



PRIME MINISTER

31 January 1997

**TRANSCRIPT OF THE PRIME MINISTER
THE HON. JOHN HOWARD MP
ADDRESS TO THE COMMITTEE FOR ECONOMIC
DEVELOPMENT OF AUSTRALIA, SYDNEY**

E & OE.....

Thank you very much Mr Chairman, ladies and gentlemen. It is, as was remarked the case that I do have a long association with CEDA. Those politicians in Australia who have memories like elephants have particular relationships with different organisations, and it tends to vary in direct proportion to the extent to which the organisation still invites you to address them. When you are out of fashion - and I have spent a considerable part of my political career being sort of successively in and out of fashion - having gone through a significant period of time when I wasn't entirely flavour of the month either electorally or in party political terms, CEDA was one of those organisations that built up its credit for future changes by continuing to invite me along and I also of course have a sentimental attachment to the Intercontinental Hotel. It was the place that I spent election night cautiously simply booking some accommodation for family and very close friends against the possibility of - despite the confidence I apparently displayed at the National Press Club - although I should confide with the Chairman that that address at the National Press Club was followed immediately by what went down in the history of that campaign as being the 'Willis Letters Affair'. I went back to the National Press Club to be confronted with these letters that had allegedly been written by the Victorian Premier about some secret tax plan I had. Nothing seems to change but we got over that and we won the election and today I want to say a few things to you about where I see the Government's political position and also some thoughts with you about the future prospects of the Australian economy.

Politics is always a mix of getting the policy right as well as getting the politics right. It is true that good policy is normally good politics but I would have to say to you on the basis of more than 20 years experience that is not always the case. You can never be a total slave to economic or industrial policy or industrial relations theory and expect to continually succeed in politics. Equally, if you don't pay proper cognisance of the importance of maintaining a forward momentum in policy development, you are rightly over a period of time judged negatively and that over an equal period of time

has a very negative effect on the political fortunes of the Party that you may be a member of or you may lead.

So, over the 11 months that we have been in office we have endeavoured quite unashamedly to get a right mix of intelligent, reformist policy, not only in the economic area and also to try and understand and accommodate the right political mix between the policy imperative and also the political imperatives. Ultimately of course it is for others to make a judgement about how successful we have been in that. I like to believe that in just under 12 months the Coalition Government that I had the privilege of leading has got that mix about right, not of course completely right. There are inevitably some people who say we should be going faster on the policy reform front. There are some in the community who think we have gone too far. There are some who believe that we haven't been politically sensitive enough. I think the mainstream view, if I can call it that, is probably that we have got the mix about right.

I think there are subtle mood shifts in the Australian political community and the political mood of Australians in the 1990s and what existed in the 1980s. There is undoubtedly a sense of community unease about the way in which life in so many ways has changed and that is a very, very difficult challenge for any government and for any political leader. When you know that further change is needed in the national good, which I do and I assume that most of you do and would share that view. But so much of our lives have changed in the last 20 years. They've changed economically, they have changed socially, they have changed between men and women, they have changed so far as the power balance of nations is concerned. We no longer have a Cold War. We have only one superpower in the world and that is the United States. We have the fastest growing economic region sitting cheek by jowl in the area where Australia is.

We have vast changes as many of the retailers know in the consuming habits of Australians. I think one of the great changes to have come out of the recession of the late 1980s and early 1990s was a permanent change in the attitude of Australian consumers. They became tougher buyers and I think have assumed the cultural attitude of the Americans and many others around the world in determining to drive much harder bargains and the buying habits of the young are very different now from what the buying habits were when many of the people in this audience could describe themselves as being in their late teens or early 20s.

I mention those things, ladies and gentlemen, because you can never get as a Prime Minister or as a government an intelligent mix between the economics and the politics of the decisions you take unless you have some understanding, and an on-going understanding of the changes that are occurring in the community. It is just not real life to imagine that you can't ignore fashion swings broadly defined in the attitude of the young in our community, the broad changes in the moods of consumers. If you continued to react according to the assumptions of even a few years, let alone a couple of decades earlier then inevitably many of the attitudes that you strike are going to be wrong.

