SUPPLY BILL (No.1) 1996-97 & SUPPLY BILL (No.2) 1996-97

Address by Hon Gareth Evans QC MP to the House of Representatives, Canberra, 20 May 1996 (*Hansard* pp 866-873).

Mr GARETH EVANS (Holt—Deputy Leader of the Opposition)(5.48 p.m.)—On the face of it, these supply bills are simply routine machinery matters with no particular policy significance, simply enabling the business of government to be carried on until the passage of the budget appropriation bills some time around November. No doubt that is why this debate has attracted the massive presence in the chamber that it has.

Mr Hollis—There is quality here, if not quantity.

Mr GARETH EVANS—There is indeed quality, and I acknowledge that interjection from my side. But a special significance is evident in these bills this year because they

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posit such a stark contrast between the pattern and the scale of expenditure that is provided for under them, based as they are on continuity with the past and a continuation of our forward estimates, and, on the other hand, the forthcoming budget bills with the massive expenditure reductions that are there proposed.

Usually, oppositions support these supply bills. There was one spectacular counter-example we can all remember a few years ago. But I support, on behalf of the opposition this year, these bills with particular enthusiasm. And I do so because we strongly believe that continuity, with our own forward estimates of the kind that is enshrined in these particular bills, is a proper basis for the 1996-97 budget—not the manic slash and burn approach that is now being proposed.

These bills do provide an ideal opportunity to expose the significance of the budget cutting process that is now under way, because I think it is not yet even now wholly appreciated just how wrong-headed, misguided and indeed potentially disastrous the government's budgetary strategy is, not only for the particular groups and constituencies that will be immediately and directly affected by it but indeed for the whole of the Australian economy.

The government's approach in its budget strategy is built around three propositions: firstly, that there is a so-called $8 billion black hole which reflects the Labor government's mismanagement; secondly, that this constitutes a crisis for Australian economic policy, the addressing of which has to be the highest priority; and, thirdly, any pain that is involved for particular groups in this budget strategy will be amply outweighed, amply compensated, by wider gains for the Australian community.

Needless to say the opposition wholly rejects each one of those points. The points I will be making are these: as to the first, there is not a Beazley black hole but, rather, a Costello con—one simply designed to place the blame on Labor for the savings they are generating to cover the coalition's own irresponsibly underfunded election promises. And, secondly, it is designed to cover a passion for Thatcherite, small government ideology making.

The second point is that, even if there were to be a $8 billion starting deficit, this nonetheless does not constitute a crisis for the Australian economy, nor any evidence of a failure of our economic management. Rather, it is a function of different and wholly legitimate policy choices, which I will spell out.

The third point I will be making is that there will not be the gain to outweigh the pain in this respect, that economic responsibility demands a quite different policy approach—an approach that puts people first, that goes for growth now and which adopts a longer timetable for addressing the deficit reduction and other associated or related issues.

Let us take each of those three points in turn. First of all, the so-called Beazley black hole is not based on any calculation, any accounting, of what has happened in the past, and it is certainly not based on any calculation about blow-outs of expenditure. It is simply based on a Treasury and other officials' guess about what will happen in the future.

The $8 billion in fact is a puffed up, rounded out, exaggerated worst case figure. The headline starting point for next year—the figure you read about in the press the next day after each budget is brought down—is currently not $7.6 billion but $4.9 billion, and fully $2.3 billion of that is attributable to the coalition's own actions last year in blocking particular budget measures.

The so-called underlying deficit, which does not bring into account asset sales and particular one-off things like state debt repayments, is currently, on the government's officials' estimates, $7.6 billion. Even that is rather less than the $8 billion figure they constantly talk about, but it is certainly much less than the $3 billion it will reduce to over the next two years, again employing the government's officials' own estimates.

More importantly, I guess, than those points is that there is every prospect that the growth predictions on which these particular projected deficits are calculated will change again by

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August, changing in a way which reduces the so-called starting deficit by several billion dollars. At the moment the Treasury, in making these calculations, has only half of the relevant data. When it made the forecasts that are in circulation at the moment, it had only one quarter of the relevant data for the current financial year. Years ago John Howard distinguished himself by saying that the forward estimates released well ahead of the budget were notoriously unreliable guides to the ultimate outcome. Dead right—they are. They were. They always have been.

