



## PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP,  
ADDRESS TO LAUNCESTON CHAMBER OF COMMERCE, JANUARY 23 1992**

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Thank you very much for that kind welcome Michael (Field), Robin Holyman, Mrs Holyman, the Chamber of Commerce, my distinguished colleagues, including the Mayor, Alderman Graham Beanes, and my Parliamentary colleagues, Senators Tate, Aulich and Sherry, ladies and gentlemen.

Thank you very much for arranging such a substantial gathering at such short notice. It's a compliment for me, Robin, that the Chamber of Commerce was able to invite so many distinguished people tonight to come for dinner and that they've agreed to come. And I'm particularly pleased to be here in the company of Michael and Jan, particularly in election campaigns. We have partisanship in all of us - most of us barrack for our own side and I have great pleasure to be barracking for Michael.

Over the years a lot of Premiers and Treasurers came my way. I must say I always have a soft touch for Michael, always a soft touch for Michael, because he had that disarming frankness about him, no nonsense about him. And there was a great change occurring in the fiscal basis, particularly with the States, there was a great funding gap between fixed revenues and discretionary spending, and no Treasurer in the Commonwealth of Australia had a greater, more difficult task than making the books of the Government of Tasmania adjust. And as Premier and Treasurer Michael has done a sterling job for us, the public here. I don't know whether they quite understand what he has done. But he had to have a heart as big as Western Australia, big in size, to actually take the job on and to do it, and he's done that while at the same time balancing all of those industrial interest which have been important to the State's continuing progress and development.

So I not only regard him as a pal and as a friend but as somebody who has really faced up to really rutted-in problems of the State he inherited, and didn't gloss over it or take the cosmetic job, but to do it the right way.

At the last Premiers' Conference I attended as Treasurer, he made a speech I would have been very proud to have made myself. It was about fiscal policy, and his achievements were quite profound. So I was delighted to be in Tasmania with him today in the course of his election campaign and to be on his side.

Now you've asked me tonight to talk about the agenda of the Federal Government and how we see Australia and where we're going now, and where we're going from here. And this will be important, not just for Tasmania, but for Australia as a whole.

And I think that the main objective that we have to keep before our eyes is a commitment to growth and to adaptation. To growth and to change. That may sound like an unexceptional objective, but there are not too many governments around the world who have committed themselves as positively as this Government has over the years to growth. And that means taking a macro economic risk, taking the forward economic risk on inflation and the current account by letting the place grow more quickly rather than taking the safe course which would put less pressure on prices, less pressure on inflation, less pressure on the current account to grow slowly.

And during the '80s we ran Australia quite quickly, quite fast. In the first seven years of this Government the rate of economic growth was twice as fast as the previous seven years under the Fraser Government. And that was a deliberate policy. And that employment that came from it, which took the workforce from 6 million to 7.5 million, a 25 per cent increase in the workforce, came expressly from that policy.

But we've lost that growth with the recession, we've lost some product, and while we've kept largely those 1 1/2 million jobs, we've lost some and we're adding to the unemployment pool because the labour market is not growing quickly enough to take up the new entrants into the workforce.

And so our commitment to return to growth, the commitment to return to equity and to prosperity, where all Australians have a share of the national cake through their capacity to get a job. And this is no more true than with our young people.

So the Government will be committing itself to a recovery at the earliest opportunity, a sustainable low inflation recovery, and to commit itself further to building on the successes of change in the 1980s in what was broadly the internationalisation of the Australian economy.

And so we are not embarking on an economic statement, the point of which will be to get a recovery going as quickly as possible, to restore employment back to the labour market, to check unemployment and then bring it down, and then to continue the structural change which we had, the momentum which we had up in the 1980s.

And that Statement will be looking to further internationalise the economy, to pin in our success with low inflation, to bolt it in, to continue the changes and efficiency of each place of commerce and each workplace around the country, to change work practices, to change management practices, and to generally improve efficiency, to expand further our manufacturing exports, which have already expanded substantially in the 1980s, to improve the infrastructure of Australia, particularly some of the public infrastructure to make that process happen more quickly.

