



PRIME MINISTER

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

CEDA LUNCHEON
MELBOURNE - 15 MAY 1987

Mr Chairman, CEDA members and guests,

The May Statement provides further proof that this Government is determined to carry through the vital task of economic reconstruction which, as the revival of the steel industry dramatically proves, has been the central task of this Government since its first day in office.

It demonstrated again our capacity to take the hard decisions which are necessary to restore economic prosperity.

It underlined again our commitment to scrutinise our spending priorities constantly and to ensure our budget continues to meet real needs.

Before I turn to the May Statement specifically I want to trace briefly the economic circumstances which required us to bring it down.

The roots of Australia's economic problem lie in its failure in the 1960s and 70s to participate in the dramatic expansion of world trade in manufactures and services.

Inward looking economic policies and a systematically overvalued exchange rate resulted in a largely uncompetitive manufacturing sector focused on domestic demand and an export sector overreliant on farming and mining.

The consequences of that failure have become suddenly and dramatically apparent since late 1984 with the collapse in world prices of primary commodities. Our terms of trade have declined by 17.6 per cent, wiping \$9 billion off our national economic capacity, blowing out our current account deficit to an unsustainable 6 per cent of GDP in 1985-86, and pumping up our external indebtedness at an untenable rate.

In the four years since we came to office we have consistently worked to create the new attitudes and new approaches we need to solve these problems.

In my first campaign as Leader of the Labor Party in March 1983 I spoke of the need for a three-part program of national recovery, national reconciliation and national reconstruction.

If you like, these 3 Rs can be boiled down to one - the single need for us all to accept our national responsibility to achieve sustainable economic growth and a fair distribution of the benefits of that growth.

As the newly elected Labor Government we accepted that responsibility and committed ourselves to ensuring the prosperity of the whole Australian community and not, as our predecessors had done, working to divide the community and punish the weaker members of it.

The new attitudes which we brought to Government have struck a responsive chord in the wider community.

Today we can say there is a new acceptance of the need to reduce our dependence on our primary industries.

There is a new and widespread rejection of that addictive drug of dependence called protectionism, which has cramped our industries at home and which is crushing our export opportunities abroad.

There is a new acceptance on the part of Australian workers of the need for restraint in the growth of labour costs to preserve our national competitiveness and to keep inflation down.

There is a new acceptance of the fact that Governments have to conserve their limited welfare resources for people who most need it.

There is a new and widespread acceptance that there should be no free rides at the taxpayer's expense for the privileged at the expense of the community as a whole.

In short, there is a new acceptance that all of us must take up the challenge of rescuing Australia from its economic difficulties. All of us have to bear part of the burden and work together. That way we can ensure that all of us will benefit in the future from the prosperity our sacrifices now will bring about.

The external crisis facing Australia has required a tough Government response in all areas of general economic policy: monetary, fiscal and wages. Each has had to be held tight, in a co-ordinated fashion. Each has brought its temporary costs but each is absolutely essential to building our long-term future.

But the speed with which we achieve that goal also depends fundamentally on how adaptable our industries are.

It is a matter of record that in 1983 our industrial base was anything but adaptable.

Recognition of that fact was the driving force behind the initiatives which we have progressively implemented:

- . to open up the Australian economy to competition;
- . to encourage industrial research and development;
- . to foster co-operation between employers and workers aimed at boosting productivity;
- . to get the dead weight of bureaucracy off the back of Australian business;
- . to reinvigorate our education and training systems; and
- . to promote Australian interests in world trade.

I want to come back to aspects of this theme a little later - because it is a theme which is also prominent in the May Statement.

There can be little doubt that those policies are working.

The principal domestic indicators have turned for the better:

- . inflation is on its way down, gradually but certainly;
- . the December quarter National Accounts show the resumption of significant economic growth;
- . interest rates have begun to decline, a trend which I believe the May Statement will help to confirm;
- . real unit labour costs have fallen by 6 per cent;
- . most encouraging of all, over 780,000 new jobs have been created under my Government, and 100,000 new jobs in the past six months alone; and
- . investment has begun to increase, including in manufacturing.

