PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP POST-BUDGET ADDRESS TO THE COLLINGWOOD FOOTBALL CLUB, MELBOURNE, 12 MAY 1995

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It's great to be back with Collingwood again - good ol' Collingwood forever. They know how to play the game, and they do, and there's a thing about Collingwood - two things: commitment and loyalty. That's what I always think - when I think of Collingwood, I always think of commitment and loyalty, and it is the great underdog club. And I always say, in the political context, what's the best position in the race to be - well, this is racing parlance, not football parlance - but one out and one back. One out and one back - not quite in front, but one out and one back, and make a rails run at the death. And that's what you are doing at the moment Alan, I know that. He's a cunning fellow, that Alan - he's got a strategy here, and that's the pendulum...it's the same in politics - when that pendulum swings up, you get all that tear back, and then of course, we will see a great round of Collingwood victories in the latter part of the season. Anyway, I hope I'm there to see a couple of them And let's, at least, mark today as perhaps one of those days. I think it's been a good week for the country, and if it's a good week for the country, then it's a good week for Collingwood. And, so let's mark this day as a day where maybe the pendulum has reached the top of the swing.

Well, I'm here to talk about the Budget, and I know people think Budgets are pretty dry things - I suppose they are, but they do get your blood racing on occasions. And this one has got John Howard's blood racing. Poor little Johnny was in there last night doing his best, gesticulating and carrying on, but they were a very glum little side behind him when they left. It was very interesting, the House of Representatives: it has this - it's a bit like a football match - the mood moves up and down the field. And always in the high professionalism of politics - the same as football - you know when you doing well, you know when you have been hurt - I mean, you might walk straight, but you know it's hurting like hell - and you know when you have hurt the other guy. And they were a little hurt, little bunch this week, I can tell you. And ours were a little happy little bunch. So, there's a bit of something going on there in Australian politics.

But let me tell you some things about the Budget, because it is important to all of us, as it is important to where we are in our economic history, and the cycle, because Australia is really in a great position - we are well-placed today. We're now an open, externally oriented , competitive country. We are living near the fastest rowing markets in the world for the first time in our history - I mean, the markets for us, traditionally, were in Europe and North America. They are now right on our doorstep here in Asia. We are so competitive today - we are 40% more competitive than in 1983. And when you hear a number like that, you think "that's 4% or 14%" - but it is 40%. That's 40% more competitive - that's the exchange rate, wages and inflation. 40% more competitive since 1983, and that is what is driving the exports - they have grown by 50% in the last 6 or 7 years - and it's what is producing...that competitiveness is producing the natural productivity coming out of the pores of the economy, because we now have a contestable market. In the days of high tariffs, when we had business which didn't need to operate competitively to make a quid, but rather just live behind the tariff wall - as that went down, the natural productivity of a business - of a management of a business - the tone improved. And we have now got enterprise bargaining. And as a consequence, we are now getting productivity related wage bargains in 60-odd% of the Federal Award area. And so we have produced in Australia - through import competition, and by competition among import competers and non-import competers - we have now produced a contestable economy, or a contested economy. And that is what is now naturally producing the low inflation.

In other words, if you get the structure right - tariffs, competition policy which we are doing with Hilmer, a completely open financial market, a much more flexible labour market - all of these things produce a natural contestability which gives you natural increments to productivity and low inflation. So that's the sort of economy we have got today. We could have only dreamt about that sort of economy 10 years ago. So, here we are - we are in this great island continent, we are at the foot of the greatest markets in the world, and we are so competitive, you could almost sell anything from Australia these days. So, the aim was - in this Budget - to keep that going. To keep the growth going. Now, you know in this country it has been the Government's policy to run a pro-growth strategy. And you might say "well, all Governments run a pro-growth strategy, don't they?". But, the answer is, they don't. If you go through Western Europe, or most of North America, the growth number drops out of the system - it's not an objective, it's a residual. In other words, all the bits and pieces go into the machine, and get thrown around, and maybe 2% GDP drops out the back, or 1% - if we were living in Europe, it would be 1%, if you were living in Japan, it would be 0.5%, but if you lived in Australia last year, it was 5%. And the year before that, 4.5%, and the year before that 4.25%. And the year to September, that growth became 6.5% - but 6.5% was just a bit too strong for us. So the Government moved interest rates up on 3 occasions late last year to try and shave it off and slow if back to a sustainable rate. And in the Budget forecast, we have got that sustainable rate of 3.75% for this year. So what we needed to do then, was to look at the medium-term, because we have now, basically, broken the back of inflation - we have got high rates of growth, we have had phenomenal rates of employment growth, we have had 640,000 new jobs since the election. It's the fastest decline in unemployment since we have been keeping records about the labour market. So we have got employment - we had 90,000 job growth for the month announced yesterday. Our problem remains - the current account deficit. The one constraint on us really growing the place faster is the current account deficit, and our reliance on overseas savings and overseas debt.