And we can do some of that by building on the great fiscal position that the Government secured for Australia and for itself by having structural Budget surpluses, which in the cycle of the recession are now in deficit, but as the economy starts to grow and revenue starts to pick up will move back into surplus, to use some of those carefully husbanded changes in fiscal and budgetary policy to now stimulate the economy to lift it back to growth and activity.

Now, much have changed in Australia, but the '90s have to be a decade of productive investment because we're now paying part of the price of actually knocking inflation and speculative investment out of the system.

That may not sound, again, a profound statement, but much of the 1980s was not simply about producing a taxable income, it was about having an inflation bet on the side. And often that was in property. Often a lot of companies or individuals who had reasonable productive businesses decided that because they were doing so well they'd have a little inflation bet on the side with an office block or a set of shops or an office car or something else or a factory, and it is that asset price problem, that is the fall in asset prices coming from washing the inflation out of the system, which has not threatened many of those businesses because they relied upon the inflation pump. And it's that change, the washing of two decades of inflationary expectations and inflationary culture out of that system, which has produced a recession of greater dimension than official policy ever wanted or probably would have caused.

And when you had 20 per cent credit growth per year in the late 1980s, financing a production of about half that, we've now seen credit go back to about 4 or 5 per cent and the banking system has taken losses and is keeping to itself and is now abstemiously funding only productive cash flow investments.

In other words, the inflation psychology has gone. It is the going of that inflation psychology which gives us a chance of being a low inflation country where the premium again is on lower cost of money, low interest rates, permanently low interest rates through the '90s, a lower cost of capital and a more productive place. That is putting the premium on building productive investment rather than simply investment in the non traded goods side of the economy.

And that will help us continue to grow the place in the '90s and to become more self sufficient, less reliant on imports, and therefore less reliant on overseas savings and overseas debt.

It's just worth recalling some things. Because I notice in the public debate we've had a few people say the policies of the '80s have destroyed manufacturing and our manufacturing businesses are closing down, and our agriculture is down, beef is down, wool is down, non-ferrous metals are down - zinc, lead, etc, and therefore the economy is in difficulties. But the fact of the matter is that we had a very great success in manufacturing industry in the 1980s, and between 1982-3 and 1990-91 non metal manufactures rose by 200 per cent in that period, when total manufacturing, that is all manufactures including metal manufactures, rose by 125 per cent in the period. They more than doubled. And most of that occurred in the last five years of the 1980s.

So the growth in manufactured exports is now 17 per cent per annum, whereas rural export growth was 2 per cent down. So if we were the same country today as we were in 1982/3 relying on wheat and wool and other grains and minerals, then this country would be a country which wouldn't be able to afford to import, which would have a very low basis of exports, and the international market place would have sought to recess it probably in perpetuity.

Now we've beaten that dismal legacy, that dismal prospect, by making the changes to internationalise the place in the 1980s. But the challenge now is to keep the process up. And they are the first order issues - to get people back to work, to get a recovery going, to make sure the inflation rate stays low in a structural sense, to lift investment in productive plant and equipment, to get the investment up to get the produce, to get the produce to import compete and to export, to get the current account down and hence our reliance on overseas debt.

And to do that - to make the place set a premium and focus back on those parts of the economy long forgotten - like the public infrastructure, the transport system, the airports, the airline system, all the things that are going to matter in whether Australia is a truly international place or a place which has settled for second-best and which just doesn't have a national will to carry itself off as a first rate economic nation.

Now these are the challenges the Statement the Government is putting together will address. In other words, they are what I call the first order issues. And they are about guaranteeing a place in the world for Australian commerce, in the Asian Pacific area, the fastest growing part of the world, which we have been now very closely integrating ourselves through the 1980s and now the early 1990s.