Professors John Neville and Fred Gruen and Mr Fred Argy in the Australian Financial Review today, 20 May, made the point with absolute clarity when they said this:

. . . the figure of $8 billion is not itself a firm figure. It is a Treasury forecast assuming no policy changes and a rate of growth of the economy of 3.25 per cent . . . a small difference in the assumed rate of economic growth can make a large difference in the size of the projected deficit.

Again, the point can be made that the size of the possible deficit based on these predictions came as absolutely no surprise to Mr Costello or to the coalition. Access Economics predicted something like a $10 billion deficit based on different growth assumptions before Christmas. The now Treasurer, Mr Costello, was complaining publicly before Christmas about a huge hole opening up in Commonwealth finance. As Max Walsh said in the Sydney Morning Herald on 10 May:

If there was the slightest surprise by John Howard or Peter Costello when they were told that the prospective deficit for 1996-97 was $8 billion, then you would be concerned about their competence.

That figure was in everybody's ballpark.

That is why the demonising of Kim Beazley and his black hole has, for me at least, a lack of credibility.

The real reasons that the coalition is pursuing what can only be described as this Costello con is straightforward: it is to try in the first instance to put some blame on Labor for the savage spending cuts that are going to be necessary to finance some of the opposition's own irresponsibly underfunded election promises. The coalition promised $6.8 billion worth of new policy measures over the next three years to be funded, supposedly, by $8.9 billion worth of savings measures. We, with the assistance of the Department of Finance, before the election, exposed the coalition as having itself a $4 billion hole in those savings measures. To take just one example, there was $360 million alone in the calculation of the savings that would be involved in the two-year waiting time for social security for new migrants, a point confirmed by a recently leaked Department of Social Security document. Prime Minister Howard has carefully not ruled out utilising any of the $8 billion savings measures to pay for those pre-election promises. The strategy is obvious. The strategy is: slash, burn, grab enough dollars to fund at least some of your pre-election promises, enough to remain credible, but blame the former Labor government for it by saying that it is all a necessary strategy brought on by our mismanagement.

The other point is that the government is pursuing in all of this a small government ideological agenda which makes Margaret Thatcher look like Mary Poppins by comparison. The objective is absolutely transparent. Again, they want to off-load on Labor as much as possible of the blame for the pain that will be caused in the pursuit of that agenda.

The second point I want to make—and it is a very important one—is that there is no economic crisis associated with these figures, even if you accept them for the sake of this argument at their own face value. The headline deficit of $4.9 billion is no more than one per cent of our national income, of our GDP. Even the so-called underlying deficit of $7.6 billion is only around 1½ per cent of our national income. Neither of those figures, one or 1½ per cent, is massive or even very large by international standards. A deficit of 1½ per cent of national income would make us the equal third lowest of the major OECD countries as these figures were listed in the most recent Economic Outlook.

Compare those sorts of figures, those percentages, with what we faced coming into government in 1982-83 and I think the point is made. The deficit that we confronted in those days' dollars of $9.6 billion was 4.9 per

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cent of national income. If you translate that into 1996-97 figures, it is $24.5 billion. It was utterly unexpected, came out of the clear blue sky, and that was a budgetary crisis unquestionably that we had to confront and solve. This is trivial by comparison, even if you accept the puffed up, exaggerated, blown out numbers which I have already referred to.

Our structural deficit, when you wash out these figures for cyclical effects and look at the underlying balance of expenditure and revenue, is estimated by the OECD as the second lowest in that whole group of industrialised developed nations. Only Finland has a better looking balance sheet in this respect. Our deficit is around one-quarter of the prevailing OECD average. If we had as a proportion of our national income the same average percentage deficit of the OECD countries as a whole, our starting headline deficit in 1996-97 would not be $4.9 billion; it would be $15 billion.