Just as importantly, however there is substantial evidence that fundamental restructuring is occurring.

- . net exports are likely to account for all of the growth of the economy in 1986-87;
- . particularly pleasing have been the strong performance of manufacturing exports - up 32 per cent so far this financial year - and also the 28 per cent decline in the services deficit covering tourism, freight and the like;

- . although seasonal factors helped to inflate the April deficit to just under \$1 billion, the current account deficit has fallen, with the 1986-87 outcome likely to be more than \$1 billion less than the Budget forecast of \$14 3/4 billion.
- and, while the monthly figures will continue to be inflated in coming months by seasonal factors, the underlying improvement in the current account deficit is expected to continue in 1987-88.

The task is a large and difficult one, however, and there is still a long, hard haul ahead.

This week's Statement represents a further major step towards our goal.

The reason is not just the more obvious one that we need to stop the government sector gobbling up domestic saving so that the private sector's appetite can be satisfied, leading to new investment, without running up an excessive external debt.

It is also because the May Statement is a further step in our continuing endeavour to rebuild Australia's economic infrastructure.

The May Statement provides for a combination of spending cuts, asset sales and receipts measures which will slice a massive \$4 billion from the prospective 1987-88 Budget deficit.

Real outlays growth has been cut from a positive 2 1/2 per cent in the forward estimates to a negative 2 per cent, the lowest in 30 years. The measures would be consistent with a deficit of less than 1 per cent of GDP in the August Budget - compared with 1 1/2 per cent in 1986-87 and lest it ever be forgotten, the scandalous 5 per cent which we inherited.

The spending cuts include \$1 billion from general purpose payments to the States and \$1.6 billion from the Commonwealth's own spending, including major savings in the defence and welfare areas.

In the welfare area, this Government has been determined to accept its responsibility to subject its welfare budget to the most searching review ever undertaken.

Our motives have not simply been inspired by a recognition of the economic exigencies. They also recognise the desirability of overhauling poorly directed programs.

We have not fallen into the trap of assuming that all welfare recipients were by definition needy and deserving of automatic, full, and permanent government support regardless of whatever capacities they may have to support themselves.

Our decisions mean that savings will flow from an all-out assault on fraud and abuse, from further sharpening the focus of benefits to those most in need, and from redesigning programs to better meet the need of young people, and other welfare recipients to become more self supporting.

Let me make a specific comment about welfare abuse. Welfare abuse is not only an attack on the taxpayers who fund the social security system - it is also an assault on the genuine welfare recipients whose circumstances fully entitle them to community support.

The Government introduced a series of measures in last year's Budget to detect and stop abuse which have already removed thousands from the unemployment benefit rolls; these measures will reduce the average number of unemployment benefit recipients by some 25,000 in 1987-88.

As a result of the May Statement we will be introducing additional deterrents to fraud in this area. The original five teams set up to review unemployment benefit entitlements will be increased to 19 - one for each social security region.

Earlier this year, we announced that we would establish a Child Support Agency and strengthen the child maintenance provisions of the Family Law Act.

These will be the first steps towards ensuring parents who can afford it will meet their obligations to their children.

The May Statement includes administrative changes to support these moves, including:

- regular reviews of sole parents' eligibility for income support;
- the introduction of 6 new regional review teams which will operate similarly to those reviewing unemployment benefits;
- a requirement for greater proof of separation and stricter co-habitation rules.

A central principle in the May Statement's approach to the welfare budget is our belief that the best help it can give to many of those relying on social security is to help them become self-supporting individuals.

However the rationale for this approach is not simply a wish to conserve the welfare dollar or to encourage individuals to seek personal fulfillment through work - though they are both important goals.

It is also a fundamental reform designed to help Australia trade out of its difficulties by making best use of its best resource - its people.

This is why the May Statement initiates new measures designed to help young people stay at school or in training rather than go on the dole.

We have virtually eliminated the financial incentive that existed to leave school by abolishing the dole for 16 and 17 year olds.

This is consistent with the thrust of Government policy to encourage the completion of secondary education which will have lifted school retention rates from 36 per cent in 1983 to over 50 per cent by the end of this year.