I speak to you today feeling very strong and very positive about the economic outlook for Australia. I think at the moment Australia has a rare conjunction of very positive circumstances so far as our economic future is concerned. We have very low inflation.

We have as the Treasurer said a couple of days ago returned to an era quite decisively of very low inflation. We really do have to go back to the pre-APEC days of the early 1970s to find the very low inflation that we have at the present time and it's not confined to Australia. I read an article in *The Spectator* last night which indicated that even a country such as Brazil that had experienced hyperinflation for most of its modern experience had an inflation rate last year of less than 10% and it is to be found throughout the industrialised world and increasingly also into other parts which will not be so described. The mid-year economic review, and I'll come back to that in a moment, also told us that we have very strong by world standards and manageable - and it's important to link the strong economic growth that we have with the fact that we have low inflation. So often in the past we've never been about to that double. We have strong growth and that has spilled over into higher inflation which in turn has produced tightening measures through monetary policy which would then in turn stifle the growth. We do have a quite strong world economy. The United States economy because, but not only, due to its remarkable flexibility enjoys very strong economic growth and very strong business confidence and a very low level of unemployment, not only by historic standards but also by world standards.

The European scene is more mixed but overall in reasonable shape with the British economy probably performing better than others. The Asia Pacific region continues of course not only to be tremendously important to Australia but also to be the strongest regional performer in the world, and the significance of that in Australia is very widely understood throughout the business and the political community. The mid-year economic review which has set a new standard in political transparency so far as economic policy is concerned in Australia - it ran to something like a hundred pages - the mid year review of the former government ran to something like 6 or 9 pages. This is the first illustration of the new charter of budget honesty which as a matter of law when it goes through the Parliament will require the production independently by the Treasury and the Department of Finance at the time of the next election, of a statement of the economy's situation in sufficient detail to ensure that both sides of politics respond in a way that is seen by the community as being responsible. What I think this charter of budget honesty has done is to impose new disciplines on everyone. It's imposed a new discipline on the Government, it's certainly imposed I'm happy to say a new discipline on the Opposition as well. I like to be even-handed when it comes to disciplines of this kind. And it has also, I might say, imposed a new discipline on the bureaucracy, because the detail of the mid-year review has inevitably thrown the gaze, enabled the gaze of so many of the professional economists in the private sector to examine in detail what has happened against the projections of the Treasury and the Department of Finance.

So, overall I think the new high in political transparency is an extremely good thing and it can only make for better policy, more responsible policy, and a far better understanding throughout the broader community of just how the economy is performing. Now it is true that there was a downward revision in company tax collections and as a consequence we will need to undertake some further fiscal tightening in the May budget. But as Peter Costello has indicated it is nowhere nearer the dimension that was carried out at the time the last Budget was put together. And the important news to emerge from the mid-year review is really the positive news and

that is that inflation projection is - on the underlying front - something like one percent against 2% forecast in the Budget.

Business investment has been revised upwards, and the economic growth projection that was thought by many to be a little optimistic has been confirmed. Now that does really lay a very solid and a very positive and a very optimistic base. Now, I've been in politics and having been Treasurer for a number of years and held other positions long enough to know that it is never credible for a Prime Minister to say that or indeed a Treasurer to say that everything about the economy functioning perfectly - of course it is not. But we do have and I think we would be selling ourselves short and I think as a community, particularly the business community, we would be failing to take advantage of fortuitous circumstances if we didn't recognise that many of the fundamentals in Australia at the present time are very very sound indeed and they do provide a very very sound basis of optimism for the future. And all of you know that psychology is an important element in economic decision making. Not everything is made in a completely arithmetical and rational fashion. Hunches and instincts and psychology and gut feelings all play a significant role, and I think we do have a very fortuitous conjunction of circumstances.