We just cannot make some of these comparisons too often. Our public expenditure is the second lowest after the United States in the whole of the OECD. Our proportion of taxation, our ratio of tax, to national income, GDP, is the second lowest in the OECD after Turkey. Everyone gets very passionate about New Zealand but, if you collected as high a proportion of tax as New Zealand does, this year Australians would be paying an extra $35 billion in taxation. We certainly would not be talking about budget deficits under those circumstances.

Moreover, our public debt in Australia—another parrot cry endlessly in the economic debate—is the fourth lowest in the whole OECD after Japan, Norway and Finland. Let me answer the question, `How come the budget is not in better shape after 4½ years of sustained growth?' This is a point that many commentators, not just on the government side but in the media, constantly make. Let me answer it by saying it is not a product of mismanagement in any sense; rather, it is a product of deliberate policy choice. In the first place, it is a product of our success in holding down inflation by a whole variety of strategies but, in the process, eliminating the usual fiscal drag revenue that is derived naturally from inflation. In fact, rather than having disguised tax increases through effective bringing in of the tax scale at higher levels and generating more revenue without actually changing the legislation, rather than having those familiar disguised tax increases that have occurred so often in the past, we had a very explicit tax cut. That is where honest and effective government gets you, I suppose.

The second point to make about this is that our progressive tariff reforms, that absolute centrepiece of our industry restructuring policy, have denied us ever increasing amounts of revenue each year. This year those cuts amount to a loss of some $6 billion in tariff revenue—deliberate policy strategy which has a major revenue reduction effect.

Again—the third point—we chose to shield the states from the largest impact of the fiscal fallout of the recession by maintaining their general purpose payments in real terms at the same time that Commonwealth revenue was collapsing. We could have gone backwards and made life much tougher for the states. We chose not to do so. We are now bearing the budgetary consequences of that, but understand why it is that the budget deficit is higher than we would ideally like. It is a result of deliberate policy choices.

Again, we made and we have maintained a massive commitment to expenditure on education and training and job readiness programs. We faced in government in the 1980s new kinds of problems that were not around in the 1970s to confront Mr Howard last time he was in office and were not confronted then by governments anywhere—the problem basically of the information technology revolution which has meant the disappearance in particular of large swags of clerical jobs and the phenomenon of cultural change, especially women's entry into the work force in massive new numbers, reflecting their desire to make a positive contribution to the community and to their own personal satisfaction.

With women in the work force you now have much higher rates of people wanting jobs which, if we were translated back into the world of the early 1980s, would have very

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different outcomes for our unemployment situation. If we had the same participation rate now as was the case in 1983, unemployment would be down around four per cent rather than the 8.9 per cent it is at the moment.

Recognising the reality of these revolutionary technological changes and cultural changes that are involved in the different structure of the work force, as a government we went about placing massive new resources into education and training and skill development because we wanted to create a situation where our work force would have jobs in this brand new environment and would not be condemned to the status of long-term unemployed. It was a deliberate policy choice, a very expensive policy choice and one that constitutes a large part of such deficit problem as there is in the budget figures.

Senator Short conceded recently that the ALP did not leave a lot of waste in its government programs when he said in his speech to the ACCI dinner that the former government was in the business of cutting programs which had, in fact, achieved their objectives efficiently and effectively. He said, as quoted in the press a few days ago:

The Government will also need to prioritise between programs which are meeting a relevant objective effectively and efficiently. Such prioritisation is required both within and across portfolios.

That one statement alone gives the lie to the suggestion that we now have any product of Labor government mismanagement waste blow-outs. The truth of the matter is we were a lean, taut government doing things that had to be done and should have been done in the interests of this country and they did have budgetary consequences.

Of course it is true that, other things being equal—I have made this point on many occasions and I will continue making it—it is highly desirable that budgets be brought back into balance and, if possible, surplus to reduce government dissaving. We showed our credentials in that respect by being the only government since the war ever to deliver a surplus, and we in fact delivered four in a row in that respect—a task not managed by anyone else, certainly not the coalition.

