments totalling several hundred million on those most severely affected by recession, notably single unemployed and pensioners with children;

- introduced a fairer method of financing the health system based on ability to pay;

- reformed the assistance provided to home buyers both to improve equity and stimulate higher activity;

- increased education allowances and funding, with a more equitable distribution of resources according to need;

- abolished or reduced some of the more blatant hand-outs and taxation inequities that were introduced or condoned by our predecessors, and

- taken action that was long overdue on superannuation taxation, asset testing of pensions, restricting eligibility for the over 70's pension to those in most need, tightening tax avoidance legislation, strengthening section 26(a) so as to improve our ability to tax captial gains, and reducing a number of other sectional tax or spending concessions.

We were able to implement new high priority programs within our deficit target and without major general tax increases, mainly because we effected reductions of one and a half billion dollars in expenditure and tax concessions on programs that we inherited from the previous government. To put this achievement into perspective, the so-called "Razor Gang" of the previous government, with great fanfare over a much longer period of time, achieved lasting reductions in outlays totalling only a few hundred million dollars.

Because of our reductions in outlays in programs that we inherited from the previous government, we were able to implement the substantial improvements in public support for some of the most needy in our society, at a net cost of little more than $100 million in the Social Security area. Similarly, we were able to implement the first home-owners scheme, which will greatly enhance the prospects of young Australians owning their own homes at the same time as it stimulates activity in the building industry, with net reductions in private sector housing's demands on the budget.

These decisions clearly reflect the commitment of this Government to making Australia a more equitable society. We have tried to do this gradually, without placing excessively large and sudden burdens of adjustment on any Australians, while placing the overall burden of restraint on Australians who are in a relatively good position to bear it. Taking the May Statement and Budget measures together, I believe that we have succeeded in this aim.

More generally, we believe that lasting reform of the Australian fiscal system must be a gradual process. This is consistent with our approach to wider economic management. We see no point in producing a flash of recovery, to be followed soon by a return to stagnation. Only steady growth over long periods can provide the base for major improvements in the outlook for employment. Only steady growth over long periods can provide the base from which Australia can again provide worthwhile opportunities and reasonable living standards for all its people.

So this year, and in this Budget, we have sought to establish the foundations for future growth. We have sought to avoid an atmosphere of unpredictability and instability. The Budget has therefore been designed to ensure an adequate, but not excessive, stimulus to activity. The May statement and the Budget measures together will help to rein in the Budget deficit in future years so that rising private sector activity will not be faced with excessive competition from the Government sector in financial markets as recovery proceeds in the years ahead.

The Budget increases Government outlays by 15.8 per cent, only a few per cent below the increase of 18.5 per cent in 1982-83. We believe such growth in outlays is appropriate in a situation of low demand and capacity utilisation. The rate of increase in outlays will clearly need to be reduced considerably as the recovery gathers strength.

We were conscious of the need to avoid large increases in taxation as part of our aim to establish a stable environment in which business will invest and create job opportunities. The taxation measures we have adopted have therefore concentrated on combatting tax evasion and avoidance, closing tax loopholes, correcting some anomalies in the coverage of both excise duties and sales taxes, and maintaining the real level of excise rates in future years without the destablising jumps in rates that have occurred in the past.

An improved climate of industrial relations assisted us in obtaining an undertaking from oil refining companies that they would increase their use of Australian-produced crude. This undertaking has allowed us to avoid the introduction of a crude petroleum import duty in the immediate future.

While preparing the Budget, we discussed a number of changes in the taxation system that would render it economically more efficient, and more equitable as well. We believe that measures we have introduced on the taxation of superannuation lump sums, tax avoidance, section 26(a), sales tax and excise anomalies, indexation of excise rates, and removal of some anomalous tax expenditures all have this effect. Obviously more could be done to widen the revenue base and improve taxation efficiency and equity. We will continue to review carefully all of the main alternatives and we will continue to give considerable weight to stability and continuity in policy.