However, after September, for those who do opt to leave school, we will now provide a new allowance after three months, to be called the Job Search Allowance. This is designed to help defray the costs associated with finding employment. The new allowance will be fixed at \$25 per week - half the existing junior rate for unemployment benefit.

An additional payment of up to a further \$25 a week will be available subject to a strict test on parental income.

To clear up any misconceptions, let me point out that existing junior recipients of unemployment benefit will not be affected by these changes while they remain on the benefit.

Moreover, for genuinely needy homeless young people, the existing provisions of the Young Homeless Allowance will apply.

The new job search allowance does not offer a free ride for young people.

But it does give them a strong incentive to take up a job quickly. If they cannot find work, then we offer structured help to improve their future employment prospects by directing them to relevant training - including training in job search skills.

This initiative has been reported by some ill informed commentators as "hitting at" the 16 and 17 year olds. The opposite is true. These measures will positively benefit young people by helping them get proper training and more fulfilling work rather than drifting towards the dead-end represented by the dole.

Consistent with that approach we have increased our budget for job training programs by \$32 million in 1987-88 - (\$63 million in a full year. On top of the strong rise in training funds already incorporated into the forward estimates that implies a 50 per cent increase in 1987-88.

It has been one of my Government's very significant achievements to have imposed an assets test on pensions. This assets test has had the beneficial effect of removing from millionaires the right to draw a pension from the

public purse - without, I stress, damaging the entitlements of the majority of elderly people to a secure retirement.

This has made the welfare system fairer - although it is one of the Labor Government reforms which the Liberal Opposition is pledged to reverse.

The May Statement has extended this fairness principle to other areas of the welfare budget.

Henceforth, the same assets test that applies to aged pensions will also apply to adults receiving unemployment and sickness benefits.

Curiously the Opposition Leader supports this assets test, but not the one on pensions. I have asked him in Parliament to reveal the chain of logic that leads to that position.

The Government has also decided to impose a means test on family allowances.

We believe our decision to withdraw family allowance from families with combined incomes of \$50,000 or more - with higher limits for larger families - strikes a fair balance between a needs-based social security system and the acknowledged greater expenses incurred by families with children.

It will be clear I think that the necessary cuts in spending which we have imposed have been shared across the whole community.

The Government has made certain that its own areas of spending - especially the administration of the public service - have not escaped the knife.

The Government will be closely examining staff requirements in the course of finalising the August Budget but we are committed to holding staff numbers down in 1987-88 to less than those budgeted for this year.

We have also established the Efficiency Scrutiny Unit to review all sectors of the public service. We have accepted a number of the Unit's recommendations, providing savings worth \$70 million in a full year, ensuring that the public service becomes at least as lean, efficient and productive as the private sector's bureaucracy.

Another round of scrutiny reviews will begin shortly. One of them will examine the workings of the Public Service Board, which will be restructured to maximise efficiency while preserving the independence of public sector staffing decisions.

The Commonwealth will also set an example for private employers in dealing with wage claims under the new second-tier arrangements.

Before agreeing to any second-tier claim, we will require the removal of restrictive work and management practices which will produce efficiency gains commensurate with the costs of any wage increase granted.

I urge the private sector to adopt a similar approach.

Finally let me comment briefly on pensions.

Having last year imposed a six weeks deferral of payment on pensioners, we thought it only fair that full indexation of pension rates should continue. There were no cuts or deferrals in the May Statement and there will be none in the August budget.

In addition, the measures previously announced to ease pensioner means tests, including for rent assistance will go ahead from 1 July.

Pensioners were asked to share part of the national economic burden and their response was magnificent. They have made their contribution!

Ladies and gentlemen,

I want to leave you with some thoughts and some evidence about the comparative ability of Labor and our conservative predecessors to manage the nation's economic challenge.

As you would remember, the previous Government had to manage a significant decline in the terms of trade between the June quarter of 1976 and the December quarter of 1977.

Though some improvement took place in the following quarters, the previous government over their first four years had to fashion economic policies to cope with a net decline of 7.3 per cent in the terms of trade.

