



PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

**SPEECH BY THE PRIME MINISTER
AUSTRALIAN FINANCIAL REVIEW
POST BUDGET DINNER
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Ladies and Gentlemen,

It's a pleasure once again to address the Financial Review's post-Budget dinner.

Even by its own high standards, the Financial Review has been playing a significant role lately in public policy debates, particularly in the area of telecommunications - and shall we say a strikingly informative role. I can't say I'm totally delighted about that - but I presume your circulation manager is over the moon.

I daresay there were some in this audience who believed that the March Federal election would be followed by John Hewson's first budget rather than Paul Keating's eighth.

It was a tight election campaign - just as we said it would be. But victory was always within our grasp. The conservatives had again loaded up their saddlebags with the lead of disastrous policies and indifferent leadership.

But the enduringly significant reason we won in March is not because they were so hopeless; we won, and we won well, on our merits.

We had the right ideas, the clear strategy for the nation, and the decisive leadership to secure Australia's future in the 1990s and beyond. The Australian people accepted that, and their mandate to us for continued reform was positive and explicit.

Over recent weeks, and culminating in last night's Budget, we have shown that their judgment was totally accurate and their faith in us was completely justified.

We did this in two ways:

- First, by continuing the hard work and discipline of seven years to get the right macro-economic settings to secure Australia's future - while delivering on our campaign promises; and

- Second, on those firm foundations, by delivering immediate and substantial instalments on a sweeping reform agenda for our fourth term in office.

Tonight I want to address each of these in turn.

And I say at the outset, in discussing the macro-economic aspects of the Budget, that I am under no illusions about the significance of our inflation, current account and debt problems.

Equally, I am convinced that the policies we have got in place - the only ones that can remedy those difficulties - are now doing so effectively.

The imbalance between demand and supply that could undermine the long-term viability of the Australian economy has been removed.

Demand is falling as a result of the tight application of fiscal, wages and monetary policies - while our supply response is being improved through the high levels of education, training, employment and investment we have created, and through our sustained and effective attention to micro-economic reform.

There are clear signs that this dual approach is working.

Without labouring the points, let me briefly give you some statistical evidence for that.

- last financial year, Gross National Expenditure increased by less than 3 percent compared with more than 8 percent the previous year.
- In the same period, growth in Gross Domestic Product has also slowed, although importantly not as much as demand.
- Accordingly, net exports made a positive contribution in 1989-90. In the June quarter 1990 net exports contributed nearly 2 percentage points to growth; imports fell by 10 per cent.
- Employment growth is easing, but it is not collapsing. Employment in fact grew marginally in the three months to July, and the only reason unemployment has risen is because the participation rate has reached record heights - a vote of confidence by ordinary Australians in the prolonged resilience of the labour market under our policies.
- Business investment has eased back to more sustainable levels, but will this year remain at around 12 per cent of GDP - still considerably higher than the average of the previous two decades.
- Inflation has been on a downward trend for the last four quarters, falling from a quarterly rate of 2.3 per cent in September 1989 to 1.6 per cent in June 1990.

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So the economy is responding well to our existing policies aimed at lowering demand and enhancing supply. Care is still required, of course, as we manage the line between demand restraint and avoidance of recession.

But there is good reason to be confident that we will make further progress in the coming year - confidence borne out by the Budget forecasts of a 6 per cent inflation figure and a drop in the current account deficit of around \$3 billion to 4.5 per cent of GDP.

Exports are forecast to grow at 7.5 per cent while imports will fall 3 per cent. That means all growth is coming from net exports - precisely the goal we have been working to achieve.

Given this, our policy settings are thoroughly appropriate to the times.

First, monetary policy has been eased, resulting in a fall of about four percentage points in professional rates since early this year.

Second, wages policy remains tight under the Accord with wage rises through this financial year lessened by our ability to deliver further tax reductions.

Third, in fiscal policy, this Budget is the third in a row in which the public sector as a whole makes no demand on Australia's scarce savings.

