



14

PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER
CEDA LUNCHEON - MELBOURNE - 27 MAY 1988

Eleven months ago the Australian people were faced, in the Federal Election campaign, with a fundamental choice about the future direction of our country.

The choice was nothing less than a decision about whether the country could continue forwards or whether it would disastrously slip backwards.

This is not the time or the place to rehearse the many policy differences which separated the Government and the Opposition in that campaign.

But it is the time to recall the commitment the Government made during that campaign to continue its program of economic reform.

We entered that campaign with a credible, comprehensive and thoroughly detailed set of proposals for reform of the Australian micro economy, and a commitment to continue to manage the macro economy to produce sustainable growth.

I believe it was in very large part because Australians accepted the need for these policy directions that we were given a mandate for our third term in Office.

Today I take great pleasure, and I admit a sense of considerable achievement, in stating that we have again proven our capacity to deliver on those promises.

Wednesday night's May Economic Statement was no traditional mini-Budget.

It was an announcement of the most wide ranging set of fundamental economic reforms ever presented in one statement in Australia.

Australian Governments in the past have been too complacent about providing detailed policy direction in all the many areas of their responsibility.

006781

This complacency has been matched by, and has fostered, the general sense of economic lethargy which characterised our highly protected, inward looking, commodity based industrial performance.

And the Australian people, including most of the authoritative media and interest group commentators, have adopted too narrow a definition of the Government's role in protecting living standards and assisting the needy.

They have all laboured under the gross misapprehension that all governments could and should do to help those in need was to redistribute tax revenue to them.

With this May Statement, the Government has rolled up its sleeves and once again gone into the hard work of detailed policy management.

As we promised in the election campaign, we have continued the historic process of economic reform and enlarged it by breaking new ground in micro economic reform.

In the process we have also achieved reforms which will lead to real improvements in the standard of living for all Australians - not only by means of redistributing income but also, and fundamentally, by improving the way in which Australia generates its prosperity.

And I see the Treasurer's Statement not just as providing fundamental direction in the economic area but as yet another building block in our strategy to enhance social justice in Australia.

In other words the May Statement, like all the great Labor reforms that precede it, is directed not just at creating a wealthier Australia but also a fairer one.

There are four key themes permeating the Treasurer's Statement and the supplementary material provided by our ministerial colleagues John Button, Gareth Evans, John Dawkins and John Kerin.

First, and fundamentally, we have produced the fiscal framework which the economy needs, including further firm restraint in outlays - and we have achieved it in a way which is uncompromisingly fair.

Second, we have instituted a number of reforms to change the way business will make investment decisions in Australia.

These reforms focus business decision making on the real issue: the underlying economics of a project and the real return to Australia. Previously these decisions were liable to be distorted by the uneven but often massive levels of subsidies provided either by other taxpayers or by consumers.

Similarly our reforms target the major public sector business enterprises, reinvigorating them by encouraging greater competitiveness, innovation, productivity and entrepreneurship.

Third, the May Statement continues our longer term emphasis on productivity growth. In particular, by upgrading the education and training systems we are upgrading the workforce of the future - truly a fundamental goal.

Fourth, we have implemented a new deal for consumers.

Reduced tariffs, the gradual removal of artificial price supports for some key rural products, as well as the improved management of Telecom and other Government business enterprises will all yield, over time, significant benefits to consumers in the form of lower prices and better service.

Ladies and Gentlemen

Let me turn in detail to each of these themes.

By any standards the fiscal parameters of the May Statement are impressive.

Real outlays will fall again in 1988-89 - by 1.5 per cent - and this is true no matter how asset sales are treated for the purposes of the calculation:

This will be the third year in a row in which real outlays have fallen.

No other comparable country has achieved so sustained a period of fiscal restraint.

But that is not the end of the matter.

On current estimates, because of the quality of the cuts implemented both in this Statement and previously, there will be a further real decline in outlays in 1989-90 - in other words there will be real declines four years in a row.

As a result, the current estimates show the share of outlays in GDP falling to 25.5 per cent in 1988-89 and to 24.5 per cent the next year.

In each case this is lower than for any year since 1973-74.

By contrast Mr Howard's lowest ratio was about 26 per cent in 1979-80.

Our sustained effort to curb outlays, and the measures in place to protect the revenue base, mean the expected budget surplus in 1988-89 is in excess of \$3 billion.

