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AUSTRALIA

PRIME MINISTER

EMBARGOED UNTIL DELIVERY CHECK AGAINST DELIVERY

AUSTRALIAN FINANCIAL REVIEW POST-BUDGET DINNER
SYDNEY - 16 SEPTEMBER 1987

Alan Kohler
Ladies and gentlemen

The Budget which Paul Keating delivered last night on behalf of the Government was the culmination of five years of hard work; five years of assiduous reordering of spending priorities; five years of cutting out waste and inefficiency; five years of tax reform.

The Budget is another step down the path we have followed in our economic policy making since we were first elected in 1983.

This path leads towards an economy which is more competitive, productive and efficient and a society which is more compassionate and equitable.

Since our re-election in July to a third term in office we have worked to maintain our momentum towards those goals.

We have taken decisive action towards creating a leaner, more efficient public service.

We have initiated an important debate on the role of the public sector.

The most immediate task, however, has been to complete the formulation of the 1987-88 Budget.

It completes the three stage process begun with the May Statement and the Premiers' Conference.

Most of the early attention of commentators has focussed on the stark outlines of the Budget:

- the fact that we have now eliminated the Budget deficit;
- the fact that we have cut real outlays for the second year in a row - the first time that this has occurred in 35 years;

- the fact that tax will be a significantly lower proportion of GDP this year than last;
- the fact that our decisions on recurrent outlays will produce cuts next year which are at least as large as this year;
- the fact that for the first time in 35 years the Commonwealth will be retiring both overseas debt and domestic Treasury bonds - a total in each case of $1 billion;
- the fact that, based on the groundwork laid over five years to repair the revenue base and pare back Government spending, we have been able to deliver an economically responsible Budget without new or increased taxes, without major further spending cuts but with the major welfare initiatives promised in the election campaign.

Those are remarkable achievements, ones which deserve the accolades accorded them by commentators and the financial markets.

But tonight I want to comment on the contribution the Budget makes to our longer term task of economic reconstruction, an aspect which can too easily become lost in the initial post-Budget euphoria.

The first, and most obvious, point to be made is that we have again created the necessary fiscal environment - an environment which will permit interest rates to decline without leading to an excessive expansion of domestic demand.

The point of our strategy is to secure steady improvement in our balance of payments while progressively shifting the policy mix towards fiscal policy.

There should be no suggestion that this task be put at risk by an inappropriate easing of monetary policy.

We have consistently worked to reduce the public sector's call on the available savings - which will in turn reduce the need to borrow abroad.

However, we have quite deliberately rejected the extremist's solution of seeking to make all of the adjustment required in one or two years.

Too rapid a fiscal contraction would have risked putting the economy into a deep recession.

Labor could not accept the associated blow out in unemployment - nor, I believe, would the Australian people.

But, just as importantly, a deep or prolonged recession would not assist longer term economic reconstruction.

The reasons are compelling.

First, too sharp a contraction of economic activity would undermine the business confidence and thus the investment needed to give effect to the industrial reconstruction which Australia requires.

Second, too sharp a contraction would undermine the community support which is essential in changing attitudes and workplace practices as part of that reconstruction.

So we sought to strike the balance: moderating domestic demand to reduce the current account deficit in the short term, while also securing longer term adjustment.

Of course, in the end, contraction in demand cannot be relied upon to produce permanent reductions in the current account deficit. That can only be achieved if the economy is restructured to boost investment in the tradeable goods sector.

However I do not have to argue this analysis in a vacuum. The ultimate test of the Government's strategy is performance and the indicators to date are very encouraging.

