MR COSTELLO'S SECOND-LAST BUDGET

Address by Gareth Evans, Deputy Leader of the Opposition and Shadow Treasurer, to the National Press Club, Canberra, 21 May 1997.

The Government began last week hoping that the Budget would be the circuit breaker to distract attention from the sea of problems in which it was then floundering - Wik, Hanson, cross-media, Colston and Newcastle. By the weekend it was seeing these issues with wistful new eyes - as circuit breakers to distract attention from the Budget! And just to make sure, the Coalition has set running new debates on tax reform and the make-up of the Senate as well. What price consistency, if one can achieve distraction...

I can't think of a Budget in recent memory which has had such a universally lacklustre reception, nor one that has so comprehensively deserved its panning. There are not many Budgets in recent decades which have had a less than one-third public approval rating, or generated a 4 per cent drop in the Prime Minister's satisfaction rating.

There were of course the usual cynics around the place, whose tastes were satisfied by the timing in the electoral cycle of the forthcoming war-chest surpluses. The Federation Slush Fund made them positively swoon with nostalgia. But the cynics apart, this was a Budget not even its mother could love. The reasons are obvious.

It was a Budget that did precisely nothing, and seemed to care even less, for jobs - the country's most overwhelming current economic and social problem.

It was a Budget that did nothing for savings, abandoning the best chance we've ever had, or ever will have, to build a huge new private savings pool, and to do so in a way that would have guaranteed a decent retirement income for future generations of lower and middle income earners.

It was a Budget that continued the ugly assault on families, and the elderly and needy, begun on such a dramatic scale last year.

It was a Budget that had more than its fair share of mindless and counter-productive savings initiatives affecting the quality and decency of life in Australia and our international reputation.

It was a Budget that, even with all its cuts, did not meet the exaggerated expectations it had created as to the size of its deficit reduction achievements, and projected future surpluses: so was marked down accordingly by the financial markets the Government had sought so desperately to woo.

And it was a Budget who even the Government's best business friends characterised as lacking in vision and a sense of direction.

Looking ever more wan as the week progressed, the Prime Minister was forced back to the line of defence adopted only by the truly political desperate: the fact that nobody liked the Budget, we were told, was proof that there had to be some real good in it.

But good in it there was not. Let me say again why, focusing on the two great issues of the Budget - the jobs initiatives there weren't and the savings initiative there was. I will take the opportunity in each case to make clear the Opposition's alternative approach.

Jobs

If we are going to create the jobs necessary to significantly and quickly reduce unemployment to less tragic levels, there are no single, one-dimensional solutions available to Australian policy makers.

Certainly there is no great help to be derived from further labour market flexibility - involving further improvement, presumably, of the unimprovably brilliant Reith Workplace Relations Act. There are those in the Government who still argue that we should drastically reduce the minimum wage to clear the labour market at poverty level wages. But whether or not that would help unemployment - and there is argument about that - the social costs would be simply unacceptable. Are we going to factor in some other US realities as well - like 4 per cent of the male labour force being caught up in the corrections system at any one time? Hands up those who want to make that choice, or pay that social price...

A coherent, effective assault on unemployment must involve a multi-dimensional approach, with a whole series of strategies being implemented simultaneously. Government policy makers, in other words, have to be able at the same time to walk, talk, chew gum, hiccup and scratch. (The point is not to be elegant, but effective.)

In this Budget the Government has done precisely none of the five major things it needed to do to make a serious assault on unemployment.

The *first* thing the Budget had to do, and didn't, was to make its contribution to internal demand by growing the economy at a faster rate - not below but above the 4 per cent that everyone, including Mr Howard, now agrees is essential for a significant unemployment reduction.

We saw that level of growth in the last four years of Labor Government, and we saw unemployment come right down as a result. We haven't seen anything like that growth in the Coalition's first year of office, and this Budget makes it absolutely clear that we won't see it now.

With its pre-occupation with deficit reduction at the expense of job creation, this Budget continues in the contractionary vein of last year's, which stripped at least half a per cent off the growth otherwise achievable.

And, in the finest traditions of the General Westmoreland school of political economy, it proceeds on the apparent assumption that jobs are best created by destroying them: just for a start, another 16,500 public servants to go this year; another 8,000 in the Defence Review; another 22,000 or more to go in Telstra; and another 18,000 this year associated with the just on $1 billion drop in government infrastructure spending.