At \$8.1 billion, the Commonwealth Budget surplus is our fourth consecutive surplus. They are the only four Commonwealth surpluses achieved in the nearly four decades during which comparable records have been kept. This surplus is sufficient to offset all the borrowing requirements of our business enterprises, and of State and local government deficits.

Those who seek further resources from the Commonwealth need to understand better that in this sense, the surplus is already being used. It is not available to spend on some other purpose.

It follows, too, that the public sector borrowing requirement should remain at zero or better for as long as our current account deficit remains unacceptably high.

The rigour and success of our policy approach is also reflected in the Forward Estimates published in this Budget.

Over the last few years, we have achieved a massive reduction in Government outlays - from a peak of 30 percent of GDP in 1984-85 down to 23.5 percent in this Budget. This brings the size of Commonwealth outlays as a share of the economy back to the level of 1974 - no mean feat given the less buoyant economic circumstances that prevailed while this Budget was framed.

In three years' time, the outlays to GDP ratio is forecast to fall to 21.6 per cent - the level of the 1950s.

The Treasurer made this point forcefully last night and it needs to be firmly reinforced here: that reduction in Commonwealth spending does not reflect any reluctance or incapacity on the part of this Government to meet newly emerging social priorities.

Commonwealth spending is shrinking in relation to the total size of the Australian economy. But we are delivering real and effective assistance to ordinary Australians in areas that either did not exist two or three decades ago or, if they did, were much less comprehensively served:

- child care, aged care, the family allowance supplement, schools, universities, the environment.

We have made Australia both a fairer and a better place to live while meeting the imperatives of our broader economic circumstances.

This Budget puts Australia further down this path.

We fully delivered on our election promises to cut income tax from 1 January; to begin delivering improved services to outer suburbs; to devote further effort to the protection of the environment; to establish the new network of Cooperative Research Centres.

As we said during the campaign, all our new policy initiatives were fully funded.

For the future, let me make these two fundamental points.

First, after years of exhaustive scrutiny and restraint, most government programs now reflect our reading of the services and programs the community expects Governments to provide. The need, and the capacity, for continued big real cuts in outlays has largely gone.

We have now reached the point where further substantial real cutbacks would require us to tell the most disadvantaged in the community that they must bear a greater share of the overall economic adjustment burden than anyone else. This position could never be reconciled with the social justice objectives of my Government.

Second, and counterbalancing the first, the Government retains the full capacity to make fundamental reforms which yield long-term efficiency gains and savings. The reforms announced last night in relation to programs for the disabled and to pharmaceutical benefits, and the reform of unemployment benefits announced during the election campaign, represent fundamental and durable advances in social justice. They are very sound public policy.

In all those cases we have secured significant social policy reforms and substantial longer term benefits to taxpayers and the economy as a whole.

That combination is of course the abiding hallmark of Labor's continuing reform in social policy.

It is no coincidence that these reforms arise from careful, thoughtful and compassionate reviews of the relevant policy areas. So it is with justified anticipation that I point to our announcement of forthcoming reviews in housing and health, and pilot projects in access to services in disadvantaged areas.

These reviews will yield important harvests in years to come: improved services for individual Australians, and improved targeting and efficiency.

Ladies and gentlemen,

One of the fixed principles this Government has adopted in setting economic policy is that the annual budget process should not necessarily or automatically be thought of as the sole vehicle of decisions.

We've always had the view that if a decision needs taking now, we will take it now - for example, in a February or May Economic Statement. In the same way, if an issue isn't ready for decision, we won't risk getting it wrong by needless haste.

That's the right context in which to see the telecommunications issue.

Those who express dismay that telecommunications wasn't resolved in the Budget are falling victim to the fetish that process is more important than outcome.

They ignore the fact that when we do conclude this issue, after the Special Conference next month, it will be a fully considered and widely understood decision.

What we are doing on telecommunications is what we have always done in this Government - we are conducting a debate that will yield an effective and enduring solution for the nation's welfare as a whole.

