



PRIME MINISTER

STATEMENT BY THE PRIME MINISTER THE HON P J KEATING, MP

SOUTH AUSTRALIA

All Australians at present should be thinking about which political party has the best policies for Australia.

It is fair to say that South Australians have good reason to be thinking more deeply than most.

South Australia has some great strengths, including some of Australia's best industries - industries with excellent prospects for expansion both domestically and overseas.

However, South Australia has problems which the rest of Australia does not face and these have to be addressed.

I do not say this lightly.

It is the reason why I have taken the opportunity to talk about South Australia and its future.

Unless these problems are addressed properly, this State faces an uncertain future, regardless of what happens elsewhere in Australia.

South Australia's additional problems stem from two principal causes.

First, its relatively narrow economic base has made it difficult to respond to the forces of structural change.

This has been a problem bedeviling South Australia for the past two decades.

Since 1978 Australian employment has risen by 28 per cent.

Employment in South Australia has risen by 15 per cent.

Unfortunately for South Australia, many of Australia's expanding industries have tended to be located elsewhere.

Queensland's employment has risen by 53 per cent over the same period.

Western Australia's by 44 per cent.

The second cause of South Australia's additional misfortune is more recent and relates to the State Bank.

I don't want to revisit all the trauma associated with that sorry debacle.

When John Bannon told me back in January 1991 of the losses of the State Bank it seemed such an utter waste of public resources.

On that occasion, like many people I am sure, I felt an immediate contempt for those who managed it.

Since then the losses in the State Bank have proved to be much larger than those that John Bannon was made aware of in January 1991.

With the latest commitment of \$850 million in the 1992-93 State Budget the total amount of assistance to the State Bank now stands at \$3.15 billion.

This has imposed an enormous cost on the State's public finances.

Inevitably it has restricted the State Government's ability to respond to the recession.

Net public debt is now around \$8.25 billion in South Australia, nearly 30 per cent of Gross State Product, after having been around 15 per cent as recently as 1990.

Interest payments will take up 15 per cent of State revenue in 1992-93 even though interest rates are much lower.

The drain on State resources of the State Bank is immense.

It may be of a similar dollar amount as the losses in SBV and Tricontinental, but the revenue base of the State of Victoria is more than 3 times larger.

And while Jeff Kennett is approaching the task with minimal finesse and maximum disruption, Victoria does have scope to put its financial house in order.

The South Australian Government, on the other hand, ran a tight fiscal ship in the 1980s and, apart from the State Bank, enjoyed a well-earned reputation as responsible fiscal managers.

This is good news in one sense, as the State in terms of its recurrent budgets has been well managed, but the bad news is that there is little fat in the South Australian budget to carry the State Bank.

The State Bank's difficulties have sapped community and business confidence which has added to South Australia's problems.

All of this has meant that the recession which has hit Australia badly has hit South Australia particularly heavily.

Between July 1990 and December 1992 employment in Australia fell by about 3 1/2 per cent. In South Australia, the peak to trough fall was 5.1 per cent.

To get some perspective on how the recession has had a differing regional impact employment in Western Australia fell by well less than average at 1.7 per cent, while employment in Queensland actually rose by 2.4 per cent over the same period.

In thinking about the future, all South Australians should take as their starting point the narrowness of the industrial base of the State and the financial burden of the State Bank.

But this is not the end of the story.

South Australians should also recognise that two other potential calamities hang over their heads.

They will come care of Dr Hewson and a Coalition Government - if that misfortune were ever to happen.

The first casualty would be South Australia's car companies.

For Dr Hewson's election would mean an immediate and sharp setback for the car industry.

With two of Australia's car companies located in Adelaide that would be grim news for South Australia.

Twenty thousand jobs would immediately be at risk.

Dr Hewson's commitment to negligible tariffs by the year 2000 and zero thereafter would stall the investment plans of both GMH and Mitsubishi.

With excess car capacity all around the world, neither GMH nor Mitsubishi is going to be willing to commit new resources to Adelaide if the long run viability of the car industry in this country is made so uncertain with zero tariffs.

No car company is going to invest in Adelaide in the naive hope that Dr Hewson's GST will magically enable them to compete.

This is what the car companies have been saying and South Australians should heed their warnings.

But the potential problem is worse than that.

It is not just the car companies themselves that are at risk from Dr Hewson's zero tariffs. South Australia could well lose the impetus of the component industry as well.

The component industry is now operating at a tariff of 15 per cent. Over the last 5 years these manufacturers have seen their tariff come back from 35 per cent, 25 per cent or 20 per cent to this level.

The important point is that under the Government's Car Plan these component manufacturers will continue with a 15 per cent tariff from here on.