Let me say a few things about this, because this is what the Budget is principally aimed at - it's not really aimed at slowing demands this year, because the interest rate adjustments of last year have effectively done that. So, the Budget is aimed at that medium-term, late 90s - 2000 period of pulling the current account deficit back so we can go on with faster rates of growth, but the demand not spilling into imports. More of it being satisfied by a bigger investment program here.

Now, let me just give you a little picture about the current account. In the 1960s and 1970s, we always ran a current account deficit of about 2.5% of GDP, so we had no debt. And the reason for that is we always had capital inflow, private financial investment from abroad, equal to about 2.5% of GDP per year. So, we are running a current account deficit of 2 and a half percent - and we picked up 2.5% capital inflow, so we end up with no debt. What happened in the 1970's and the 1980's our savings went down quite sharply, that's household savings and they went down sharply because of over a decade of high inflation. See, once you put 10% inflation on the people for over a decade, you can't kid them that there's any value in sticking money away for savings because if there's 10% inflation and 4% real rate of interest they're picking up 14% - there being taxed on the 14 so in reality they are being taxed on inflation and their real interest rate was completely gone. So, we inculcated in a whole generation of Australians: buy a flat, buy an apartment, buy a house, buy a beachhouse, buy anything but don't basically save and then of course we had access to debt, to housing - very high level of home ownership, cars, software, whitegoods etc and as a consequence our household savings declined. It's a very hard thing to change the savings propensity that is the willingness or wish of a nation to save. You can change it but low inflation we have got now will change it, but how long we have had low inflation for three years, how many more years before people get the message that savings are basically worthwhile again and many years probably - and the thing is we can't wait that long so one of the ways we get that adjustment is through the budget and the other ways government sought to get the adjustment is through superannuation, let me just explain what's happened with the current account. As I said to you in the 60's and 70's it ran at about 2% of GDP, it now runs on average around 4 and a half percent of GDP so we have picked up 2 and a half percent of GDP on the current account that we basically can't afford and we have been doing that that's been adding to our national debt. We have got to then tailor it back to under three percent to allow us to be sustainable and consistently on a very long term and consistent basis.

So, we have to find essentially...our problems is 2 percentage points of GDP. Now this year GDP is about 500 billion, that's the total economy, five hundred billion gross domestic product. Two percent of it is about ten billion, ten thousand million, so our problem is ten thousand million paucity of savings. What we did in the budget was take the budget on Tuesday night to take last year's deficit of 2.9 percent of GDP to a surplus of .7 so you can say we are three- point six, in round figures call it four percent - we have made a four percentage point of GDP change to the budget balance. The other thing we did in the budget on Tuesday night is we extended the Government's award superannuation scheme from the six percentage points that it is now under the superannuation guarantee charge which will then rise to nine by the Year 2002 and what we have introduced on Tuesday night were two elements: we have asked employees to put away three percent of their wages and if they put three percent away we will match it with three percent from the One Nation tax cuts and tip them both into their personal superannuation account. On Tuesday night we added another six percentage points of wages and savings to the system - so that's six on top of nine so as a consequence when the system gets to maturity which will be now 2002 which is not far away - seven years away - every Australian person will have superannuation contributions of 15% which is enormous change, it is the largest most comprehensive private savings plan the country has every had. This is what it'll do to saving.