This is only the second surplus in 35 years - the first of course being the surplus expected this financial year.

These successive and substantial surpluses allow the Commonwealth to repay debt, both domestically and overseas; to free up the saving pool for productive investment; and to exercise appropriate restraint on demand - all essential components of our overall policy task.

They provide the measure of this Government's commitment to providing the fiscal environment which Australia needs to overcome its balance of payments difficulties.

These achievements put the lie to those commentators who seek either the pointless accumulation of yet larger surpluses or the distribution of the existing surplus in premature personal tax cuts.

The former group of critics, largely in the business sector, have failed to make the case that the costs of attempting a faster pace of adjustment in terms of economic and social dislocation should be endured - or, indeed, whether those costs would ultimately be rewarded.

The latter group, and I am referring in particular to our political opponents, have failed to provide an answer to the evergreen but crucial questions: where would the money come from to pay for these hypothetical tax cuts? What Government services would have to be cut?

The Government's commitment to properly funded personal tax cuts next year is the only rational course in present circumstances.

We accept that middle Australia wants and deserves a gradual increase in living standards.

Our approach will allow that legitimate aspiration to become a reality.

It will do so at a speed consistent with stabilising our international indebtedness.

And it will do so in a way which will ensure that the tax cuts are real and durable, not quickly eroded by renewed inflation and currency decline.

Those tax cuts will be delivered in 1989-90, the same year as companies will experience the benefit of the tax changes announced this week.

I've pointed out already in a number of forums that real progress in raising living standards as our balance of payments improves will reflect three variables: wages, prices and taxation.

Progress in each of these areas is mutually dependent. That is why we cannot responsibly entertain the prospect of significant personal tax cuts without appropriate moderation in wages growth.

Further real wage cuts are not necessary in 1988-89. But a successful economic policy requires that the realistic expectation of falling inflation be validated by sufficiently restrained wages growth.

These considerations will inform our approach to the forthcoming National Wage Case.

The second thrust of the Statement is to change the nature of the business investment decision.

For years the investment dollar of this country has been wasted.

Too often, investors have been motivated not by the economic return to Australia, but by the subsidies offered by Australian taxpayers and consumers.

The result too often has been that Australian industries are unable to compete on the world market because their domestic cost structure is too high.

That is the driving force behind the Government's reform of the business tax system.

It is the driving force behind our reform of industry assistance for both manufacturing and the rural sector.

And it is the driving force behind our complete overhaul of the operational environment of our largest Government business enterprises, especially Telecom.

Ladies and Gentlemen

The mainstay of Australia's export effort will remain its primary producing and resource based industries for decades to come. That is what we are good at.

But, increasingly, we need to broaden our export base.

It is pleasing to see that we are already having considerable success.

In 1987 exports of manufactured goods increased by 30 per cent. Indeed this growth has been so strong that the share of merchandise exports accounted for by manufactures is now 24 per cent, compared to only 20 per cent in 1982.

And tourism is rapidly growing as a major export earner - in fact at three times the rate of other exports.

The reality is, however, that we still have some way to go.

In a fundamental way our reforms add to the geographical advantage Australia has by virtue of its proximity to and participation in the burgeoning growth of trade in manufactures and services in the Pacific Basin.

But we will not take maximum advantage of those opportunities if we cannot match the quality, productivity and capacity to innovate which characterise our competitors.

There is no incentive for business to strive to do that if they rest safe and sheltered behind a tariff wall, hiding from the winds of international competition.

Nor will our best export industries fulfil their potential if their cost structures are inflated because of protection - either directly through inflated prices for capital goods and materials or indirectly through unit labour cost structures excessively out of line with our competitors.

And the losers would be Australians and Australian living standards.

That is why, against the background of the substantial depreciation of our currency and the strength of our employment performance, we have moved to reduce protection.

On average, effective assistance to manufacturing will be reduced by about 20 per cent over the next four years.

At the end of this period, with only limited exceptions, nominal rates of assistance will not exceed 15 per cent.

Investment decisions across industries will thus be determined less by relative protection than by underlying returns.

There will be some industrial dislocation as a consequence of these reforms.

However our best estimates suggest that employment losses are likely to constitute a quite small proportion of annual labour turnover in manufacturing, let alone of the annual growth of total employment in recent years.

Moreover, over time, those losses should be more than offset by increased employment induced by greater cost competitiveness elsewhere in the economy.