Under Dr Hewson this tariff would be reduced to zero.

This sector of industry holds out great promise for South Australia with a number of key companies already successful in manufacturing and exporting.

This is where Adelaide's future lies: building successful internationally-competitive, export-oriented industries such as the motor vehicle component industry.

But as the component companies all stress, they need the 15 per cent tariff and export facilitation to make it all work.

Without such support the component industry is nowhere.

And unfortunately so is Adelaide.

This city will be denied the opportunity of building new industries and new export markets in one of the key areas where Adelaide has expertise and has had recent success.

And these successes are real.

Britax Rainsfords, for example, have doubled its sales over the past three years through export success. Half of its sales now go offshore. ROH Industries, Castalloy and Clyde - Apac are all small to medium size component companies who have built up successful businesses through exporting.

The second great danger for South Australia is less obvious.

But just like zero tariffs and the automotive industry, it too has the potential to deal South Australia another body blow.

Here I am talking about fiscal equalisation – the method by which Commonwealth payments to the States are distributed in a way that benefits the smaller States.

It sounds complex, but when it is explained it has very disturbing implications for South Australia.

In 1992–93 the Commonwealth will make financial assistance grants to the States of \$17.3 billion.

These will be distributed amongst the States in a complicated fashion designed to even up the fiscal disabilities faced by some States.

South Australia is a winner from this process to the tune of \$385 million in 1992–93.

In fact, over recent years the two largest States have become increasingly strident about the supposed burden upon their finances brought about by fiscal equalisation.

Victoria in particular has challenged the whole basis of fiscal equalisation, on the grounds that it was originally designed as the *quid pro quo* that Victoria had to pay because of the cost of the tariff to the States which do not have a manufacturing base.

According to the Victorians, as the tariff declines in importance so too should fiscal equalisation.

The very real risk for South Australia is that a Hewson Government will accede to pressure from his Liberal counterparts, Fahey in Sydney and Kennett in Melbourne, and start the process of winding back fiscal equalisation.

Fahey and Kennett may already have an understanding from Hewson that he will look sympathetically at their claims.

This spells massive problems for a South Australian budget already staggering under the burden of the State Bank.

The State Bank is costing the South Australian budget about \$280 million every year and the burden of that cost is obvious.

Any further loss coming from the phasing out of the \$385 million of fiscal equalisation money would do enormous damage to South Australia.

Dr Hewson will of course say that he has no intention of removing fiscal equalisation.

South Australians have to ask can you trust him?

Can you trust him when Fahey and Kennett will be on his back with their fiscal problems?

And can you trust him when he is philosophically opposed to notions of burden sharing?

He believes in straight per capita funding - no allowance for evening up.

It would be a very brave South Australian who puts his trust in Dr Hewson, and who believes that Dr Hewson will fight for South Australia's fiscal rights at the expense of the fiscal position of John Fahey and Jeff Kennett.

The obvious question to all of this is - what can South Australia expect from a re-elected Keating Government?

What would a Keating Government do for South Australia and how would it help South Australia overcome its special difficulties?

There are no magic solutions but there are things that can and should be done.

We will ensure that the Australian economy continues to strengthen and grow.

We will work to build new industries and forge the necessary links with the Asia Pacific to generate jobs and exports.

But South Australia needs more than this.

The unfortunate reality is that even in a national recovery South Australia can be left with its particular problems.

It will still have to deal with its narrow industrial base and the need to build new industries and strengthen old ones.

It will still have to absorb the State Bank losses.

The simple truth is that this can only be done with Federal assistance.

The choice for South Australians is who will do this more sympathetically and effectively - a Keating Labor Government or a Hewson Coalition Government?

Would Dr Hewson find additional Commonwealth funds for South Australia when he is committed, as he is, to a 5 per cent cut to general purpose payments to the States and to total cuts to Commonwealth outlays of \$9.4 billion?

Would Dr Hewson committed, as he is, to the doctrine of 'restructure or perish', find the resources to help South Australian industry restructure?

Would Dr Hewson committed, as he is, to the doctrine of non-intervention intervene for South Australia?

When the same question is asked of the Keating Government, the record is perhaps more eloquent than any claims.

For a start the Government for a decade has supported fiscal equalisation to help the smaller states including South Australia.

The Government has also been prepared to take active measures to build new industries in South Australia in recognition of the particular difficulties facing that State.

And we will do more in the future.

That is why we argued that the Australian Submarine Corporation be based in Osborne. It now supports about 1200 jobs in South Australia and will inject some \$1.8 billion into the local economy over the 14 year construction period.

It will also create a viable Australian ship building capability into the 21st century.

The Commonwealth has allocated over \$50 million towards the establishment of the MFP and is pleased to be associated with this important project.