- interest rates have declined substantially since their peak in mid 1986
  - and last night's announcement by the ANZ Bank that it will cut its mortgage rate by 0.75 per cent and its prime rate by 1 per cent is further confirmation of the trend
  - Westpac and the Commonwealth have since matched the new rates.
- investment has begun to pick up, especially in those areas most relevant to boosting exports of manufactures and services
  - the latest survey of manufacturing investment intentions by the Metal Trades Industry Association shows a 15 per cent real increase in plant and equipment investment in the year ahead.
  - while the Budget papers forecast a real increase in business investment overall of 5 per cent
- the whole of economic growth in 1986-87, and a substantial element of expected growth next year, is attributable to net exports
- exports have picked up strongly and real imports have fallen, reflecting both modest domestic demand growth and the improved competitiveness of our manufacturing and service sectors

- most importantly, about half of our export growth last year came from the manufacturing sector and the MTIA survey shows a growing awareness of export markets by that sector.

The current account deficit has declined from 6 per cent of GDP in 1985-86, to 5 per cent last year and we expect a further fall to 4 per cent in 1987-88.

But it is necessary to look beyond those figures to assess the real extent of adjustment which has occurred.

In 1984-85 Australia had a goods and services deficit, in constant prices, of 2.6 per cent of GDP. Last year we turned that to a surplus amounting to 2.4 per cent of GDP. The forecast in 1987-88 is for a surplus of 4 per cent.

In other words, in three years, our position has improved by some 6 per cent of GDP.

Ladies and Gentlemen,

Let me turn to a number of specific areas of importance.

The Government in its third term is increasingly turning its focus to micro-economic efficiency improvements.

I want to refer to three of them today: education and training, taxation reform, and the role of the public sector.

In successive Budgets, beginning in 1985-86 we have virtually eliminated the financial incentive that existed to leave school by abolishing the dole for 16 and 17 year olds.

School retention rates have risen from 36 per cent in 1983 to over 50 per cent this year. Our objective is to boost the proportion of students completing secondary education to 65 per cent by the first half of the next decade.

In the May Statement we announced new measures designed to help young people stay at school or in training rather than go on the dole.

Our strategy aims to help young people get proper training and more fulfilling work - not only to open up their life opportunities but also to develop a more skilled, more flexible labour force. To that end this Budget foreshadows far-reaching reform of the vocational education and training systems to make them more responsive to evolving economic conditions and to requirements for new skills.

We have in mind a medium-term strategy which will aim to: increase the community's effort both in terms of quantity and quality of training; promote greater industry involvement in and relevance to that effort; and expand training and retraining opportunities for the unemployed.

These objectives will not be achieved quickly or easily. Nevertheless, the creation of a single Employment, Education and Training portfolio was a crucial first step.

The Budget paper on Skills Formation published last night by John Dawkins, the Minister for Employment, Education and Training, clearly indicates the direction of the Government's strategy. I commend this document to you for close study.

The strategy it outlines will be refined in consultation with interested parties but the main elements are clear.

The arrangements whereby Commonwealth funding is provided to TAFEs is to be reformed to achieve greater flexibility and better value for money.

Priority in TAFE funding will be given to meeting skill shortages in areas of importance to future economic development, such as computing, tourism and hospitality, while at the same time maintaining the Government's commitment to improving the economic position of those disadvantaged in the labour market.

The Budget honours our commitment in the May Statement to upgrade substantially our funding for training programs and to make training systems more responsive.

In particular a new Youth Training program is to be introduced, assisting 13,000 young people in 1987-88 at a cost of $30.7 million, with a further significant expansion planned for 1988-89.

Apprenticeship training is also to become more broadly based and multi-skilled in character, with more emphasis on acquiring competence and on continuous skills development.

States and unions each have a special responsibility to promote long overdue change. But the business sector, too, needs to recognise the importance of the national training effort and to be prepared to play its part.

Adequate priority has to be given to training and retraining within the business environment and also to assisting the development of courses and innovative and relevant training methods.

With this in mind, the Government will be examining a range of measures to encourage an increased industry contribution to the national training effort.

In taxation, this Budget completes the most far reaching reform ever attempted in this country. We have already introduced dividend imputation, cut personal tax rates substantially and restored fairness to the tax system by ensuring that all forms of income bear reasonable tax.

We are now ready to look more closely at company tax. Business tax rates in some of the major economies are being reduced, funded in large part by the removal of business tax shelters. The Budget contains the commitment to review the business tax system in Australia to see what more can be done to eliminate any competitive disadvantage which Australian companies may be suffering.