And it's very interesting to know that 15 per cent of our trade went to Asia in 1983-4, 15 only, and between 1983-4 and late last year, that has shifted to 28 per cent. So it's a very dramatic shift in the orientation of Australia's markets and trade with the Asia Pacific area, which is the fastest growing part of the world, which has got the fastest growing demand and which will need the things for which Australia has a natural comparative advantage such as food, agricultural products in general, metals, other finished products, which we can supply to this part of the world for either further fabrication or specialised high technology things which Australia can do - like telephones, telecommunications, medical services and of course all the services which we never had in the '70s such as tourism, financial services, again medical services, education services, and all the sort of sophistication of the service sector a country like us should have.

So we are part way through the largest structural post war transition and what we want to do is to finish the job, to set Australia up in the '90s, to get back onto those things - recovery, jobs, inflation, investment, the capital stock, exports, the current account and our debt.

Now they are the first order issues. And what I have to do as Prime Minister and as Leader of the Labor Party is to make sure Australians understand they are the first order issues. And that basically we are not going to be dealing with those issues like inducing a recovery, creating employment, locking in low inflation, a lower cost of capital, adding to the capital stock and producing exports, we're not going to do all of that by simply taxing our food and clothing. And this is where I have to deal with my friend and colleague, Dr Hewson, and his proposal for the GST.

Now I often get the question, and I've had it in the last few weeks, when are you going to get stuck into Hewson and the GST? Well, I'll tell you this. The politician in me wants to get stuck right into it but I'm not going to indulge myself. I'm going to do it when the time is right after I've put together Labor's plan for the 1990s.

And I don't doubt, I don't deny Dr Hewson the fact that he has a plan for Australia. But it is the wrong plan, it is the wrong plan. *Fightback* is not a package, it is an excuse for a new tax and there's more camouflage on that new tax than any tax in the history of this country. Never has a new tax been so disguised by the ons and offs and shifts in revenue and the changes to policy, but when you pull all the bits away, underneath there what there is simply a tax which will tax the basics of most Australians.

And the question will be whether Australians really want a tax that will go right to the heart of the Australian lifestyle, or whether they will want policy changes which will deal with the true problems of Australia - that is taking us from an agrarian society which produced a bit of wheat and wool and minerals to a sophisticated industrial place which provides employment to the cities where people live, where the bulk of the population is, and where we can have interesting jobs and be part and parcel of the rest of the world.

Those are the issues for the '80s. As usual the hard ones, the difficult ones, the ones which are not easily sold and won't be done in five minutes. But we are so far through now, we are so far through the transition that we've actually licked a lot of the big problems. We've got the problems of the recession, but we'll come out of this recession not with a 10 per cent inflation rate, like 1982-3, but with a 3 per cent inflation rate. Not with a structural budget deficit but with a structural budget surplus, a cyclical deficit but a structural surplus. With a high profit share because as soon as any growth occurs in the economy it will go straight into profits as the extra production moves straight into the profit share, which will mean we will be set up reasonably well to carry on our ongoing investment.

So now we're running a current account deficit of about 4 per cent of GDP. Our debt has stabled at about 2. The difference is about 2 per cent of our national production. That's about \$8 billion. We've got to produce - import compete or export - to the tune of about \$8 billion to turn our current account deficit into a surplus and to guarantee Australians their sovereignty over their affairs from now on into the future. And to do it living in the most exciting part of the world.

So in structural terms, if you look at the future, the solid bits, coming into the '90s is nothing like coming into the '80s. We came into the '80s with the wage share up and the profit share down, with inflation in double digits and mass unemployment, with investment smashed, with virtually manufacturing closing down, with no tertiary sector to speak of. And yet now we have such great opportunities, notwithstanding the fact that we repair from the recession to pick them up.

Now the recession is part and parcel of events world-wide - there's a recession in the United States, there's one in Canada, there's one in Britain and there's one in Australia and in other countries. And they're for roughly similar reasons. But be there or not, our policy must be to get out of it because it is not acceptable of us, simply for the Labor Party to say we will adjust Australia into a more productive place by letting the burden fall on the unemployed, they can carry the adjustments. That's not been the Australian way, it's not the Labor way. And that's why we must go back to positive rates of growth and do things that have quick mechanical effects inside the economy, to get the place back into growth and recovery, and to get that unemployment down, so that all Australians can share in the fruits of our economic wealth and our economic prosperity.

