



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
OPENING REMARKS AT PREMIERS' CONFERENCE, PARLIAMENT
HOUSE, CANBERRA, MONDAY 5 JULY 1993**

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I declare the meeting of the Premiers' Conference open and say that this is somewhat of a significant occasion because this will be our first meeting where we have together participated in a study of the national fiscal outlook. Where, before, fiscal policy of our effect upon savings has always been something which we have together contemplated, on this occasion we have had quite a long run study between us and we have prepared a document called the "National Fiscal Outlook". And it attempts to look at the public sector, its role over the medium term, its call on savings and therefore our role in investment and in debt and in recovery.

This is the first time we have sought to have that greater transparency, rationality, predicability thereby giving the rest of the country an idea of where we are heading.

This follows the meeting of the Council of Australian Governments which first met last year and in that it was itself a somewhat historic meeting because it was the first time that we separated out non-financial matters from the Premiers' Conference Loan Council agenda. Normally we would have an agenda for financial assistance grants, Loan Council matters et cetera then we would have other matters associated with it and invariably, as attendees of long standing here know we would not get often on to those issues. Now we have a separate non-financial meeting - our Council of Australian Governments - where such things as electricity generation and distribution, technical and further education, recognition of standards and reorganisation of ministerial councils has already produced a positive result and so in a way we have been operating the federation at the financial and at the policy level in a way that better meets the country's needs than we have in the past.

We have been focusing on sensible, practical gains wherever we could see them, and taking advantage of them.

At this meeting we have another opportunity to deal with the nation's public financing for the coming year and the fact that you now have a much better idea of where the Commonwealth budget is going by virtue of the national financial outlook and the fact that we now provide the States, all of you, and Territories with the 'offer document' at least two business days ahead of the meeting - in this case last Friday - means that all Governments represented here have an idea of what the Commonwealth proposes and what you responses to it may be.

The first thing I would like to say is that about the issues of this meeting is that this is the third year of a real terms guarantee on the pool of financial assistance grants to the States and we have maintained that commitment in that guarantee, on maintenance in real terms for 1993-94. This for us is despite considerable pressure on our own Budget, as you know in terms of the Outlook Statement.

The Commonwealth offer also accepts in general terms the outcome of the 1992-93 Grants Commission Review so, including all hospital funding grants in the base for both years, the Commonwealth in its offer for this year is increasing comparable funding over \$544 million over last year which is an increase of about 3 per cent nominal and above the expected inflation rate.

In that sense we think that we can do justice to the States in this and at the same time to national fiscal policy. It is very clearly the Commonwealth's view that the Budget is playing an appropriate role in terms of cushioning the impact of the recession and with the so-called natural stabilisers working. The world is slower than we thought it would be just a year or so ago and it is just worth recalling that in December 1991 the OECD forecast for the year 1992 was 2.7 per cent. That turned out to be -.9 per cent which was a dramatic change from +3 growth for the OECD area as a whole to virtually -1. And for 1993 in December 1991 the OECD forecast growth at 4.3 per cent for the area, in its latest forecast it has 1993 coming out at .3 per cent. So a change from 4.3 per cent to .3 per cent and the previous year from 2.7 per cent to -.9 per cent. This is a very dramatic change and most of that is coming from ... in the case of Germany, Germany was in there for 1992 at 1.8 per cent and ended up for 1993 at 2.5 per cent in forecast and ended up at -1.9 per cent. Japan was in at 3.5 per cent and its forecast for 1993 is +1 per cent rather than 3.5 per cent and the United States was 3.8 per cent and was in at 2.6 per cent. So, we can see how that 2.7 per cent and 4.3 per cent translated themselves into -.9 per cent and +.3 per cent. That was not just the impact of restoring balance sheets and dealing with lower inflation and the blow out of the credit boom of the eighties, but the reunification of Germany has obviously put a very large dampener on European growth. That's obviously affected Japan as well and the United States.

