



PRIME MINISTER

TRANSCRIPT OF OPENING REMARKS TO THE PREMIER'S CONFERENCE,
CANBERRA, 18 MAY 1989

E & O E - PROOF ONLY

PM: Premiers and Chief Ministers, I extend a welcome to all of you, a very warm welcome. There's some special features about this meeting. Of course it's the first to be held here in the new Parliament House. It's also the first meeting to be attended by a representative from the new Government of the Australian Capital Territory. So we extend an especially warm welcome to you, Rosemary. Of course there's another aspect to that particularly warm welcome, not only because you're the first representative of the Australian Capital Territory Government, but Rosemary becomes the first woman in a State or Territory to sit at the Premier's Conference table. That's a particular first. Also welcome Marshall Perron, attending for the first time as Chief Minister of the Northern Territory, and welcome to you Marshall. David Parker attending as Deputy Premier and Treasurer of Western Australia.

Now as you will see this year the agenda has been restricted to five items only so that we can focus on and in fact progress a limited number of important issues which affect all States. That I think is an improvement from the previous situation where we've deluded ourselves by having the long agenda items that we're going to deal with and of course we never do.

The key issue on this occasion colleagues, is the achievement of responsible fiscal outcome. We're meeting at a time when I think you appreciate some very difficult economic decisions must be taken so that we can ensure that the hard won gains of recent years - particularly the achievement of 1.4 million new jobs - that those achievements can be maintained.

Now put simply the problem that we have at the present time - the context within which we meet - is the problem of excessive growth. The level of domestic demand has been running at a point which is not capable of being satisfied by domestic supplies and that's meant that almost half the growth in demand in 1988 was satisfied by imports. And that's generating in the simplest of terms an unsustainable outcome for the Balance of Payments.

We might like to try and ignore that, avoid it, say it's not happening, but we can't do that. Those are the facts and so we've got to all play our part in achieving a momentum towards a position where can have a level of activity which is sustainable and that's going to require adjustment. As far as Governments are concerned which we represent here - the Governments of Australia - that requires a moderation in Government demand. It's as simple as that.

Now I'm not trying to pretend in saying that colleagues, that Governments have not already been making contributions towards that adjustment. I know that looking around the table you've had to make - all of you - have had to make some difficult political decisions in order to live within the reduced funding and the reduced borrowing capacity which has been agreed as a result of earlier Premier's Conferences, we know that. I must say that having said to you that I recognise that you've had to make some tough decisions as a result of the previous Conferences, that I'm somewhat bemused and not a little annoyed by some who seek to convince the public and the media that there have been no hard economic or political decisions required of the Commonwealth in recent years, now that's a nonsense.

The Commonwealth Budget surplus of \$5.5B this year - which is the second year in a row it didn't come out of thin air. Put very simply since the collapse in our terms of trade in 1985 the Commonwealth - and I want to emphasise this - the Commonwealth is spending around \$10B less on its own purpose programs. That's excluding payments to the States. We're spending since 1985 some \$10B a year less on our own purpose programs. So let's not have any nonsense that the requirements are being placed simply upon other Governments. That's what we've done ourselves - \$10B less each year.

While the Commonwealth has as you very much appreciate also cut payments to the States. The fact is that the strength of State revenue has allowed you to increase your Governments' own purpose spending by about 6% since 1984-85 when as I say during that period our own purpose payments have declined. If the States own purpose general Government sector had matched Commonwealth outlays restrained over the that period, that fact is that States borrowings would be this year about \$3B lower than in fact they are. On our current estimates that would be sufficient to wipe out the States nett borrowing requirement and to put the public sector as a whole in a position to repay substantial outstanding debt.

In talking about our position it also ought to be understood colleagues that the improvement in the Commonwealth budget to which I've referred can't be attributed as some people sometimes try to do, can't be attributed to the so-called soft option of increasing revenue, because the fact is that the Commonwealth revenue of the share of GDP has remained virtually stable for the past five years. In other words our deficit reduction is not attributable to fiscal drag. Indeed the tax cuts of the first of July more than compensate for that.

The other point that I want to make is to say to you that you are going to be significant beneficiaries of the April Statement, of the \$5.5 billion tax-wage package that was brought down then because as you know the purpose of that package was not simply to do what needed to be done in terms of assistance to Australian families but also it was part of a wage trade-off whereby as a result of that \$5.5 billion package the pressures for higher wage increases were reduced. And so we were able to look at a 6.5% wages outcome for 1989-90 which is significantly less than it would otherwise have been if we hadn't had that package. And to give an idea of what that means to you the fact is that every one per cent in wage restraint achieved through our economic policies saves your governments well over \$200 million each year. The simple fact is that if wage growth had repeated the experience of the last boom at the beginning of the '80s then the States would have been the sufferers.

So we need also to restrain our overall call on debt. The Commonwealth has cut its call and as you know is repaying debt. The States in aggregate are continuing to accrue debt at broadly unchanged levels and that needs to be changed so that the private sector has the resources it needs for export expansion and import replacement.

We don't in any sense seek to deny to you colleagues that the restraint that we are talking about is going to cause difficulties. So I know you want to tell us about those difficulties and I have no doubt that you will. We know that there'll be problems. I simply want to say to you what is unavoidably, unarguably true, and that is that if we don't take these difficult decisions now as governments with a combined sense of responsibility for the future of this country then the long term difficulties and penalties will be considerably greater and will be more enduring. So we're not in a situation of easy choice.

So in summary colleagues before asking Paul to go into more detail into the economic context I simply want to say this to you, that we are meeting at a time when restraint by governments is absolutely necessary. We are in the ... document we've put in to you, making it clear that we want you to join with us in exercising very considerable

(PM cont) restraint and that restraint is absolutely necessary if we're going to discharge our responsibilities to the people of this country and we believe that the strategy, the overall strategy of which this is part is the only strategy which is capable of addressing these fundamental external problems that we have of moderating the level of demand in Australia in a way which is going to enable us to meet those external problems. We trust that you'll understand that and be prepared constructively to play your part in the strategy which is necessary to deal with these challenges.

Having said that I'll now ask the Treasurer to speak in some greater detail about the economic outlook to set the environment within which we will consider the items on the agenda of our meeting today - Paul.

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