So they are the real challenges. To recognise that we've come a very long way, that we have come from a place which was slipping down the international income league table and which is now coming back up that table in terms of its basic foundation of its wealth, and to realise that it is that which will give Australia its future into the 1990s. By only being competitive, by only being productive, only being efficient can you make it, and we will not solve our problems by slashing our essentials of life with a very heavy flat tax, believing that that will cure all of those very specific and practical difficulties which the country is now facing.

Now, the other problem about the GST is simply the fairness of it. Can I just make this point. I think it is fairyland for the Coalition to believe that they can basically market a tax which affects the poor the same as the wealthy, which is a flat tax, the same nominal tax on all goods regardless of income. And if you're on \$20 000 a year and you spend all of your money, all of your income and all of your outgoings are taxed. But if you're on \$100 000 a year and you spend \$40 000, only the \$40 000 is taxed, and not only that, not only is the \$60 000 not taxed, but there's a tax cut in stall for you as well. And that sort of disparity in distribution and that sort of unfairness is not what is required to keep the Australian community socially cohesive and looking at the same issues in recovery and production.

Now, in the last few weeks we have had the pleasure of meeting many members of the business community in this consultation process which the Government has run. And three of my colleagues and myself have seen a very representative group of people from Australian business, unions and other walks of life. And I can say the most clear and obvious thing that came from that is a lot of the ideology has fallen away from the public debate. But the business community was not in there saying, as they would have said a couple of years ago, look - first thing is we want is the labour market deregulated; second thing is, we want a change in the tax system with a certain agenda.

Basically people are saying now - let's put all that to one side, let's get the place moving again, let's pull together and let's get the place moving again.

There's a great spirit of cooperation out there and which I hope the Government can use fruitfully to get Australia moving again. But I don't think that spirit will obtain if we try to tear the consensus up and we rip away at the fabric by a profound change to the tax system, which leaves the low income people worse off and the higher income people better off and we have a transfer of wealth from the poorest people to the wealthiest people in society, while at the same time we try to lock in a low inflation rate and start rebuilding our productive sector for the long run through the 1990s.

It won't wash. And it's my job to tell people why the GST is not a policy, and I'll be doing it fulsomely, but when it suits my Government to do so. And it will suit it after, we will address it comprehensively after we've addressed our own fightback, the real fightback - that is to get the economy moving again, back into recovery, and back into growth.

So I look forward to working with the business community, to bringing down an economic statement which is relevant to the things that really matter, that really matter, about engendering that recovery, about sparking that employment, about pinning that inflation rate down, about keeping that lower cost of capital, about getting investment going, building the capital stock, watching that production grow and seeing those current account projections come down.

That's where Australia's bread and butter is. That's where its future is. And isn't an ideological obsession about tax rates, which might have their place in Western Europe but don't have their place in Australia.

So, I conclude on this point that the Government has listened and is listening to what Australians say. I'll be very interested to hear from some of you tonight your views about how you see affairs in your own State of Tasmania and we will be endeavouring, we will put together a policy mix which keeps on the main gain of Australia's competitiveness and its future, and keeps the fairness of Labor stamped upon it, but the product of which we hope can be accepted by broad sections of the Australian community as fair and just and in time. And I hope from the presentation of the Statement we can get confidence moving again so that we can actually get that confidence log jam broken and let people know that the Government wants the economy to grow, and the Government isn't sitting back there trying to keep the economy recessed or slow for inflation or current account reasons.



It actually wants the economy to grow and will do the things to get that growth and activity. And we can go out, leave this trough, leave this period behind us and go back to the great changes through the '80s, build on them in the '90s, and find ourselves in a very, very significant position in the world and most particularly in the Asian-Pacific region. That has to be our great objective and that's what we will be committing ourselves to. Thank you very much for coming.