At the moment we have got 186 billion in super funds, by the year 2020 we will have 2000 billion in super fund or two trillion. And you might have noticed on the front page of The Financial Review this week "A 2tr Bonanza" - that's the first time I've seen this expression 'TR' enter the Australian lexicon. Two trillion, two thousand billion, and our national debt is one hundred and sixty billion at the moment so were we to get there we would have thirty times the size of our national debt sitting in superannuation funds assets. But let me put it in terms of GDP because that's how I put the rest in - so we are comparing apples with apples - the superannuation change is worth 4 percentage points of GDP, it will add four percentage points of GDP as a proportion of GDP. That's by 2020 but 2020 if still twenty five years away, if we look at it by 2000, we're adding 2 percent so on the budget we've done four and we have done two on super. So on Tuesday night we put in a six percentage point of GDP savings fix to meet a two percentage point problem on the current account. Now you say "that's going to do the trick isn't it?". Well, it will - but what we want is more investment so to keep that growth up and to keep the jobs up and to keep the strength up we need even more capital stock and more investment then we have now. So, that two percentage point will get added to maybe by one, might even be one and a half, so we won't just have a two percentage point problem we will have a sort of three percentage point problem but we have still got a six percentage point fix, and even if our economists say oh well in the budget change some of its cyclical in better times the budget rolls back into surplus and bad times it drops out, all right, we will give them the benefit of the doubt, we'll knock two of the four out, and say two of it's long term and two of its cyclical so we have a solid two on the budget and a solid two on superannuation - in other words we've got an undeniable four percentage points change on savings on Tuesday night to meet, essentially, a two to three percentage point problem. So that's how central and important last Tuesday night's budget was.

And what it will do is give us growth through the balance of the 90's with low inflation to get to the Government's target of five percent unemployment by the year 2000. Now normally we could'nt get to five percent because as much as we tried in the 80's we couldn't get below six because we couldn't get the people trained - the long term unemployed trained to get back into work - so even if we had all the job growth in the world we couldn't get below six because we couldn't find the people to take the jobs. We put that fix in last year with *Working Nation*. With *Working Nation,* we're now case-managing the long term unemployed and the happy news is that this year in the last twelve months 102 thousand of the long term unemployed went back into jobs, unemployed longer than twelve months or more, so as the economy grows and we take up all the school leavers, the natural entrants to the workforce, migrants and we get down to that core pool of long term unemployment where we have, even with our best endeavours, six to seven percent unemployment couldn't do any better, this time we are going to reach right into that number through *Working Nation* and we will...a five percent unemployment target is well within our range, now in OECD terms there will be no country in the world get within cooee of us. Not within cooee of us.

I was in Germany recently and I went to the Province of the state of Lower Saxony for the CeBIT Fair where we had the largest international electronics fair in the world and we were the guest country - the partner country - and we had two hundred Australian companies exhibiting there and one had to be very proud of seeing it there - but I had the pleasure while I was there of meeting the Premier of Lower Saxony. Lower Saxony is the home of Volkswagen - that's where the Wolfsburg is the capital of the Volkswagon empire, and the whole of the state of Lower Saxony runs around Volkswagons - and the Premier said to me, "Mr Keating you know, there is a great community spirit here in Lower Saxony" and I said "well, that's wonderful to have that, you know, to get that sort of sense of commitment". He said "Yes we've all agreed, we're working a four day week. Very serious, they are working a four day week", he said "because we've got to put people off at Wolfsburg to get the productivity up to keep the cars competitive with the Japanese and everybody else".