But when reform is clearly necessary, and when it can be effected wthout imposing costs of disruption which exceed the benefits, we will not shirk from the necessary decisions. Our record already demonstrates our willingness to introduce unpopular measures where we consider them to be necessary. Hard choices and decisions will continue to be needed even as Australia recovers from the recent recession. There is no easy way to remove distortions of the kind that have dragged down Australian society and the Australian economy in recent years.

Our own willingness to face the necessary decisions contrasts with the approach of the Liberal and National parties. Liberal and National Party policies would have led to a $9.6 billion deficit on the information provided to us on March 5. Opposition leaders have called for a deficit of around $7.0 billion or even lower in the current financial year. And yet at every step the Liberal and National Parties have opposed the hard decisions that were necessary to reduce the deficit to $8.4 billion.

They say they would have reduced the deficit by another couple of billion dollars. If they had been in government and had achieved this result, we would not be looking forward to recovery in the year ahead.

But more fundamentally, they would not do what they say they would do. On Monday in Canberra, as Andrew Peacock stepped from the camel with unerring accuracy, he promised 100 per cent Commonwealth funding for the Alice Springs to Darwin railway, prior to the results of an independent economic evaluation of the project. The Opposition parties defeated our tax avoidance and evasion recoupment legislation in the Senate, greatly exacerbating our difficulties in preparing this Budget. They have opposed almost every expenditure cut and new revenue measure - although the Shadow Treasurer, to give him his due, did hint to the Parliament that income tax increases would be one avenue of reducing the deficit.

The Opposition parties have risen to the peaks of hypocrisy with yesterday's movement in the Senate towards making the new withholding taxation system unworkable. This is their own system. The fundamental features of the scheme are as laid out last year by the Liberal Treasurer, John Howard, except for defining the industry coverage and for three changes which make the system less onerous: the reduction of the basic withholding rate from 25 per cent to 10 per cent; an increase in the minimum scale of building project that falls within the system from $3,000 to $10,000; and deferral of the commencement date from 1 July to 1 September.

No new system of collecting large amounts of revenue can be introduced without some administrative problems and without some anxiety in the community. Mr Howard's withholding tax system is no exception. But now a year after they announced the new system, and several months after the legislation was passed by the Parliament with Liberal support in the Senate, the Liberals have moved to disallow the regulations that are necessary to make it work.

This is Liberal National Party hypocrisy at its most blatant. This is the same Liberal Party hypocrisy that announced monetary targets and then over-ran them five years in a row. This is the same Liberal Party hypocrisy that now criticizes as excessively large, award wage increases a little above 4 per cent this year and 5 or 6 per cent over the course of next year, and average earnings increases of 7 per cent in the current financial year, after increases of around 13 or 14 per cent in each of the three preceeding years under Liberal stewardship. This is the Liberal Party hypocrisy that concealed from the Australian people through a crucial election campaign that Australia, under unchanged Liberal policies, was facing a prospective Budget deficit of over $9 billion in 1983-84. This is the Liberal Party whose Treasurer talked of the figuring being rubbery a few days after a Budget.

One crucial difference between my Government's approach to economic management, and that of our predecessor, is that we mean what we say.

This integrity of approach is as crucial in other areas of economic management as it is in fiscal policy.

While fiscal policy is obviously of central importance in establishing a base for economic recovery, it can be effective only within appropriate monetary and wages policies. In these areas, we have gone a long way since March in implementing policies which will support recovery while holding inflation on a downward path.

As we have said on many occasions, we will allow sufficient money growth to finance the likely and desirable rate of growth in nominal gross domestic product.

The "fight inflation first" strategy of our predecessors implied the tightest possible monetary policy. In practice, monetary policy over the past seven years was characterised more by inconsistency, by the setting of unrealistic targets, and by failure to achieve them.

With our policies supported by the Prices and Incomes Accord, our approach is different. We will implement consistent, firm policies that accommodate strong growth, but not inflation.