And can I say, I hope with no immodesty, that another factor bodes well for the economic future of Australia and that is that I believe that we have a government that is willing in an intelligent persistent fashion to tackle the major areas of economic reform. I know there are some who say the reforms should be more numerous. That will always be the case. And that's part of the system and that's a good thing. You should never have a situation where people are universally happy with what you are doing. It breeds complacency, it breeds smugness and I think it is very very important to have people breathing down your back from time to time as long as you reserve the right to remind them from time to time when they may get some of that criticism wrong.

We were elected with commitments to a number of areas that were very important to Australia's economic future. None of them was more important than Industrial Relations reform. It took us a bit longer than we'd hoped to get it through the Senate and we may have lost an amendment or two along the way but the great bulk of what we took to the people was passed through the Senate, I'm very happy to say, and those new changes, those laws came into operation, the first batch of them, only on the first of January, a bare month that they have been in operation. Already we see I understand a reduction of something like 80% in the number of unfair dismissal claims made as a consequence of the new legislation. I have to say as I travel around Australia in the year leading up to the election, no issue more frequently was the subject of complaint to me from big companies, and small and medium ones, than the operation of the old unfair dismissal laws, regularly paraded to me as a reason why people weren't taking on more staff. Now, it is early days, but if the early signs are borne out then that will prove to have been a very very important reform.

I think the industrial relations reforms over time will make a hugely significant contribution to creating a better balance between labour and business, a better balance which will better accommodate the right of employees to make free choices between either being represented by unions or some other arrangement or indeed representing

their own interests, as many of them wish to and many of them are eminently capable of so doing. I have great hopes for the industrial relations reforms. I believe the awards simplification process which I am delighted to see companies are already taking advantage of, and the new compliance measures that many companies are taking advantage of, I think all of them will create a far more contemporary and a far more competitive industrial relations climate.

We have of course embarked upon a very very committed programme of fiscal consolidation. The \$7 billion or more that was announced in the Budget of last year has been subject to only minor marauding although significant in itself by the Senate and I should say in that context that when Parliament resumes next week, we will be re-presenting to the Senate and pressing ahead with some of the changes that have been injected including the measure to impose a two year waiting period on the payment of certain benefits to newly arrived people in Australia. We do believe very strongly that a further tightening of fiscal policy will be needed, but as I mentioned at the beginning of my speech, not of the dimension that was undertaken at the time of the last budget. The end of last year saw us pass through the legislation to sell into the private sector one-third of you sponsor and I'm very happy to see that the progress is well underway with arrangements for what will prove to be the largest float in Australia's history. And, of course, out of the proceeds of that will come \$1.1 billion which will go into the Natural Heritage Trust of Australia and that will represent the largest capital investment by any government in post war Australia in our environmental future. And I am particularly proud of that commitment. It was a commitment that was put together in the days leading up to the calling of the election last year. And I think for a government, for a political party that over the years has taken more than its fair share of flack about an alleged indifference to the environment, I'm especially proud that we over the next two years will be able to demonstrate long term credentials in the area of the environment that I believe have very, very strong support through the Australian community.

I spoke earlier of mood and attitudinal changes within the community. Over the last 20 years none has been more emphatic than the embracing by all generations of Australians across the political divide, across the socio-economic divide, of a concern for and a commitment to sensible policies which preserve and strengthen Australia's environment. Nobody, I hope, of intelligence embraces radical environmentalism but most Australians now want to see a sensible balance between economic development and care for the environment. Sustainable development most Australians very, very strongly support and our commitments in that area will be very, very strong evidence of how we feel on that particular subject.

We also took to the last election campaign some very strong commitments to assist the small business sector. I spoke a lot during that election campaign of the link between job creation and small business. I still remain quite passionately of the belief, as I did a year ago, that greater small business activity and a better climate for small business will more than anything else provide the hope of greater job generation particularly for the young within our community.

