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AUSTRALIA

PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
AUSTRALIAN FINANCIAL REVIEW POST-BUDGET DINNER
MELBOURNE - 16 AUGUST 1989

Seven years ago, around this time of year, the then Federal Treasurer John Howard brought down the seventh Budget of the Fraser Liberal-National Government.

Last night, Paul Keating brought down the seventh budget of this Labor Government.

The contrast between the two Budgets - as statements of political leadership and of economic management - could not be more stark.

The Liberals produced a Budget that was the quintessential failure of nerve - a Budget that put the needs of the nation firmly in second place behind a doomed attempt at electoral survival.

The results of that lack of leadership were very clear and they were very painful:

- the worst recession Australia had known since the Great Depression;
- double digit unemployment and double digit inflation - a unique, and tragic, testimony to economic mismanagement; and
- a massive prospective Budget deficit of more than $9 billion.

The Liberals' 1982 Budget marked a vital turning point: it was the last of the pork-barrel budgets.

And it taught a vital lesson: Governments that frame budgets looking only towards an imminent election do not only the nation, but also themselves, a gross disservice.

The truth of this lesson about political leadership is borne out by the dramatic transformation that has taken place since the election of this Government.

There has of course been a shift in policy - away from confrontation towards the deliberate process of detailed analytical study and consultation; away from protected isolation to vigorous participation in the global economy.

There has been a comparable shift in community attitudes.

Increasingly, Australians have come to understand that the habits of uncompetitiveness and the practices of confrontationism that were fostered by the conservatives for most of the post-war decades must be abandoned.

We have come to a clearer understanding of the nature of the economic challenge facing our country.

Wage earners have understood that wage restraint creates jobs - some one and a half million since 1983 - and boosts international competitiveness; that greater work effectiveness creates a greater economic capacity to pay wages.

Industries that were sheltered behind the walls of protectionism have understood that long-term success lies with freer trade.

If anyone doubts the significance and the breadth of this sweeping transformation of Australian attitudes, they need only consider the recent competition by Williamstown and Newcastle for the frigate contract.

In both tenders, workers and managers and State Governments presented the Federal Government with a united determination to maximise the benefits, for the regions and beyond, of the technical spin-offs of this very significant project.

So it is against that background of dramatic change - in the Australian economy and in the economic practices of Australians - that we brought down our seventh budget last night.

Again, it is a Budget that addresses the central long-term issues facing the Australian economy, while ensuring relief for those members of the community who need most help.

Ladies and gentlemen,

I think it a good insight into Australia's current economic situation to put the 1988-89 year in context.

When we came to office in 1983 we faced huge economic problems with, as I have mentioned, double digit unemployment and inflation, a recessed economy and persistently high current account deficits.

To counter these problems we set about reinvigorating the economy, restraining real wages growth and generally internationalising the Australian economy, and then drastically reducing the public sector borrowing requirement.

Progress was steady and positive. In 1987-88 unemployment was down to 7.8 per cent, inflation was down to 7.3 per cent and the current account deficit was equal to 4 per cent, down by over 2 percentage points of GDP from two years earlier.

In 1988-89 this steady progress stalled. While employment growth was excellent, with unemployment now down to 6.1 per cent, Australia's current account and inflation rate deviated from their path of steady improvement.

But in understanding our economy we need to ask why?

It was because, and you have heard this said before, demand grew more than the Government or any other commentator predicted.

But in turn, we need to understand where that demand came from.

It was predominantly investment driven. Our business investment to GDP ratio was the highest for any year in which records have been kept. It was some 3 per cent of GDP, or around $10 billion more than its average level over the past 30 years.

Nearly half our investment goods are imported, and then there are the indirect effects of investment spending on imports.

Without this extra investment, both imports and demand, and therefore both the current account and inflation, should have been considerably lower than recorded.

So as economic problems go, there are certainly worse problems to have than this. The paradox is that if we had not had the extra $10 billion investment, we would be hearing less from the doom and gloom merchants.

Let me point you to table 7 on page 2.39 of Budget Paper No 1.

It's the kind of table that would be worth re-publishing for your readers - perhaps as adornment to a Stutchbury column.

The table divides the last thirty years of Australian history into six five-year periods. It shows first that public sector demand grew in the most recent five-year period at a lower rate than at any earlier time.

Second, in that same most recent period, 1984-85 to 1988-89, private consumption increased at a lower rate relative to GNE or GDP growth than in all earlier periods.