This year the choice of the target range for money supply growth that corresponds to this principle is complicated by two unusual factors - both associated with the severity of the recent decline in the economy and the speed of the turnaround which we expect this year.

The first is the expected change in the velocity of circulation of money - that is the relationship between monetary growth and nominal GDP growth.

During the recent recession, as in past economic downturns, velocity fell considerably. In more normal times, velocity tends to increase, more rapidly during a strong recovery.

While it is therefore appropriate to set the M3 projection below the expected growth in nominal GDP, the size of the appropriate adjustment is a matter for fine judgement.

The second uncertainty revolves around the speed of the expected pick-up in economic activity during 1983-84.

We are expecting a sharp increase in nominal output - probably of the order of 14 per cent or so - through the course of 1983-84.

But predicting the turning points in economic activity is notoriously difficult, so that the actual real growth could differ from our current expectations.

As the Treasurer announced last night, the Government decided to move the growth in financial aggregates gradually downward to a degree consistent with M3 growth in the range of 9 to 11 per cent over the twelve months to the June quarter 1984.

But as the Treasurer also indicated, we intend to review the projection in the course of the year. At the review, we will ensure that changed circumstances do not mean that the money growth that we have foreshadowed is either financing avoidable inflation, or restraining feasible non-inflationary growth.

Fighting inflation and unemployment at the same time requires us to adopt a balanced approach to management of the exchange rate. We will not allow deliberate over-valuation as an instrument of anti-inflation policies, and so will avoid one source of damage to the competitiveness of our export and import-competing industries.

We should remember that Australia will be affected by pressures in international financial markets, whatever happens at home. Australian real interest rates will tend to rise if United States real interest rates rise. On our recent visit to the United States, the Treasurer and I had extensive discussions on monetary developments with Treasury Secretary, Donald Regan, the Chairman of the Federal Reserve, Paul Volcker, other senior officials in the United States, and leading participants in the New York financial markets. While these left us with a great deal of confidence in the short-term strength of the United States recovery, there was also cause for some anxiety that the continuation of extremely high Budget deficits could lead to upward pressure on United States interest rates as private investment expanded in the period ahead.

While we cannot insulate ourselves completely from financial developments abroad, conditions within our own financial markets can exacerbate or ameliorate the pressures coming from overseas. Given the possibility that international financial markets will exert upward pressure on Australian interests rates, we will be working to ensure that developments at home do not compound the threat to the recovery of private investment.

Although there is wide acceptance that this year's deficit of $8.4 billion is appropriate in the current financial year, the Commonwealth will need to reduce the demand it makes on financial markets as private investment increases in the process of recovery.

A number of the fiscal measures that we have introduced in recent months have their main effect in reducing the Budget deficit not in 1983-84, but in later years.

The process of recovery itself will tend to reduce future deficits, by raising revenue and reducing recession-related outlays.

It is not clear at this early stage whether this cyclical effect, together with the structural effects of the May Statement and the Budget, will reduce next year's deficit enough to meet our stability objectives without further discretionary action. This will depend very much on the course of private investment in the recovery, as well as on wider developments in financial markets. Decisions in this area can safely be left until later. But as I told the Brisbane Chamber of Commerce two weeks ago, it is likely that further reductions in the structural Budget deficit will be required for next year.

My colleagues and I had little more than three months within which to examine critically the expenditure commitments which we had inherited from the previous government, from the time of the Summit to the completion of work on the expenditure side of the Budget.

This Budget embodies a considerable reordering of priorities towards the requirements of economic recovery and, in the welfare area, of the genuinely needy in our society. We will go much further in the full year leading up to the next budget and in the many years that this Government has ahead of it.

Our expenditure review process will become part of the normal operations of Government. We will continue to reallocate expenditure in line with the requirements of equity and growth as we reduce the structural Budget deficit in the course of economic recovery.

