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# PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED AGAINST DELIVERY

**SPEECH BY THE PRIME MINISTER  
AUSTRALIAN FINANCIAL REVIEW LUNCHEON  
"THE THIRD HAWKE GOVERNMENT"  
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When I announced last month that Parliament was to be dissolved prior to an election on 11 July, I said that "Australia's greatest need is certainty, stability and continuity".

Events since then have only confirmed the accuracy of that statement and have only strengthened my conviction that the Labor Government alone offers those vital ingredients to our future prosperity.

In particular, the release of the Opposition's tax policies has underlined those sentiments.

Today I want to highlight some of the holes that emerge, day by day, in that tax policy

But I also want to take this opportunity of outlining to you what I see as the broad goals of a Third Hawke Government.

It is a story in which those qualities of certainty, stability and continuity are paramount - a strategy which addresses the real, as opposed to the illusory, challenges facing this nation as it enters the 1990's.

It should be apparent by now that, unlike the Opposition, we are not in the business of jeopardising our achievements through reckless campaign promises.

There is no disputing that Australia cannot indefinitely seek to maintain standards by borrowing from abroad at the rate that we have been.

We can reduce our dependence on external financing only by a combination of lower consumption and higher investment in the production of exports and import replacing goods.

The key to that is sustained fiscal restraint. And that does not just mean restraint in government spending. Fundamentally it means progressively smaller budget deficits as a share of GDP, to reduce the public sector's call on savings.

This is a reality which has informed Labor's approach to fiscal policy for some time. It will remain the central feature of the third Hawke Government for as long as economic conditions require it.

But what of our opponents?

Last week John Howard unveiled the Liberals' new tax policy. It is a campaign policy in the truest sense of the word - it did not exist before the campaign.

It is economic madness and political cynicism.

For the third time in ten years John Howard has acquiesced in a budget-blowing grab for power based on illusory tax cuts.

In 1977, the Liberals offered a fistful of dollars - and as Treasurer, John Howard promptly withdrew them after the election, putting in their place a retrospective tax increase.

In 1982, with John Howard still as Treasurer, the Liberals blew out the deficit to pay for an unaffordable program of election promises. That left us with a legacy of a \$10 billion budget deficit - some 5 to 5 1/2 per cent of GDP.

Now, in 1987, consistent with his five year cycle of cynicism, he is trying again to buy votes with tax promises.

In the six days since it was launched, however, the real facts of John Howard's tax policy have gradually come to light.

We know now that when Mr Howard said a 20 percent tax rate for persons earning \$20,000 or so, he really meant 38 percent.

We know now that when he talked about cracking down on tax fraud he really meant restoring the rorts for the privileged and opening up a gap between business and personal tax rates, both of which erode the tax base.

We know now that when he talked of cuts in the health area he really meant increased costs for all families:

You would still pay the Medicare levy; you would also have to pay up to \$250 a year extra; hospital insurance premiums would go up; and Medicare would be dismantled.

We know now that when he said that outlay savings would be \$10 billion, he has not the slightest intention of telling the people where cuts would be made because he knows that the nature of the required cuts is such that they could not be made.

Indeed, Mr Carlton, the Shadow Treasurer, has admitted as much, on television on Sunday night, when he said:

"The reason why we're not giving what you might call a detailed hit list for over twenty departments is that we would alert every single pressure group in the country"

Mr Carlton knows that the required outlays cuts cannot be delivered.

In short, Mr Howard is concealing a deficit which on an interpretation which is generous to the Liberals, is at least \$8 billion higher than he is claiming.

As Max Walsh wrote in the Sydney Morning Herald last week, John Howard pretends he can pay for tax cuts by slashing government spending to a degree unprecedented in the industrialised world.

Anyone who has been through the gruelling and assiduous process of the May Statement would appreciate the fact that saying you will find billions of dollars of savings is considerably easier than actually finding them.

We have shown where the sacrifices are to fall - we have shown our hand in the difficult question of spending cuts. The August budget contains no further horrors.

We have steadily, consistently, done the job the nation required of us.

We inherited a deficit of 5 to 5 1/2 percent of GDP. This year we have it down to about 1 1/2 percent and our May Statement initiatives will allow a further fall - to less than 1 percent - in 1987-88.

It took unprecedented and sustained fiscal restraint to achieve those reductions.

And they were achieved while also making room for tax cuts worth some \$4 1/2 billion to Australian families - or \$10 per week to the person on average earnings.

They are real tax cuts - affordable, paid for, and already delivered. The contrast between our record and their promises could not be clearer.

The price of John Howard's \$8 billion credibility gap on taxes would be a falling dollar, massively higher interest rates, the reacceleration of inflation and prolonged uncertainty for business.

Mr Howard talks long and often of the need to provide incentive. But where is the incentive to business in such a prospect? Where is the fairness to families?

Australia's chance to claw back its place in the world and restore its living standards through sustainable economic growth lies with reconstruction of the economy. That chance would be irreparably derailed if the Opposition's tax cuts were seriously attempted.

Four years ago, I made the Australian people a promise on behalf of the Australian Labor Party.