Budget balance or budget surplus is not an objective to be manicly pursued at all costs, whatever the cost. Ross Gittins made the point very well indeed in the Sydney Morning Herald on 13 May when he said:

Though it's true that the sooner we return the Budget to underlying surplus the more confident we can be of avoiding another blowout in the current account deficit, such a blowout is not imminent. There is no `crisis'.

Ross Gittins is saying, and so many other commentators have said, there is no crisis. That brings me to the third point: what is a responsible approach to economic management at this stage? What is a responsible budget strategy? There can be no doubt about the magnitude of the assault on the public sector and on public sector expenditure that is now being mounted by the coalition. I can document that assault, as evidence has already accumulated, but I will leave it to my colleagues to do so in the latter part of this debate. Let me concentrate for my purposes on the major theme of what is a responsible approach as distinct from the approach we are now seeing from the opposition. The general point I want to make about the assault is that it is not just a matter of their intense negative impact on particular groups or constituencies, on business, on the higher education industry, on a whole variety of people who are dependent on social welfare and on so many other areas. The point is that a matter of responsible economic policy, the approach that is being adopted, is utterly unnecessary and, in fact, wrong-headed and utterly misguided.

What the economy needs now is not $8 billion of fiscal contraction but, rather, to consolidate the gains that we have had through almost five years of economic growth and to make a major new assault on the fundamental problem of the Australian economy at the moment, which is unemployment, and to do that by lifting the growth rate back to four per cent or more. The Australian economy is currently growing at an annual rate of around only three per cent. We are in fact one of the fastest growing economies in the OECD. By prevailing international standards in developed Western industrialised economies, three per cent looks pretty good. But we well know by now that three per cent

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growth is simply not enough to cut unemployment.

To reduce unemployment further we need growth of at least 3½ per cent and preferably four per cent. Private sector economists—it is not just us in the opposition but Westpac and Access Economics—are all saying that the government's cuts, if they go down this path with $4 billion this year and $4 billion next year, $8 billion worth of cuts, will mean at least half a per cent less growth in the economy this coming year and another half a per cent less the following year than would otherwise have been achieved.

Instead of working to help the economy back up to the four per cent growth that we actually need, the budget cuts that are presently in train will actually work in exactly the opposite way. This cut in economic growth will, of course, translate directly into lower job growth. Less economic growth equals, obviously, less employment growth—and we can easily quantify it. The government's cuts, if you do take half a per cent off growth next year, will mean that over 40,000 jobs that would otherwise have been created with growth at the higher level will not be there. And over two years, the figure will be 80,000 jobs lost to this manic pursuit of a budget ideology that says `cut, cut, cut'.

Moreover, there is very little scope for other economic forces—in particular, interest rates, exchange rate and confidence factors—to somehow come to the rescue and cushion the impact, modify the impact, of the government's planned cuts on the economy. It is true that the effect of a fiscal, a budgetary, contraction on economic growth could be cushioned in an environment where interest rates were falling and the exchange rate was depreciating. A reduction in interest rates could certainly stimulate private spending.

However, the government is planning its budget cuts in an environment where, because of the abandonment of the accord and because of the abandonment of wages policy, interest rates in everybody's assessment, from the Reserve Bank down, are more likely to rise than to fall in the immediately foreseeable future. A depreciation in the exchange rate, which might again in the normal course be expected to follow from an interest rate cut, would make Australian goods more competitive on world markets, would be a boost to our exports. But in the real world at the moment, the exchange rate is being, in fact, driven up because of strong world commodity prices and demands for the commodities that we produce.

The effect of fiscal contraction, I acknowledge again, might also be cushioned if somehow the cuts were to translate, as some people have predicted they will, into a massive rise in consumer and business confidence—this intangible lift to animal spirits that is supposed to occur when rough and tough budgetary, highly disciplined decision making of this kind is made. But the point is that on all the available information we have, the surveys that have been done, the hard evidence is that business and consumer confidence are already high, so that any further boost that would be achievable would have a marginal impact on the economy at best.