Ironically, the only contribution to growth the Budget overall may end up making is to shame the Reserve Bank into making some compensatory further reduction in interest rates. If the Treasury forecasters are right about wage growth being held to 4 per cent this year - and they certainly haven't erred on the side of optimism in any of their other figuring - then we *can* afford another rate cut now. If the economy is not going to get a kick along fiscally, there is that much greater responsibility on monetary policy to take up the policy slack.

The *second* thing the Budget had to do was to make its contribution to our being able to grab effectively some of the external demand now coursing around the world, particularly in our own East Asian region. Australia's internal market place is too small ever to be able now to support the number of new jobs we need to create. And to get access to that external demand means, among other things, competent, effective and well-resourced foreign affairs and trade strategies.

It certainly doesn't mean closing posts; it doesn't mean downsizing DFAT in other ways; it doesn't mean saving $1.3 million by killing NTIOC - the National Trade and Investment Outlook Conference - which annually in Melbourne for the last four years has been Australia's biggest and most successful trade promotion window on the world; and it doesn't mean stripping Austrade of the kind of resources it needs to do its job.

The significance of some of these cost cuts should not be underestimated. I spoke the other day to an engineer who had been out selling a sophisticated new lignite technology to a dozen countries in East, South and Central Asia: he said that in every one of them

Austrade officers had set up exactly the right appointments with exactly the right decision makers in the respective government and commercial bureaucracies. He was shedding a quiet tear - as am I, and as should we all - for the way in which Costello Budget mania is now steadily stripping away this kind of informed on-the-ground capacity.

The *third* thing the Budget should have done for jobs, but didn't, was to provide the specific resources necessary to translate generalised demand - both internal and external - into specific business and job opportunities - with properly targeted industry and regional development strategies.

Nobody is arguing these days - least of all Opposition - for outdated protectionist strategies designed to prop up otherwise inefficient local industry against external competition. But nor is government's responsibility fully discharged simply by micro-economic cost reduction strategies designed to both encourage, and require, Australian industry to be more competitive.

Government has to work the other side of the street as well, and intervene where necessary in the national interest to give support to particular industry sectors - especially those which are efficiently run but still face debilitating problems in penetrating other markets against businesses supported by other governments that are not quite so imbued with free market fundamentalism.

And governments have to be prepared, in the Australian context, where labour and other factors of production are much less mobile than in countries like the United States, to step in and give particular support to regional areas, including whole States like South Australia and Tasmania, which are hard hit by economic change.

So that's why we deplore the rapid deterioration, in this and the last Budget, of support for manufacturing industry through the various selective bounties we introduced; the continued demise of DIFF and Export Market Development Grants and other programs of export promotion and support; and the continued walking away from the kinds of government R&D support and other measures which, as the MTIA recently put it, are not a matter of business welfare but *national* welfare.

And that's why we deplore the systematic assault on public sector employment in regional centres around Australia with the closure of CES, Social Security, Medicare, and Tax Offices and Defence establishments; the failure to offer any support to regions like Newcastle which are now facing an alarmingly uncertain future; the absence of any commitment even under the Federation Slush Fund to projects like the Alice-Darwin railway, to which we promised $300 million; and the sharp reining in of the infrastructure tax breaks which would have assisted this and many other major projects to become commercially viable.

The *fourth* thing the Budget should have done for jobs, but didn't, was to reverse the damage done in the last Budget to education, training and job readiness programs. It is no use creating job opportunities through increasing internal and external demand, and through industry and regional development intervention, if we don't have the human resources available to fill them. Changes in technology and business practice mean that higher and higher levels of education, training and job readiness are now being demanded of employees. If the necessary skills are not available in Australia, not only will inflationary bottlenecks be created here, but those job opportunities will simply be exported to those countries where they are available.

It's no way to generate a skill base to not restore the 230,000 training places abandoned through the nearly $2 billion worth of cuts to labour market programs last year; or to make further big cuts to vocational education; or to abolish the Commonwealth Industry Places Scheme; or to make further cuts in a tertiary education sector fast losing its way.

The *fifth* and final thing the Budget should have done for jobs, but didn't, was to provide more resources for the creation of a publicly funded pool of essentially transitional community service jobs - to try and absorb, at least for the time it takes other strategies to effectively bite, some of that large group of people, especially with skills less in demand, who are realistically going to face continuing unemployment for some time yet, even with a government a lot more committed than this one to generating sustainable new jobs.