As promised in the election campaign, the Budget does not contain new or increased taxes on the national level. Tax revenue as a percentage of GDP is lower this year than last year reflecting in part the full year effect on PAYE receipts of the two tax cuts.

For current tax rates to be maintained or lowered we must ensure that every possible dollar owing from the existing tax base is collected. The Commissioner of Taxation has the Government's full support in achieving such an outcome. He has been provided with the staffing, the equipment and the laws to discharge his tasks.

Honest taxpayers, both corporate and individuals, should support these efforts. I am therefore somewhat bemused by the attitude of some in business and the accounting profession towards the Commissioner's proposals on audits of large companies.

To argue, as some have done, that tax audits should be totally random is to suggest that the Tax Office should apply methods that no business would ever consider applying to its own operations.

Reduced interest rates flowing from a balanced budget should provide a major stimulus to both business investment and housing construction.

Clearly this Budget will bring the prospect of home ownership more easily within the reach of young families. First home buyers will obviously benefit from lower mortgage rates. In addition the Budget increased income limits for applicants to the First Home Owners Scheme with dependent children.

Renters also gain substantially from the Budget. Lower interest rates, restoration of negative gearing, and retention of a still generous depreciation allowance should combine to provide a powerful boost to the supply of rental accommodation, thus pushing rents down in real terms over time.

Moreover, the Budget provides low income families renting in the private market with extra direct assistance of up to $15 per week. This complements the new Family Allowance Supplement, the most far reaching social reform in memory.

I take particular pride in this new scheme in this Budget, as it demonstrates once more our capacity to protect and enhance the welfare of the least well-off members of the community while also delivering a responsible balanced budget.

On a related matter, no Government which has struggled so long and so successfully with the budget deficit, as we have done, could afford not to implement the Australia Card.

None of the critics of the Australia Card has effectively questioned the estimate that it could raise nearly $1 billion of extra revenue.

And no Government which has taken such pains to ensure that reductions in Government spending do not unfairly hurt the interests of the least well off in the community, as we have done, could refuse to raise that revenue from those who are not paying their way in the community - the tax cheats and the welfare frauds.

The critics of the card have made it all too clear that they believe they hold the high moral ground in this debate, while we are said to be motivated by allegedly base considerations of revenue raising.

I certainly do not underestimate the material benefits of the Card. Nearly one billion dollars in extra revenue will substantially improve the Government's ability to provide better services to the whole community.

But increased fairness is a desirable goal in itself.

Nor should we underestimate the value of the increased confidence in the integrity of the tax and welfare systems that the majority of Australians will have as a result of the introduction of the Australia Card.

I cannot leave unchallenged the comment on this subject by the Financial Review itself in an editorial on 28 August.

Your editorials are normally a highly respected voice. This was a regrettably ill-informed exception, with its colourful but utterly wrong references to "the machinery of totalitarianism" and "authoritiarian impositions". The editorial claimed that the Government was seeking to "improve the scope and depth of security surveillance over the Australian nation".

None of that language validly applies to the Australia Card or to this Government. It is a blatant nonsense.

I recognise and respect the legitimate concern of some of the Card's critics that civil liberties not be eroded.

The extensive provisions in the Australia Card Bill designed to protect the privacy of individuals should have dispelled those fears. My Ministers and I have made it clear that we are prepared to amend the legislation where necessary to strengthen these provisions further.

Your editorial did not acknowledge the facts - clearly set out in the legislation - that it would be a serious offence for police to require production of the Card.

You did not recognise that sophisticated security software will be in place to prevent unauthorised access to the Card register and that no other computers will be linked to the register.

You failed to mention the Data Protection Agency, which is to be set up as an independent watchdog body with a sweeping mandate to protect privacy in the Australia Card program.

In short you have done yourself and your readers a disservice by providing an incomplete, and indeed fanciful, commentary on the Card.

I referred earlier to the debate I have initiated on the role of the public sector.