Through the new Office of Labour Market Adjustment, and appropriate tripartite bodies, the Government will monitor developments to ensure that excessive adjustment costs are not required of regions or groups. If necessary, additional adjustment assistance will be provided to minimise excessive burdens.

Predictions of net employment increases are often greeted sceptically by those who face the direct impact of structural adjustment.

But some illustrations of the magnitude of the costs of protection help to make the point that reduced industry assistance will lead to increased efficiency and employment.

It has been estimated that industry assistance to all sectors of the Australian economy imposes a penalty of 15 per cent of value added in wool scouring, 18 per cent in cotton ginning and 48 per cent in nickel smelting.

Clearly, removing such massive drawbacks will radically improve our ability to move beyond the commodities trade to higher stages of processing.

In four years the tariff reform process which we have initiated will reduce Commonwealth revenue by around \$1 billion per year - a broad indicator of how much consumers stand to gain from tariff reform.

Tariff reductions for manufacturing are to be matched by broadly equivalent reductions in assistance to the rural sector.

Artificial price support arrangements in the manufactured milk, sugar, wheat, tobacco and dried fruits industries are to be wound back.

These pricing arrangements, together with related production and marketing controls, result in higher input costs especially for the food processing industry. This inhibits a promising class of exports and penalises domestic consumers.

Our reforms take substantial steps to lift those burdens. This, again, leads to substantial benefits to consumers - of up to \$100m per year within a few years.

In this day and age, efficient telecommunications and transport industries are vital to Australia's trading performance.

The public sector is heavily involved in both industries in Australia.

Now there are to be major changes in the nature of the Government's involvement.

Telecom's monopoly of the basic network is to be preserved, both to capture natural economies of scale and to generate the revenue necessary to pay for its community service obligations. But, beyond the basic network, Telecom will be subjected to greater competition wherever practicable.

Most other Government business enterprises are to be freed of the excessive restrictions which currently hog tie them to the bureaucracy.

These changes are designed to improve the adaptability and responsiveness of these fast moving industries.

Moreover new regulatory mechanisms will ensure that prices for standard telecommunications services fall in real terms.

Coupled with the substantial gains available to consumers as tariffs decline and as administered agricultural prices are reduced, this package represents a major boost for consumers.

Make no mistake, consumers stand to be major beneficiaries of this package through lower real prices and more effective competition.

Indeed our estimates show that consumers will begin to benefit immediately.

The net effect of all of the May Statement measures which have a price affect will be to reduce, slightly, the CPI in 1988-89.

This is but one of the factors which confirms us in our view that inflation is trending downward.

The Government is determined to ensure that consumers benefit to the maximum practical extent from the pressure which has been unleashed to reduce inflation.

We will be asking the Prices Surveillance Authority to monitor developments closely.

Ladies and Gentlemen

As I have said at the outset, the May Statement's package of reforms, taken together, amounts to a fundamental set of measures designed to improve business efficiency.

I welcome the expressions of broad support which have come since Wednesday night from leading business spokesmen.

It is recognised that the 39 per cent corporate tax rate is a major innovation for business.

So, too, is the exemption from the foreign tax credits system of the vast bulk of genuinely internationalised Australian companies undertaking genuine direct investments overseas. We know that the previous arrangements had been an irritant to many companies legitimately operating abroad, without significant revenue benefits.

Of course business has had to accept that tax cuts of this magnitude could only responsibly be funded by removing a range of concessions - such as 5/3 depreciation - concessions which in any case had been distorting investment decisions in various ways.

At the same time we are determined to ensure as far as possible that companies pay their fair share of tax. We have enhanced the audit capacities of the Tax Office, and have nominated some 60 low tax countries where we intend that Australian direct investment effectively will attract Australian rates of tax on an accruals basis.

However while we have levelled the tax playing field, we have not forgotten the need for a sustained effort to enhance productivity.

Ralph Willis and I have consistently sought to remind workers and managers of the need to examine workplace practices, most recently in the context of tier two.

We will continue to do so.

But we are also approaching the problem at its most basic level.

Labor is determined that we develop the workforce which has the skill and the flexibility to take advantage of the opportunities which undoubtedly lay before us as a community.

Many parents, and many business people, are concerned at the poor quality of our schools systems.

Curriculums are a State responsibility. But we are determined to seek to bring a national and rational perspective to bear.