The Commonwealth has also agreed to:

- . build a standard gauge railway from Adelaide to Melbourne linking South Australia more into the eastern states economy
- . upgrade AN's Islington and Port Augusta workshops, at a cost of \$7.9 million; and
- . refurbish the Indian Pacific, at a cost of \$12 million.

On the roads front, the Commonwealth has provided:

- . \$35.8 million in 1992-93 for major arterial road projects including reconstruction of South Road, the Salisbury Highway extension, and the Western Gawler Bypass;
- . \$27.3 million in 1992-93 for local roads as part of South Australia's general purpose assistance allocation; and
- . \$12.9 million under the three year Urban Public Transport program.

The Commonwealth has also assisted the wine industry through the Export Market Development Grant scheme which has been used successfully by several wine exporters in recent years, and the establishment of the Co-operative Research Centre for Viticulture which will receive \$12.4 million in Commonwealth funding over seven years.

South Australia will receive up to \$69 million over the five years 1991-92 to 1995-96 under this Government's Building Better Cities Program.

This Program supports strategies designed to bring about effective and interactive urban development and redevelopment in three areas - Elizabeth/Munno Para, the MFP core site/North West Crescent, and the Inner West of Adelaide. A southern area strategy is also under consideration by the Commonwealth.

In the Elizabeth/Munno Para area, for instance, Commonwealth funds are being used to encourage home ownership, create a more efficient city centre, improve the housing stock and better the physical environment through stormwater management and tree planting programs.

The key point is that Dr Hewson in Fightback I is committed to abolish all of this.

South Australia fared very well out of the Commonwealth Local Capital Works Program, relative to its proportion of the population, receiving \$35.4 million (over 10 per cent).

Among the areas to receive funding were:

- . Northern Adelaide (\$12.0 million) including Salisbury, Elizabeth and Gawler;
- . Western Adelaide (\$8.3 million) including Port Adelaide, Woodville and West Torrens;
- . Noarlunga (\$3.3 million);
- . the inner urban municipalities of Adelaide, Prospect and Glenelg (each between \$0.5 million and \$1 million) and
- . Whyalla, Port Pirie and Port Augusta (again each between \$0.5 million and \$1 million).

South Australia has also successfully bid for several of the co-operative research centres the Commonwealth has partly funded under the CRC program.

In all, eleven centres have activities based in South Australia, of which four are fully based in South Australia:

- . the CRC for viticulture I discussed earlier. This centre will concentrate on improving the production of grapes with minimum chemical residues, and developing techniques to process grapes with the minimum use of preservatives;

the CRC for sensor signal and information processing. The research covers signal processing technologies, principally for microwave and high frequency radar. Commonwealth funding is \$12.4 million over seven years;

the CRC for tissue growth and repair to advance the manufacture and testing of bioactive proteins. Commonwealth funding is \$10.2 million over seven years.

Dr Hewson will abolish most of these programs and the future of all of them is in doubt.

A Keating Labor Government will sit down with the South Australian Government after the Federal election and help them deal with their fiscal problems and stabilise South Australia's debt.

For a start, South Australia should sell the State Bank.

This is a view that I put to John Bannon and I know is shared by Lynn Arnold.

To assist this a Keating Government will negotiate tax compensation for South Australia in return for the gain to Commonwealth revenues.

Indeed, discussions between our two Governments are already underway. Compensation will be negotiated on the basis of current arrangements.

Lynn Arnold is committed to helping South Australia restructure and I believe he has the strength and courage to do it.

I am prepared to lend him every possible assistance in this.

A Keating Government remains committed to fiscal equalisation as an appropriate and fair means of distributing Commonwealth grants to the States.

A Keating Government believes in an Australian car industry and will not sacrifice a major South Australian industry in the narrow pursuit of zero tariffs and the level playing field.

In fact this Government believes in working with industry, providing a helping hand where it is warranted to build a new industry or to expand an existing one.

Much has been done already and more will be done in the near future.

The problems for South Australia are by no means insurmountable.

There are signs of a pick-up in the South Australian economy and after the debilitation of recent years attitudes seem to be growing more positive. For this Premier Arnold deserves credit.

Since its trough in May 1992 employment in South Australia has been steadily improving and has now risen by 1.0 per cent.

Much of this appears to be due to a strengthening of the car industry in South Australia.

I am confident that South Australians can turn their State around.

They need the opportunity and the assistance to build new industries, to generate the income to deal with their problems and create jobs.

South Australians have done it hard over recent years.

Today I would ask them to think carefully about which of the political parties will stand by South Australia and its essential industries in the years ahead.

ADELAIDE/CANBERRA

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