Our fiscal and monetary policies are underpinned by the Prices and Incomes Accord. When the Australian economy was struggling into recovery in the so-called resources boom in 1981, a wages explosion helped to turn a great opportunity into a disaster. That tragic episode will not be repeated.

The Budget and the monetary policy announced last night both support the Prices and Incomes Accord. We see support for a 4.3 per cent increase in award wages, as the only increase this year, as an investment in wage moderation in the process of recovery. The efforts this Budget makes in employment creation, social security, health and other areas will help us to realise a full return on that investment. The Government is meeting its commitments under the Accord, and expects full compliance with the decisions of the Arbitration Commission.

The Medicare arrangements announced last night will reduce the increase in consumer prices in the first half of 1984 by a few percentage points. The A.C.T.U. accepted at the Summit that, within the context of the return to centralised wage-fixing, this should be fully reflected in a lower rate of wage increases through 1984. This will support the expansion of employment and the sustenance of recovery as the momentum of economic expansion picks up through this financial year and into the next.

The fiscal, monetary and wages policies which we have put into place over the past five months have been built with widespread community support from the time of the Summit.

The Budget deficit is slightly lower and the wages estimate slightly higher than in Scenario A at the Summit.

We have heeded the Summit's call to allocate social security and other outlays more closely towards those in need. The May Statement and the budget measures together ask some restraint of Australians who are in a relatively good position to bear it, as agreed at the Summit.

The Budget assumes an outlook for growth that is a little better than envisaged in Scenario A: year on year growth of a bit above 3.0 per cent compared with 2.7 per cent, helped by the breaking of the drought, an improved outlook for private dwelling investment following the introduction of our new housing policies, and a lift in the private consumption forecast in the light of improved consumer confidence since the Summit.

On the other hand, consumer prices are expected to rise by 7.5 per cent, compared with 6.2 per cent in Scenario A. Part of the increase in anticipated price increases is for food, and is the other side of the coin to the higher expectations about farm growth following the ending of the drought. Scenario A anticipated indexation of excise, and other increases in excise announced in the Budget are estimated to contribute 0.3 per cent to consumer price increases in the year ahead.

Year-on-year growth of a little over 3 per cent will probably be associated with growth through the year of about 5 per cent. This is a strong reversal of our recent experience. I know some commentators expect an even better outcome. They may be right; and our monetary policies will not prevent such an outcome if through the year it seems to be achievable in a non-inflationary way.

The employment outlook presented in the Budget papers, like that on growth, is cautious. Nevertheless an increase in 1.5 per cent through the year in employment represents a sharp reversal of the disastrous decline in employment in the year or so before we took office, as promised in the election campaign.

We are confident that the economic policy base has been well prepared for a return to growth and a deceleration of inflation through the period immediately ahead.

But whether Australian living standards continue to rise beyond the life of the present Parliament and into the next, and beyond, depends on our success in allocating our resources to their most productive uses. Productive use of our resources requires acceptance of new ways of doing things, structural change in our economy, rapidly changing patterns of foreign trade, and high levels of investment from home and abroad.

An Australian society that is broadly united on the great national goals, that is seen by most of its citizens as a fair society, and which offers its people security of incomes and employment, will embrace these changes. But a divided Australia, a society that is suspicious of its Government, will cling to what it has.

The measures for revitalisation of the steel industry based on co-operative endeavours to raise productivity, for which the 1983-84 Budget provides funds for the first time, embody these fundamental realities.

A conservative Australia, an Australia that is afraid of change, will be condemned to declining living standards and an increasingly insecure place in a rapidly changing world.

Long-term growth in our living standards is feasible only if we maintain open investment and trade policies. But these policies will be politically feasible only if Australians believe that the benefits of prosperity are being shared equitably.

Only an Australia characterised by rising employment, falling inflation, and effective social security arrangements based on need will provide a congenial environment for policies directed at long-term growth.

We are confident that Australia has made a good beginning with the 1983-84 Budget.