Our training systems are in need of overhaul, especially retraining arrangements.

Public sector support for training in Australia is in line with comparable countries.

However, while many employers recognise the value of such expenditure and maintain a substantial training effort, overall our private sector's financial support is below the average by international comparisons.

This situation needs to be addressed.

We believe that the major burden of funding enhanced training systems rests with the beneficiaries.

And the Commonwealth's preference is that the proper apportionment of the costs be settled between the industrial parties.

However if appropriate arrangements cannot be put in place on that basis we will be prepared to consider legislative options.

I realise that compulsory industry training levies and the like are difficult concepts for many in business to accept.

However the fact that such concepts even figure in the public debate shows just how seriously this issue needs to be taken.

The task is large. It is urgent. It cannot be left undone.

Ladies and gentlemen

There can be no true social progress without social justice.

The May Statement is a further step forward in Labor's social justice strategy.

Special provision has been made for pensioners to earn extra income without paying tax. Also one quarter of a million pensioners have been freed of the obligation to pay provisional tax. We are securing adequate and certain funding of our health systems and nursing homes. We are promoting greater tax equity, including through the expanded tax file number system.

Moreover we will facilitate employee share ownership, through concessional tax treatment of share discounts, recognising the legitimate interest of employees in getting a stake in the companies they work for.

The direct social justice implications of these measures are well understood.

Less well understood are the implications of tariff reform and the shake up of Government business enterprises, especially Telecom.

Tariffs are a regressive tax. Lower income earners lose a higher proportion of their income to tariffs.

The proportion is 9 per cent for those with incomes in the lowest 10 per cent of the income distribution, but less than half that for the topmost 10 per cent.

It is estimated that the Government's proposals will ultimately cut the burden on that lowest income group by almost 30 per cent.

Ladies and Gentlemen

I was pleased to note that our overall economic management was this week praised by the managing director of the International Monetary Fund, Michel Camdessus, as an encouraging and impressive lesson for other nations.

Mr Camdessus reserved particular praise for the Accord partnership between the Government and the trade union movement which has added an extra dimension to the macro policies normally available to Governments. Under the Accord, the trade union movement has exercised real wage restraint, allowing the creation of more than one million new jobs since 1983.

As Mr Camdessus noted, that is a 16% rate of growth - three times the OECD average, he said. To use his word, that is an "exceptional" result for the Australian economy.

It is those very achievements, of course, that would be jeopardised if the conservatives' proposals for labour market deregulation - voiced again in their response to the May Statement - were ever implemented.

Ladies and Gentlemen

In the last week of the election campaign last July I addressed a luncheon of the Ballarat Businessmen's Club. Because it was the final week, I was determined that Australians thinking about their political choice at the ballot box understand the real issues at stake.

The real issue was not then - nor is it now - a question of rushing prematurely to tax cuts allegedly paid for with massive but of course unspecified cuts in Government spending.

It was about leadership, and it was about whether or not the massive process of reconstructing the Australian economy and reconstructing our view of Australia's place in the world would be abandoned or would be continued.

So I told my audience in Ballarat that Labor offered itself to the Australian people as a united team with the proven policies, the far reaching strategy and the determination to meet the national economic challenge.

I said then that Australians of 1987 would be judged by future historians as having taken a momentous leap forward - if we stuck to the task of economic reconstruction.

And I outlined in that speech a detailed series of reforms to carry the momentum of reconstruction into the micro-economy.

It was on that basis that Australians renewed our mandate last July.

So I take considerable pride today in outlining the steps we have now taken to implement our promises - to continue what is a fundamental strategy for the future of Australian prosperity.

As I said in Ballarat, Australia under Labor is moving -

- . to the challenge of open and vigorous competition with the rest of the world instead of the security blanket of protected introspection;
- . to enmeshment with our region rather than insularity;
- . to the resilience derived from economic diversity and higher productivity instead of the vulnerability born of our over-reliance on commodities;
- . to the shared rewards of constructive co-operation instead of the fruitlessness of confrontation; and

- to a society whose hallmark is equality of opportunity and social justice for all instead of one in which the dice are loaded in favour of a privileged few, from the tax system right through to education.

Ladies and Gentlemen

I do not wish in any way to underestimate the difficulty of the task still before us.

But I do not hesitate to say that the measures announced on Wednesday amount to a huge step along the road to those goals.