Third, and here I quote from Budget Paper No 1, "following fifteen years of poor investment performance (2.2 per cent per annum growth), the average increase in business fixed investment in the last five years was a remarkable 10.8 per cent."

This isn't just playing with numbers. We're talking about an investment boom, not a mirage.

Take a look around Australia and you realise that throughout the nation new projects are underway, using largely imported capital to build Australia's import replacing and export base.

Visit the North West Shelf - massive new investment is expected to create exports worth more than a billion dollars a year over the next two decades.

Inspect the new smelters in Risdon and Kemerton, and the chemical plants in Gladstone and Bunbury - about $450 million in investment, all due to come on stream by the end of the year.

BHP alone has five new projects with a capital investment of more than $600 million which will serve the domestic and export markets.

I have already mentioned the frigate project - Australia's largest defence project ever. Take a look at the submarine project in South Australia and the new generation MDX helicopter to be manufactured by Hawker de Havilland in collaboration with McDonnell Douglas.

Then there are new investments such as that by Bowater at Box Hill to make paper products and by Chargeurs in Wagga in TCF products. And we are all aware of the major construction projects across the nation that will cater for tourists from around the world.

This all reinforces the point that with the public sector now in surplus, it is investment by the private sector that is fuelling the current account deficit.

With the stock of Commonwealth debt rapidly decreasing, Australia's stock of foreign debt is increasingly the result of investment decisions by the private sector.

Ladies and gentlemen,

I say all this with no sense of complacency about the current level of overseas debt.

To the contrary - our policies are actively addressing the equation that lies at the heart of that debt problem.

Put simply, we need a long period where the amount of goods we produce exceeds the amount of goods we wish to consume.

So we must both increase the goods we produce and lower our demand.

That's what we're doing: continuing to boost supply through micro-economic reform and lowering demand by encouraging saving.

Let me look at each side of this equation in a little more detail.

Since 1983 we have taken major steps in the areas of financial deregulation, floating the currency, terminating the two airline agreement, deregulating oil marketing, reforming company tax, reducing tariffs, increasing competition in telecommunications and generally lessening controls of Government business enterprises.

This activity starts to wind back thirty years of policy making directed at imposing restrictions on competition.

What we're about with this micro-economic reform is increasing productivity - producing more goods from a given level of resources.

And we are still engaged in this task.

More recently, award restructuring and decisions on grain handling and transport, coastal shipping and the waterfront have further extended the scope of micro-economic reforms.

The advent of continuous voyage permits and the removal of excess manning have the potential significantly to lower costs in these two areas.

Perhaps as important as the scope of these changes is the method by which they have been achieved.

We undertake extensive inquiries to analyse the problems. We consult those affected both to get their input and to determine how best we can assist them in a process of change. And we take decisions that will produce real gains in a practical environment.

Last night's Budget continued this historic process.

In 1921 a body known as the Tariff Board was established.

It was an eminently sensible title for an organisation whose task was to implement the prevailing fashion for border protection - sheltering domestic producers from international competition.

In 1974, in recognition of the newly independent role the Board was playing, that body was transformed into the Industries Assistance Commission which has built a proud reputation for analytically rigorous studies into industry issues, educating Australians about the real cost of industry protection.

It became, in a sense, an Anti-Tariff Board.

This process culminated in May 1988 with our decisions to lower tariffs significantly over the whole economy - a move which received very wide public acceptance.

That decision is being implemented over four years - but it is time now to open a new chapter in this organisation's history - and to embark on a new phase in micro-reform.

We have decided to expand the role of the IAC to cover the full range of structural adjustment and micro-economic reform policies, including transport matters. It will be renamed the Industry Commission and will be the institution undertaking all major inquiries on structural or industry policy issues with economy-wide implications.

The main references will cover:

. Energy Generation and Distribution, and Railways, both in close co-operation with the States

. Construction Costs for Major Plants

. Export Franchising and Distribution Arrangements

. Raw Material Pricing for Domestic Uses

. Availability of Capital for Manufacturing and Service Industries

. The Commercial Tariff Concession System

. Mining and Minerals Processing

. Statutory Marketing Arrangements, and

. Product Liability

These references will help us continue our process of careful study, educating the community of the need for change, consultation and practical policy implementation. That is the necessary process of micro reform. It is about medium term, irreversable, structural change leading to a more productive economy: not half-baked ideas, not mere rhetoric and not policies incapable of implementation.