Yet in this country, in the last year, we've had 4 per cent of employment growth. We basically got about one for one, for every 1 percentage point of GDP, we get about 1 percentage point of employment growth so if we are growing at about 4 per cent in GDP, we generally pick up about 4 per cent of employment growth. He said, look, if we were growing at 4 per cent here, we'd be lucky to pick up 1.5 per cent of employment growth. But if the labour market program is not there, the training isn't there, and they also carry enormous, enormous levies on employment which we don't have here. So, when you look at us compared to Germany, say, and look at our experience, we're growing around 4 per cent a year and we've got employment growth running between 3 and 4 per cent, and it means that this country can get within cooee of a target of 5 per cent unemployment. But the one constraining element is the current account deficit and our debt. And that's what the Government had to address the other night. Now, let me say apart from the quality of the savings change, just let me tell you how it's going to affect things beneficially. Last year, we had a bond selling program that's covering the Budget deficit and maturing debt - that's old bonds being replaced and the Budget deficit being added on. Last year's bond selling program was $21 billion. This year's bond selling program is $6 billion. So, Tuesday night we took a $15 billion load off interest rates, and if there's going to be fewer bonds, what happens? The price of bonds goes up. And if the price goes up, the yield comes down. That's why the long term bond rate fell by 1 per cent over the last ten days because of that great change in the bond selling program. So, the Budget was a really important change that came right when the country needed it. But let me tell you a couple of other things about superannuation - and we've done this through the Accord with the trade unions - Bill Kelty and I started on this long road back in 1985-86 when we put the first 3 per cent scheme in. Then, the ACTU and the Government moved it up to 5 per cent in the latter part of 1980s. In 1991 we put in the Superannuation Guarantee Charge - we put it up then to 9 per cent by the year 2002, employer contributions 9 per cent paid in lieu of cash. We're now at 6 per cent on 1 July, that's 7 per cent in two years' time, then 8, then 9 per cent. But 9 per cent was not a mature contribution, you couldn't really get the kind of living standard at the time that we really wanted people to have. Remembering that when my generation, the baby-boomers, are 65 there'll be half as many again retired aged people then as there are today and when our children retire, twice as many retired aged people as there are today, and it would put enormous pressure on the Budget and those that work. In other words, we'd be asking those in work to carry this massive population of people who have retired. So, we saw this coming ten years ago and started the plan for it. As a consequence, on Tuesday night, under the Accord, we've agreed that employees will put in 3 per cent and the Government will match it with the tax cuts, paid as superannuation - to take it to 6 per cent, and then added on to the 9 per cent. It chops out at twice average weekly earnings, it chops out at about $60,000 odd and then falls away.

But, anybody who is already making a 3 per cent contribution will get the three per cent tax cut whether they are above these figures or they are not. That is, between one and two times average weekly earnings anybody who is now contributing will get the value of the tax cut. They won't get it over twice average weekly earnings.

But, let me tell you now, I'll give you the punch line, what it all means. It means this, that a person on average weekly earnings - that is $33,000 - will end up at the end of their working lives with a lump sum of $470,000 in today's dollars. And they will have an annual annuity of $30,000. If we take somebody on twice average weekly earnings, they will end up with a lump sum of $670,000 and they will have a pension of $42,000. In other words, if you take the person on average weekly earnings, they will have a pension, an annuity of twice the value of the current pension. You might say well, look, that is good, that is at the end of their working life and that is 30 years from now, but let's take perhaps an even more relevant example, someone who is in their 30s now, a couple in their 30s. By the time they retire, they will be getting three quarters more than they were getting under the pension and when their children retire they will be getting 100 per cent than under the pension.

So, this is a great change and as I said it puts away by 2020 $2000 billion in national savings. Now, you see, you can understand why I get black about John Howard. I mean, as if that team would have the imagination or the wit or the common sense or the foresight or the courage to do anything like this. They won't even talk to unions much less get ... you can imagine them wandering up to the union movement saying we want you to put 15 per cent of your income away as savings. They say 'oh yeah, sure, sure. Don't take it as cash, take it as savings, oh sure'. Because you don't get respect and regard and you can't build a relationship from people that you don't want to speak to. They don't want to speak to the work force. It is a slight defect in their economic policy - they don't want to talk to the workforce - and they said 'oh yes, you got inflation down to 2 per cent because you had a recession'. John Howard had a deeper recession, do you know what inflation was the year after the recession? 10.5 per cent. We had a recession and we came out of it with inflation actually at 1 per cent, on average over the last three years it has been 2 per cent and that was because of the tax cuts of the 1980s. As people went through that wage restraint in the boom of the late 1980s we said take 6.5 per cent for wages and not 15 or 16 per cent, like you did when Howard was around, and we will give you tax cuts. And, those tax cuts of 1988/89 saved Australia's inflation rate and we were able to go into the recession at about 4 per cent inflation and come out at 2 per cent.