So, this is the context in which our fiscal situation is set. And it means that for our country we've been growing of the order of 2.5 per cent while, as I say, the

OECD area in 1992-93 - if you look at us, I just gave you the calendar years but if you look across the financial year if you put OECD numbers in with our financial year we're growing at about 2.5 per cent and the OECD is growing at 1 per cent. So we're doing better than twice the OECD growth rate. Now, part of that is because of the role of fiscal policy and lower interest rates and lower inflation. And you saw on the national accounts a couple of weeks ago where a substantial contribution was being made from the public sector. And the public sector in deficit is holding the growth in the economy up higher than it would otherwise be.

Now there is a view around the place, particularly from the Federal Opposition that we ought to be having the budget pulled more rapidly back into surplus. Well this is very much a wrong view - very much a wrong view. And, again, I remind people what the OECD secretariat and the IMF said just six or eight months ago. And that was, that the stance of fiscal policy in the area of the OECD and the IMF ought to be basically in deficit so that the world economy starts to come out. Now, that's meant that the One Nation funding which has been spent throughout calendar 1992 and now into calendar 1993 is playing its role - not just in the nation of course, but in each state - and it has had its own impact upon fiscal policy.

Now, I just paint that picture to put the setting. In that context, our budget and the maintenance of the same real - in terms of payments to the states - and the sixteen hundred million we're going to spend on health over the next three years is, we believe, getting the balance fairly right in terms of payments to the states. Now, I'm not sure what Premiers may say about the offer but I just want to make this point. And that is that the Federal Opposition - at the time of the last election - was intent upon taking \$709 million dollars out of financial assistance grants for this year. And that meant NSW losing \$195 million, Victoria losing \$145 million, Queensland \$138 million, Western Australia \$76 million, South Australia \$72 million, Tasmania \$29 million, Northern Territory \$40 million and the ACT \$11 million. Now, at the time we argued that that policy was a wrong policy - I might say many of you couldn't see the wisdom of that position at the time and were happy to sign up to that policy and I only make the point that what you are receiving now is far more generous than that which would have been received there.

Could I just say that - going back to the economic outlook - could I just make these points. We are well positioned now to grow, particularly after the visit I had to China and Korea our stance with Asia, our competitiveness has improved thirty percent since the middle eighties has put us in a very good position to participate in the growth of this area of the world. We've got solid productivity growth at the moment, our productivity growing at about two per cent per annum. Inflation is better than our trading partners; Australia's top five partners' inflation rate is 2.2 per cent and ours is 1.2 per cent, well below that of our partners. As we said, manufactured exports in 1992-93 are now around 20 per cent higher than a year earlier and nearly three times higher than a decade ago. Interest rates are at historically low levels and, importantly, the profit

share in the economy is now already up to just about the late eighties level which is beyond the sixties historic experience, even at this stage of the cycle. So, profitability has improved, balance sheets of companies have improved and I think companies are in a position now where they can look around for opportunities and take investment decisions.

So, could I perhaps conclude on this note and invite the Treasurer to say a few things and then I'll invite the Premiers to address the Commonwealth offer document and any other remarks they wish to make, just to say that in the 1980s Australian fiscal policy was arguably in better shape than any OECD country. As a consequence, we've been able to stand the shift in the budget balance better and cushion our economy better, than comparable countries. It's one of the reasons why we're growing at 2.5 per cent and they're growing at one per cent, on average. We know we've got a fiscal task to perform in the medium term. But not in 1993-94. 1993-94 is a year when the budget should be in deficit; it's a year when we still need the public sector hauling activity along and at the same time encouraging private sector investment. And it is, as a result of that national fiscal outlook statement, that we will focus on the medium term of fiscal policy. And that statement allows all states to understand where we're coming from; it allows the public the opportunity to know what the shape of fiscal policy may be; and it also provides a role for the states in being part of that fiscal outlook and savings equation.

So, we think the offer today is a fair one, we've maintained our commitment to the real terms guarantee, we've sought also to receive the Grants Commission Report and introduce it, and I remind you again that we'll be spending \$1,600 million over three years on health. So, with those things, we think in all the circumstances the Commonwealth offer is a decent one and one which the states can accept.

I now invite the Treasurer to augment my remarks.

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