That promise was to bring national reconciliation to what had become under the Liberals a divided and discordant society; to bring about national economic recovery in a nation suffering its worst recession in 50 years; and to achieve reconstruction of an economy which was poorly equipped to compete in the world's markets.

No more telling statistic of our record in achieving national reconciliation can be quoted than this: under Labor, strike days lost have declined by a massive 60 percent.

And our success in achieving national recovery was also clear.

In Mr Howard's last year in office the economy contracted. One quarter of a million people were thrown on the unemployment scrap heap.

Labor's economic recovery has been so strong and sustained that some 3/4 million jobs have been created. That reflects the fact that each year jobs growth has averaged almost four times the rate of the Coalition when last they were in Office.

Unemployment is down to 8.2 percent compared to the 10.5 percent at about the time we came to office.

Though employment growth has remained strong, economic growth slowed a little through the middle of 1986 - and necessarily so if we were to give ourselves a breathing space to allow the current account to begin to turn around.

But the signs are now unmistakable that growth is picking up, in line with the improvement in the balance of payments.

What is most pleasing is that the main engine of this recovery is the external sector.

The external sector has accounted for virtually all of economic growth in 1986-87. It is also expected to contribute substantially in 1987-88.

That is precisely what is required to cure our balance of payments problem - precisely what is required to continue to deliver sustained growth in jobs and living standards for all Australian families.

In other words, the evidence is accumulating that our third goal - national reconstruction - is being achieved.

Unlike the Liberals, who chose to ignore the warning signal of a modest fall in the terms of trade early in their last seven years period in office, we knew from day one that Australia's long term prosperity was at risk because of the inadequacies of its manufacturing and service sectors.

We knew that Australian industry had to become more diversified, more competitive, more attuned to the realities of world trade, more able to survive the steady shift of the world trading focus away from our traditional commodity exports, more capable of finding niches in the emerging markets in manufactured goods and services.

Labor set about putting in place the policies that would encourage Australian industry to restructure, permit Australian workers to become more productive, and allow Australia to perform to its real economic potential.

We never pretended that the task would be easy.

Nor did we suggest that it would be achieved quickly.

But we knew that, if a start was not made immediately, the task would overwhelm the nation.

And the start we have made, together as a nation, is a solid one.

Let me pay a special tribute to John Button, who as Minister for Industry, Technology and Commerce has played a leading role in formulating the most far-sighted and comprehensive package of industry policies that this nation has seen - and in negotiating its implementation.

Industries which just a couple of years ago were either stagnating within confined domestic boundaries, or were facing ruin, have blossomed.

The revitalisation of the finance sector is one instance, though perhaps the most celebrated is the steel industry. Labor's initiative - in co-operation with the management and unions concerned - brought this industry back from the brink of closure to the position where it is now amongst the most cost efficient in the world.

Labor has progressively reformed our most highly protected, our most insular industries: chemicals, motor vehicles, textiles clothing and footwear, heavy engineering and shipbuilding.

Labor appreciates the importance of a high level of investment to Australia's economic reconstruction. Economic policy is being conducted to maximise the environment for business investment.

It was announced two years ago that the investment allowance would be phased out by 30 June this year. However, some companies have experienced difficulties in completing projects in time to qualify for the allowance. Accordingly, the Government has decided to give an extension of time to the end of this calendar year to put investment in place in order to qualify for the investment allowance.

Labor has paid particular attention to policies to encourage innovation and skills formation. Australia was being left behind in the world markets for new products and processes. Our most abundant resource, the skills of our work force, was being squandered.

The 150 per cent tax incentives for research and development, which leads the world, has been eminently successful. To quote just one example, I was in Perth on the weekend at the research establishment run by Ralph Sarich, one of the largest recipients of this assistance. They are world leaders in their field and are already signing up foreign buyers for their technological advances.

Because of the incentive, business expenditure on research and development in 1986-87 is expected to be \$1.25 billion - treble its 1983-84 level.

The Liberals have not said what fate will befall this concession.

The third Hawke Government will continue to give high priority to the need to foster new and innovative products: from communications to high-tech to agriculture.

To meet a world characterised by constant structural change and fierce competition, Australia needs a skilled and adaptable workforce. Labor has embarked on a full scale effort to ensure that we have the skilled workforce capable of meeting that need. We have introduced programs:

- to encourage our young people to stay at school longer;
- to lift the quality of our education system and make it more relevant to their needs and the needs of industry; and
- to give young people constructive opportunities and incentives to opt for work or training rather than the dole.

It is particularly pleasing to me to note the success of these programs. Under Labor's policies the retention rate for students in Years 11 and 12 has been increased from 36 per cent to almost 50 per cent. As a result some 39,000 young people have chosen to stay on at school who, had the Coalition's policies continued, would have left before completing their secondary education.

But Labor is going further. We want to ensure that skills formation does not stop at the school gate. In the May Statement it was announced that some \$32 million has been set aside for additional training programs in 1987-88, rising to \$63 million in 1988-89. In conjunction with the other initiatives which this Government has already taken, this will double the allocation to post-school training under Labor.

But until John Howard announces otherwise, training programs must be considered as under threat from the Liberals' stated plan if elected, to cut some \$2.5 billion from government programs.