In May we announced our intention to sell, by open tender, long term leases on Commonwealth owned international aviation terminals.

We have reviewed that decision and concluded that extensive regulations would be needed to prevent exploitation of a monopoly - regulation so extensive, indeed, that the disadvantages of sale outweighed the advantages. Accordingly we have decided not to proceed with the sale because it has failed the second of the two tests which I have set.

We are confident nevertheless of raising the $1 billion from asset sales estimated in the May Statement. In addition to the sales already announced we have decided to sell the Commonwealth Accommodation and Catering Services Limited. On the basis of the two tests, public ownership of CACS is not necessary to ensure that its functions continue to be performed. Moreover the advantages of sale outweigh the disadvantages. We therefore intend to sell the Commonwealth's 100 per cent interest.

This Budget also provides examples of where the Government has sought to boost public sector efficiency, while retaining public ownership.

Government departments will now generally have a choice whether they obtain transport and storage services from the Department of Administrative Services or direct from alternative private sector suppliers. The Department's charging will be required to met all costs, including a return on capital.

Just two months on, implementation of the new administrative arrangements is proceeding well. Although the primary imperative behind the changes is efficiency and the better delivery of government services, there will be substantial savings in staffing and running costs. In a full year savings will involve about 3000 staff years and $100 million.

Public staff numbers peaked in 1985-86, fell in 1986-87 and are expected to fall slightly further in 1987-88. We expect the underlying downward trend to continue into 1988-89 and be further intensified through 1989-90 as the full effect of the Government's efficiency dividend, administrative arrangements and other savings measures take effect.

In closing, I ask you to contemplate how different last night's budget could have been if in Paul Keating's place stood Jim Carlton - or whoever else would have served as Treasurer in a Howard government.

We would not be looking at a balanced budget, a stable dollar, declining interest rates, or further export growth as part of the essential strategy of reconstruction.

For the Liberals' tax policy - which John Howard has reaffirmed since the election - gave priority to tax cuts ahead of deficit reduction. In addition they would have eliminated the very base broadening measures, most notably Capital Gains Tax and Fringe Benefits Tax, which have contributed $2 billion to revenue this year.

This would have threatened the dollar, and ensured high and higher interest rates for Australia's home buyers.

It is hard to see how such a result could have pleased the Liberal Party's Treasurer, John Elliott, for example.

Mr Elliott was interviewed yesterday morning on "AM", where he said "a balanced budget will be regarded by the business community as a good step from the Government".

He also called for reductions in corporate taxes - a matter which, as I have said, we have under active review.

It remains to be seen whether Mr Elliott recognises these achievements or, as is more likely, he continues the removal off-shore of his investments - away from what he called "one of the worst managed economies in the Western world".

I am sure you recall the famous confusion among the conservative parties about whether tax cuts would be first cab off the rank or third behind deficit reduction and redistribution of the tax burden.

I only need point out that my Government has in fact sent all three cabs off the rank. We have reduced the deficit to near zero; we have progressively redistributed the tax burden through means such as the capital gains and fringe benefits taxes and the assets test; and we have lowered the top rate of personal income tax from the level John Howard left as Treasurer of 60 cents in the dollar to 49.

In summarising the budget, I would say: We have delivered.

We have delivered in full measure on our election commitments.

We have delivered - consistently now, over five budgets - the right mix of policies to restore economic health.

There has been no deviation from the clearly established and clearly successful course we have steered since 1983 - and there has been no deception in setting that course or in explaining its difficulties to the Australian people.

We have delivered a balanced budget, which will remove the Commonwealth as a net borrower from financial markets.

We have delivered lower interest rates and we are delivering lower inflation.

We are delivering new jobs by the hundreds of thousands - and by the end of 1988 we will have delivered one million new jobs since we came to office.

We have delivered on our election promise to introduce a new and generous source of assistance to the least well-off families in our community.

We have worked at what's right and what's necessary, and we have taken the long perspective, and that is the only way to manage the economy.

All Australians are reaping the rewards.

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