That solution will be guided by these objectives:

- the creation and guarantee of competition in the telecommunications system
- the maintenance of a fully publicly owned telecommunications entity; and
- the guarantee that ordinary customers will benefit from the new structure - including through the protection of Community Service Obligations.

The debate is taking place within those guidelines; the outcome that will result will stand in the sharpest possible contrast to the conservatives' undebated prejudice simply to sell off Telecom.

In the meantime, as this Budget shows, we're getting on with other critical tasks of micro-economic reform - in the pharmaceuticals industry, in petroleum taxation and in the 50 per cent increase in funds to get efficient and effective national regulation of companies and our securities markets off the ground.

Let me add two points about the new Australian Securities Commission.

First, as well as slashing a lot of frustrating red-tape, the ASC will also strike at the deeply disturbing evidence that has been emerging about corporate malpractice and abuse. These practices have brought Australia's financial markets into disrepute.

The ASC is equipped with the resources to use civil remedies - and has the full blessing of my Government to do so - if the corporate sector is not able to get its own house in order. Legal and moral responsibilities to shareholders and creditors are not to be evaded without penalty.

Second, the creation of the ASC demonstrates the more general need for better coordination of State and Federal administration. The old NCSC was hamstrung - in the end, fatally - by the delays and difficulties entailed in the requirement for any reforms to be approved by seven parliaments around the nation.

In this area, duplication and inefficiency has now been resolved by the establishment of a new Federal authority. In other cases different solutions will be necessary, and as I said in my speech on Federalism last month it is imperative, as we approach the centenary of Federation, that we find such solutions.

The process of reform is to be initiated at a special Premiers' Conference to be held at the end of October.

I have established a Commonwealth-State Relations Secretariat within my Department to provide continuing support, for which \$1.5 million has been provided in the Budget.

But this is a task which should not be left solely to the politicians. I have said, for example, that I would be prepared to seek a constitutional amendment to achieve four-year terms for the Federal Parliament - if there is bipartisan support for the proposal.

If the corporate sector genuinely believes, as I think you do, that three-year terms are a handicap to efficient business, then it is up to you to make your views known, to exert pressure on politicians to see that the referendum does take place, and to give it your vocal support when it does.

Ladies and gentlemen,

In the months since the election, while preparing this Budget, my Ministers and I have been generating the outline of a sweeping reform agenda for the 1990s.

Looking forward from last night we have outlined the broadest, the most far-reaching, the most exciting strategy for change that we have contemplated at any stage since we were elected in 1983.

It is an agenda for reform of Australia's airline and telecommunications industries, and for further reform of the country's manufacturing industries.

It is an agenda for reform of the nation's railway and roads systems.

It is an agenda for reform of Commonwealth-State relations and removal of the duplication of government services.

It is an agenda for social justice for disadvantaged people living on the fringes of our urban sprawls - and an agenda to yield further fundamental reforms in health and housing.

It is an agenda for achieving ecologically sustainable development by better integrating economic and environmental considerations in our decision-making processes.

It is an agenda for the creation of a clever country through continued improvements in education and training opportunities.

And, of course, it is an agenda for the stabilisation of the nation's international indebtedness, while reducing inflation and continuing to create new jobs for Australian workers.

The Federal Budget announced by Paul Keating yesterday delivers a real instalment on every one of these extensive agenda areas.

At the same time, the Gulf crisis, coming after the spate of critical developments in superpower relations, Eastern Europe, the Asia Pacific region and, not least, the imminent business end of the Uruguay Round, means that in foreign policy terms we are as busy as we have ever been.

So there you have it: this Government displaying the energy and determination to do precisely what we promised in the campaign we would do - to achieve great national goals:

- a modern, growing economy, earning its income, paying its way through exports to the markets of the world, re-equipped and restructured in its attitudes, its institutions and its technology; and
- a self confident and vigorous partner in the world economy and in the economy of our region - the region of the future.

With the Government's eighth Budget, those goals are now considerably closer at hand.