One area which John Howard has specifically singled out for the elimination, however, is export assistance. Both the Export Market Development Grants Scheme and Austrade are slated to be cut by Mr Howard.

In what is an extraordinarily visionless statement by the Liberals, this would have to be one of the most short sighted suggestions of all.

I can only whole-heartedly endorse the recent statement of Daryl George, Chief Executive of the Confederation of Australian Industry:

"Stability and certainty in the formation and implementation of industry policies are crucial. Industry assistance policies must therefore be allowed to run their course. Export assistance programs are particularly valuable to small and medium sized businesses attempting to enter foreign markets.

"Positive assistance measures such as export incentives, the 150 per cent tax deduction for R&D expenditure and bounties ... are investments in the long-term competitiveness of this nation."

What Australia desperately needs now is more exports.

For companies, especially small companies, which have never exported or which are trying to break into new markets or new product lines, the task can be daunting indeed.

The Export Market Development Grants scheme and Austrade give these exporters a vital helping hand when help is needed.

That is why the third Hawke Government will retain them both.

The third Hawke Government will continue to pursue the far-sighted industry policies needed to remove barriers to trade, improve our trade competitiveness and maximise our chances to become prosperous again through trade.

Last September I convened a meeting between employers and the ACTU. The issue was how to disseminate to the enterprise level the message that work and management practices have to be reformed if we are to have any lasting improvement in living standards.

The meeting produced an historic communique in which each side agreed that the need for change is urgent and agreed to work together to achieve that change.

The evidence is mounting that that message is being heard. For example, employers are increasingly accepting the need to raise their commitment to worker training. Employees increasingly are coming to accept the need to become multi-skilled, more flexible.

All those successes have been built on co-operation and consultation, in the context of the fairness and efficiency of the centralised wage fixing system.

The history of industrial relations in this nation has shown that change will be faster, more effective and less costly if it is implemented cooperatively.

Labor is pledged to continue the promotion of cooperative workplace reform through, for example, the Industrial Relations Bill.

This Bill proposes refinements to the existing system intended to improve its operation for all parties.

However, its original provisions concerning secondary boycotts, access to common law and the scale of monetary penalties became a source of conflict between the parties. This was inconsistent with our original intentions in reforming the existing arrangements.

Accordingly, as Ralph Willis has announced, those provisions will not be reintroduced. Labor will retain the provisions of the existing legislation in each case.

But where do our opponents stand on industrial relations?

Quite simply, they would dismantle the industrial relations machinery which has worked so successfully for decades and replace it with the law of the jungle.

Instead of sensible wage restraint they have consistently argued for the socially destructive and ultimately counterproductive bludgeon of the wage freeze and their tax policy is the latest proof of that.

The Liberals hope to grab back most if not all of the benefits of their alleged tax cuts by denying workers access to the expected 1.5 per cent wage increase later this year.

The Liberals have argued for a wage freeze at 18 of the last 20 wage cases. Why should workers expect them to change their tune in Government? What would be the cost to business of the inevitable dislocation which so short-sighted a policy could produce?

And the Liberals have not, of course, reconciled the glaring inconsistency inherent in all that: how to impose a wage freeze after dismantling the centralised wage fixing system?



Labor will continue to pursue wages policies which are consistent with sustained competitiveness and lower inflation. Labor does not believe that a wage freeze is either necessary or desirable to achieve these ends.

The Opposition's confrontationalist tactics failed this country dismally, especially in 1981-1982. This nation cannot afford to have them wreak this kind of economic vandalism again.

A sensible, constructive wages policy and a responsible, restrained fiscal policy are essential to national reconstruction. Without them the nation can only balance its books through the self-destructing spiral induced by ever higher interest rates. That is not the way which Labor intends for Australian business, or Australian families.

Labor is offering Australia a clear choice.

For the third Hawke Government, we offer the united team with the proven policies to see Australia through.

We make Australian business and the Australian people the promise that we will carry on the job of national reconstruction which we began 4 years ago.

We don't ask you to trust us to meet a bevy of wildly improbable promises. We don't promise feats of magic that no world leader either contemplated or has been able to perform.

We simply ask you to judge us by our proven capacity to take the decisions necessary to continue the reconstruction of the Australian economy.

The urgency of that task makes John Howard's commitment to the primacy of tax cuts profoundly wrong, in economic and political terms.

He has resorted to the oldest trick in the book - tax cuts unsupported by hard details about where the money would come from.

His wish is that the campaign be turned into an auction. He has failed to understand that the campaign is, and must be, a test of credibility.

That is why he is now on the back foot - because his policies and his leadership are simply not credible.

By contrast, we have built up our credibility over four years in office - by telling the Australian people the truth about the economy, the bad news as well as the good - by taking the Australian people into our confidence about what was required to restore economic growth - by calling on their commonsense and their maturity in implementing those solutions.

Australia cannot risk putting those solutions at risk by changing horses in midstream.

I have absolute faith in the maturity of the Australian electorate and absolute confidence that they will let Labor get on with the job of rebuilding this nation. Because only Labor can do it.

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