But they failed to see the writing on the wall. They failed to set in train the necessary policies to restructure the Australian economy and revitalise Australian industry.

The fruits of their economic management over that period were real GDP growth of 13.4 per cent and employment growth of 4 per cent - about a quarter of a million jobs.

By contrast the decline in the terms of trade during Labor's period has been much sharper and more protracted. The net fall over the first four years of this government is expected to be of the order of 17 or 18 per cent - more than twice that of our predecessors over the same period of time.

How has Labor managed? Real GDP seems set to rise by some 19 or 20 per cent over our four years in office - 40 to 50 per cent more than in their first four years - and employment growth under my Government has been three times what it was under them.

So this Government has produced more growth and more jobs in the first four years despite more than double the fall in the terms of trade.

Even more conclusively we have achieved it in a world environment which has been less conducive to export sales. Real GDP growth in OECD countries rose 16.2 per cent over those Fraser/Howard years but, on current forecasts, only 13.4 per cent during our first four years.

Ladies and gentlemen

For three decades out of the four since the end of the Second World War, Australia was ruled by conservative governments which adopted short-sighted, insular and ad hoc approaches to the task of national economic decision-making.

They practiced an outdated style of politics, which failed in the task of equipping the nation for the challenges it would face in the future.

In particular, they succumbed to the pressures of sectional interest groups, gaining political support by further feather-bedding what were usually the more privileged groups in the community to begin with.

That was a failure of political leadership - it put the political self-interest of the government ahead of the national interest.

We have turned that chronic political failure on its head.

For example, last month I announced that I would not exercise my right to call an early election. At the time I was confident we would have won an early election - and this week's public opinion poll and the continuing disarray among the Opposition factions fully confirms that judgement.

But I decided to forego the short-term political gain for this reason: because at that time an early election would have been inconsistent with our long-term strategy to restructure the Australian economy.

As I said last June, and repeated on many occasions since, I would rather lose Government than go soft on the difficult economic decisions that have to be taken.

So we are putting the nation first - and that practice is winning the respect of the Australian community.

Last night, Mr Howard had the perfect opportunity to close his \$16 billion credibility gap. He squibbed it.

In our May Statement, we sat the test. And we passed with flying colours.

Mr Howard sat the test in his reply last night, and he failed. He did not repudiate any of his tax or spending commitments. Instead he repeated his expensive tax promises - repeal of the fringe benefits tax and the capital gains tax, and cuts in income tax for the rich.

Mr Howard's credibility gap is fast becoming a yawning chasm.

My Government will not engage in the pseudo-macho displays which have characterised the Opposition's and the New Right's contributions to the national economic debate.

Our achievement bears no resemblance to their simpleminded espousal of indiscriminate slashing of Government spending.

Sure, the May Statement is tough.

And sure, its achievements are unprecedented.

But the cuts are, above all, fair and purposeful.

They are designed to improve the effectiveness with which we spend taxpayers' money, be it on welfare or defence on public service salaries or job training.

And they are consistent with our strategy, stretching now over 4 years, to rebuild the Australian economy.

Taken together with the Opposition Leader's reply last night, the May Statement dramatically reveals that Australian politics is now divided along a new and profound fault line.

On one side of this fault line stands the Government, with its proven commitment to implement national policies which are both fair dinkum and fair.

Fair dinkum: because they are directed to resolving in a responsible fashion the real economic challenge facing the nation.

And fair: because they meet that challenge without threatening Labor's tradition of compassionate help for the underprivileged.

On the other side of the fault line of Australian politics stand the various factions which make up the conservative forces today.

Where our policies add up, theirs do not. Where our policies spread the burden fairly, theirs are tilted towards helping the privileged few. Where our policies look forward to a productive prosperous Australia, theirs look backwards to the days of tax rorting and free rides.

The May Statement and Mr Howard's reply show how deep is that political fault line.

As the benefits of the May Statement are increasingly felt - and as the Australian economy grows increasingly strong as we enter the 1990s - the fault line will become even more clear cut.

And I have no doubt which side of the divide will be recognised by the Australian people as providing the best future for this country.