Unemployment, as everybody knows, remains too high. I don't pretend that the 8.5 per cent rate will dissolve quickly. I do believe, however, that as the impact of

some of the policies that we've implemented already, and others to be implemented this year, work their way through there will be a reduction in that level. You will understand me being a little dismissive of and impatient with my political opponents who after 13 years left us 8.5 per cent having taken it to 11 and then bang the table and say how shocking, how terrible, you've had 11 months and you haven't got rid of it. And I think a willingness to reject that sort of criticism is very, very understandable.

But the policies that we've implemented to help small business include, in the words of the *Business Review Weekly* - who I'm happy on this occasion to give quite a free plug too - include changes to the capital gains tax regime which the editor in chief of that magazine described as the most important for the business community in 30 years. The impact of those changes will be that any small business can be sold in the proceeds up to the tune of \$5 million can be invested in any other business, not just into a like business, we have abolished the like business test, but indeed into any other business resulting in a deferral of capital gains tax liability. That change will come into operation on the 1st of July next year and it will have a major impact in my view and in the view of many on small business activity and the attractiveness of small business to investors.

There are other changes that we have made in that area including of course the changes in the provision tax uplift factor. And the benefits of the industrial relations changes and the unfair dismissal changes are most marked indeed when it comes to the small business sector.

There are many items on the agenda for the months ahead of us. The response in February to the Charlie Bell committee on small business deregulation will be another opportunity for the Government to demonstrate its credentials in the small business area. We'll have the report of the Wallis Inquiry. I think I read somewhere that there's a productivity commission report on the motor vehicle industry which will attract, as reports dealing with tariff protection in Australia always do, a great deal of interest. We will need and we will address the issue of waterfront reform in 1997. It goes very much to the heart of the competitiveness of the Australian economy and it's very important to the export sector.

So we have a very significant list of items ahead of us. And in drawing my remarks to a close Mr Chairman, can I say that one of the many things that we have endeavoured to do in the time that we have been in government is to develop and retain an intelligent dialogue with the business community of Australia.

We were elected I think very proudly on the platform and on the vote that we were a political party that was owned by nobody and that what we sought to do was to represent the mainstream of the Australian community. And if I may have a party political commercial, one of the characteristics of the Liberal Party, particularly its modern manifestation, is that it is not really owned or dominated by any one section of Australian society. I was especially proud that we were able to attract support from many people at the time of the last election who would describe themselves as traditional Labor Party voters, who described themselves as typical Aussie battlers, people who were attracted by many of the more socially conservative policies that

were espoused by the Coalition and who'd grown weary of the special interest group pleading that had been so successful under the former government.

Now, naturally, as an instinctive politician and as somebody whose prime responsibility to his party is to preserve its electoral fortune, my responsibility is to achieve a mix of outcomes that accommodate all of those responsibilities. I can't only govern for the business community, I can't only govern for the consumer, I can't only govern for the battler, I can't only govern for this or that section of the community, but what I can do is endeavour in achieving the right mix of outcomes and the right mix of policies is to achieve a fair distillation of those responsibilities.

A strong and growing economy, and I believe we have a rare conjunction of circumstances that is going to produce that, is a fundamentally important element in a contented community. When I made the mistake, I suppose, in politics of uttering a spontaneous phrase and that was when I said I wanted Australians to feel relaxed and comfortable I meant a few things a little more subtly than some of my critics have suggested in response to that. But what I really did, more than anything, have in mind is that I wanted Australians to feel very, very confident about their past, very confident about their current identity and also particularly buoyant and optimistic about the future.

I don't believe that every dragon has been tackled and slain over the last year but I do believe that we have made a very and promising start, a sensible realistic start to achieving those goals and at creating the kind of Australian community that I think most of us aspire to, whatever our political beliefs may be and wherever we may sit in the Australian community. I think we have made a good start. There is much to be done. I have greatly valued the cooperation and the candour of the business community in Australia. We are at heart a pro-business party. We won't always do what you want. You will criticise us. You will be unhappy, as many of you were with some of the measures contained in the last budget, but as the overall impact of our Government is to create a low inflation, strongly pro-business investment environment and improving international competitiveness and a more level playing field in industrial relations then I think we are delivering very real benefits to the Australian business community.

Thank you very much.