Before we left office, statistics from the ABS, the Australian Bureau of Statistics, showed that business was planning to increase its investment spending by as much as 27 per cent over the next financial year. With business investment expectations already so obviously buoyant, as they unquestionably have been, there simply is not scope for an additional increase in private investment of the kind of magnitude that would be sufficient to soften the blow of the proposed budget cuts on the economy.

So here we have a government which is planning massive cuts in an environment where confidence is already high, where interest rates are more likely to rise than to fall and where the exchange rate is set to remain very strong. In this environment, massive budget cuts can have no economic impact other than to dampen economic growth. The only other possible justification for further budget cuts is that Australia needs more national savings, and the government has to responsibly contribute to this task by reducing the deficit.

I have already said that the opposition agrees that Australia needs more national

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saving. But the government's totally unbalanced approach to economic management is not the way to go about successfully boosting national saving. Leaving to one side superannuation policy and all the rest of the longer term measures that we put in place, the best way to get more national saving is very simply to have a strongly growing economy. A strongly growing economy means that people have the extra income to build up their private saving. More economic growth means that more people have jobs which means less government spending on unemployment benefits. That means more tax revenue, less expenditure and more public saving. There is a very strong and a very clear relationship between unemployment and national saving. As unemployment falls, national saving rises. The best way to get national saving up is to get unemployment down.

This point, again, has been very well made by those excellent, well-regarded economists Fred Gruen, John Nevile and Fred Argy of the Australian Financial Review in a letter this morning when they said this:

. . . it is neither necessary nor desirable to seek to reduce discretionary spending by $8 billion over the next two years simply because the economy is forecast to grow more slowly - more slowly than was assumed in the 1995-96 budget, that is. It goes on:

If the economy is indeed slowing down, such a policy may well slow it down further and increase unemployment in the short term, while helping neither the fiscal deficit nor the national saving rate.

Let me conclude on this note. The crucial thing in economic policy is not to confuse means and ends. The first priority for economic policy should always be people. The objective of economic policy and of economic management of the economy is to improve people's living standards through providing sustainable full employment and rising incomes.

Everything else—whether it is controlling inflation, reducing the current account deficit, bringing budgets back into balance or surplus, reducing public debt, reducing foreign debt or increasing savings—are second and third order objectives by comparison. They are means to the achievement of the primary objective of improving people's living standards. There are times—there are real crisis times—when absolute priority attention has to be devoted to bringing inflation under control or hauling absolutely unacceptable levels of current account deficit back.

But that is not the situation of the Australian economy at the moment in the view of any serious-minded economic commentator. I have to say that it is not the view of any of the senior chief executives, senior managers or senior analysts in the banks and the financial institutions, the corporate leaders of this nation whom I have been talking to over the last few weeks. Inflation is comfortably within the average two to three per cent underlying rate of inflation range that everyone agrees is desirable to target for and to achieve. The current account deficit has been brought down from six per cent of GDP to 4½ per cent of GDP. It is being comfortably serviced at present at foreseeable export levels.

It is simply not necessary at the moment, if it is ever necessary, to mount some kind of Vietnam style crusade to destroy the economy supposedly in order to save it. It is possible, while being absolutely economically responsible, to choose a very different path in the government's management of the economy and its budgetary strategy over the weeks and months ahead. It is possible to choose a quite different path.

We say the priority for economic decision makers in Australia today should be to resume growth and to make a new assault on unemployment. That is what the priority task should be. You do not achieve that priority task by moving down this particular slash and burn route. You do not abandon the aspiration of getting the budget back to surplus but you spread the task out over longer time periods so you do not have those adverse impacts on growth in the economy.

We say that that is what the priority task should be about—that is, getting growth back up to four per cent and generating the capacity as a result to make a significant impact on unemployment, which is unquestionably the greatest human problem as well as the greatest economic problem in Australia at the

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moment. That is not what this budget is going to be about. It will be to the everlasting shame of this government that it has so quickly and so conspicuously and so mindlessly failed to meet, in these ways, the real needs of the Australian economy and the real needs of the Australian people.