In other words that wage trade off, bringing down fiscal policy in the 1980s has made all that possible. Now, John Howard let the cat out of the bag last night in a speech which was free of policy. He had a great opportunity to say within a year of an election and a Budget reply where he stood, and what he was about, but John is going to run on Liberal party advertising gumph on basically poll driven stuff and he thinks that the rest of you are silly enough to take that gullible rubbish until polling day and see him take the job he thinks was also due to him. But, what he did say was this, he said 'a Coalition government would put a lid on the increases on superannuation contributions and rely on tax incentives for savings'. Well, we had him rely on tax incentives for superannuation all the way through the 1960s and 1970s and by 1983 only 40 per cent of people had superannuation and today it is 90 per cent. So, here we are, here is the Labor party setting up the scheme these characters couldn't even dream about, much less establish and he said 'no, no, I know you are going to put away $2000 billion, I know people are going to retire on $30,000 a year or $45,000 a year, I know the average person is going to pick up a lump sum of half a million, but we are not having it. Not having it'. Not having it because it is not ideologically right. If it is not done by tax incentives, in other words if it is not done to the top end, you see John wanted a scheme where in the last three years, the executives, remember the thing called superannuation before we put on the reasonable benefits limits were paid as a multiple of your final average salary over three years. So, the executives would end up with $3 million, $3 million, $3 million and so you would get seven times three and by the time you got your tax, you walked out with your $15 million.

That is what they thought the superannuation scheme was about and that is how it worked, it basically worked for people in the top end of business and in some parts of the public sector. But, the great bulk of the Australian people were not in it. Now, everybody will be in it and this is most particularly skewed to the low paid and particularly to women in part time work. Because part time people get a great benefit here. We pay them the $1000 tax cut even if, let's take someone on $10,000 a year working part time. A woman working in retail or clothing part time or something like that. Three per cent of $10,000 is $300. They put away $300 and we put away $300. But we will actually give them $1000, so if they want to save another $700 we will actually give them $1000. So, that person could put not just their 3 per cent away, but put another $700 away a year and make it a $1000, we will make it $2000 - $2000 a year over 30 years, $60,000, compounding let's say $150,000 - so, that person on $10,000 just as a result of Tuesday night's policies could put a nest egg of $150,000 together. And they would have no chance. These are people at the bottom end of the wage market.

So, these are the sort of policies that you get from a sensible, real government. A government that actually has a touch with the community and does the things that need to be done. Now, as a consequence of all of this I think, I can say to you confidently that we are going to see growth continue over the next three years, we have taken enormous pressure off interest rates, we have successfully slowed the economy and we now want to see it just come back to a nice sustainable level. But, importantly, we have got that medium term current account fix in there by the budget deficit swinging back into surplus on the one hand and superannuation on the other. And, that is why our friends in the Liberal party were flat footed on Tuesday night. That is why John Howard had a silly giggle at the table and that smile glued on. That is why last night they were sitting up there trying to urge him on despite the fact he had no framework to address the government's policies and it is why the government won the 1993 election and why we will win the next one.

So, I am glad you came today so I could tell you these things, so you could get on us early. We were long odds, but we are shortening, a bit like Collingwood - long odds, but shortening - get on to us now and get a tip right from the horse's mouth. But, more particularly, I am pleased you have come along to understand what, in fact, we are doing. It is not just a jumble of numbers or an exercise in numerology or accounting, but there is a strategy lying behind it because if we can lift our savings, we can lift our investment. If we lift our investment, we lift our employment and if we end up with 5 per cent unemployment or less, this will be one of the most united, cohesive and much happier societies than most around the world and that is the Australia we all know. The egalitarian Australia where the right to a fair go and a fair go starts with a job and being in the society and not in an underclass. That is what is going to keep Australia together. That's what is going to mean that we are not going to have great extremes between the rich and the poor and it will mean that you can live in this country without a barbed wire fence around your house or a set of alarms or all the other things that people have got to do in most other countries. And why this will remain a nicer country than, I think, a lot of similar countries because government policy for over decade has been about inclusion. Putting everybody in and looking after it from the longest term unemployed to the people running the great public companies, we in a sense, have tried to govern for all in a progrowth economy with low inflation and now with higher savings.

Thank you.

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