I turn now to the demand side of the equation.

Again we are on about addressing the real issues - with an extremely active policy of demand management through continuing tight fiscal, wages and monetary policies.

You don't have to react to every piece of economic news by frantically and demonstrably pulling levers - especially when the calls are coming from those who made such a mess of their last time in the engine room. Our demand management policies are clear cut and well established especially with unprecedented real wages containment and public sector surpluses.

We have dramatically improved the savings balance by an eight percentage point reduction in the net PSBR since 1983-84.

Commonwealth outlays relative to GDP have declined by 6.3 percentage points from the peak in 1984-85, whereas revenue to GDP has declined by 0.7 percentage points over the same period. This turnaround in our budget position has therefore occurred because of cutbacks in Commonwealth outlays.

To suggest other than this, as some in the Opposition do, is a ridiculously easy fabrication to refute.

When the Opposition was last in office, their commitment to saving was represented by a Budget deficit of 5 per cent of GDP and a top marginal tax rate of 60 per cent.

It is worth noting as well that the more than 10 per cent unemployed under the Liberals also had some difficulty in saving.

As well as our public sector savings efforts, the private sector has already been encouraged to save by -

- our encouragement to all workers to take 3 per cent of their wages as superannuation;
- our reduction in marginal tax rates;
- our introduction of full imputation for company tax to encourage greater savings through the share market;
- our removal of division 7 tax on the retained earnings of private companies, encouraging greater savings by companies;
- our reduction in the company tax rate to 39 per cent;
- and our deregulation of the financial system, which offered households more avenues for savings.

With the changes to superannuation announced last night we have made further inroads into what is a structural weakness in the Australian economy - our propensity to consume rather than to save.

At the same time we are addressing the profound question of how the Australian economy will cope in decades to come with the ageing of the baby boom generation.

If we make no provision now for the future, we may be asking future generations to bear a massive, possibly an intolerable, social security burden in the form of age pensions payments.

The changes we announced last night - the improved vesting and preservation of super, the encouragement of annuities, the improved tax deductibility to encourage increased contributions into individual superannuation schemes, the greater incentive for women to take up superannuation, and, most importantly, from 1995 the removal from the tax system of all full and part rate pensioners - will shift the balance markedly further in favour of superannuation.

That means, they will dramatically increase the stock of savings in the community.

These are savings of a high quality - not savings over a couple of years aimed at acquiring a new consumer good but long-term saving to provide for retirement years.

Ladies and gentlemen,

Any political party claiming the right to govern Australia has to be able to provide answers not only to broad structural and economic issues.

It also has to understand that Government is about people.

Labor in Government has embraced both these goals.

The era of profligate welfare hand-outs has long gone.

This Budget, consistent with all our previous efforts to improve the social security system, is about targeting real assistance to members of our community who need it.

Since 1982-83, spending on social justice as a proportion of total Government outlays - I am excluding public debt interest - has increased from about 50 per cent to a projected 58 per cent this year. That represents an increase of nearly $9 billion in current prices.

Medicare, child care, public housing, care for the elderly, the unemployed and the sick are all important recipients of this spending.

In this Budget we provide new assistance to the aged, Aboriginal and Torres Strait Islanders, to homeless youth, to fee relief for child care - not giveaway measures but steady, affordable help focused on the areas of need in the community.

Ladies and gentlemen,

Let this clearly be understood:

We are not about to sacrifice the long-term economic strategy - the strategy that offers the only prospect for sustainable long-term prosperity for this nation - on the altar of short-term political expediency.

The 1982 Budget was the Liberals' seventh.

It was also their last.

Last night, we brought down our seventh Budget.

It won't be our last.

Because with our Budget - indeed with all our Budgets and Economic Statements - we're about securing the long-term future of the Australian economy.

With the Liberals' seventh Budget, they were on about securing the short-term future of themselves.

We're succeeding at our task.

They failed at theirs - failed to secure electoral success and failed to confront or even look for the long-term structural challenges facing Australia.

This is a budget that looks to the future - that gets on, as I have outlined tonight, with solving the long-term issues of Australian prosperity such as structural demand management and productivity growth.

It sets out some of the elements of Labor's continuing strategy for economic and social reform - into the 1990s - into the Fourth Term of Labor Government - and, if you like, beyond.

To that extent, it is a budget that affirms our energy and determination to tell the Australian people the truth about the hard work, and about the endless promise, of the future.

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