One can't take much encouragement in this respect from the Government's abolition of the LEAP and other environmental training programs - which would have run at 26,000 places a year under us - and its replacement with a few hundred "Green Corps" places and 10,000 opportunities to Work-for-the-Dole. It is possible with the necessary will to do better than this, whatever the inherent limitations of this kind of transitional job creation program - to provide meaningful and rewarding work in areas of unmet community needs, in a way which not only keeps alive for the individuals involved a work culture and work ethic, but also provides at least some degree of helpful training. One looks for all this in vain in this year's Budget.

Savings

If the picture is one of bleak desolation in relation to the job initiatives there weren't, what of the savings measures there were? The Treasurer has said on multiple occasions in the last week that saving is the central theme, and central achievement, of this Budget. He cannot be very thrilled, as a consequence, with the reception that the Budget has been given on this front. Ross Gittins, in the SMH (14/5), belled the cat most succinctly when he said:

> "This Budget is a confidence trick. It purports to be all about increasing national savings, but in fact it will reduce them."

The criticisms have been well-founded.

Mr Costello's *headline* surplus was achieved essentially by windfall gains through selling off more than $10 billion worth of public assets - reducing public debt and PDI obligations, but making a zero contribution to national savings.

And his *underlying* surplus of $1.6 billion in 1998-99 is to be achieved as follows:

- $330 million from a one-off windfall gain from a timing change to withholding tax payment arrangements, dressed up as a major benefit to small business, but only benefiting the very smallest businesses (most with more than 4 employees being left out in the cold);

- $310 million is a public debt interest saving, the largest part of which comes from the Government's last minute decision to force Telstra to take on another $3 billion in debt, putting pressure on future telephone charges and not improving national saving one iota;

- $267 million is from additional property sales in 1998-99, allowed to be counted by a loophole in the definition of net advances: so much for Mr Costello's claim in January that he had ended "forever - the last minute asset sales to mask the true state of the accounts"; and

- the final $729 million is achieved by the Government breaking its superannuation co-contribution promise, in a way which will diminish rather than massively enhance the national savings pool.

It's worth spelling out in a little detail just what an ill-thought out, valueless, half-baked exercise it was to replace the co-contribution scheme with the so-called savings rebate.

In the first place, its impact on total national saving *is* bound to end up negative. This is because the rebate rewards those with existing savings (even if they are run down during the course of the year) rather than those making new savings, and the government rebate itself is more likely to be spent than saved.

The contrast with the co-contribution scheme - which the Coalition embraced in the last election, and reaffirmed in last year's Budget - is stark. The $2 billion spent each year on the so-called savings rebate will produce *less* than that in new private saving - and be negative overall for national saving. But the $4.5 billion Government superannuation contribution - matched as it had to be by the 3 per cent wage earners' contribution - would have provided a net gain to national savings of close to that full amount.

In the way that we proposed to implement it, that would have translated, over the period to 2020, into a $400 billion addition to the national savings pool. Under the Government's savings rebate scheme, that amount simply disappears. So much for reducing our foreign debt, reducing our dependence on foreign investment, and being better able to buy back the farm.

In the second place, the new savings rebate will make no effective contribution to people's long term retirement income packages, certainly not by comparison with the co-contribution scheme. Compulsory superannuation contributions will now be limited to 9 per cent of income, rather than the 15 per cent these would have been with our co-contributions. That's a difference of $110,000 in the retirement income package for someone now aged 35 on average weekly earnings - $110,000 he or she would have received on retirement under our scheme, but now won't get.

All this means that many more future retirees will be dependent on the pension, thus compounding the stress on the future pension system that will already be there as a result of the changing make-up of the Australian population, with fewer working age people having to support more and more retired Australians. The abandonment of the co-contribution scheme is to visionary, far-sighted national leadership what Mal Colston is to the principle and practice of self-denial.

In the third place, the savings rebate scheme is full of anomalies and inequities. How can it contribute to the development of savings "culture" in this country when you can get it by not adding to your saving?

Why was the system designed so that not one of the 1.3 million full rate aged and service pensioners can get the rebate, even if they have income on their savings of up to $2,500, while any taxpayer earning that amount on his or her savings would get a rebate of $375?

Why was it designed to enable business income earned as a sole trader, or through a partnership or trust, to count for the rebate provided only it's not described as wages or salary?

Why should it be possible for a wealthy family to distribute its saving income through a family trust structure to five taxpaying members and each of them get the maximum $450 rebate?

What's the comparative merit of a scheme which means that an ordinary worker paying $1,000 in personal superannuation contributions will get $150 from the rebate, whereas under Labor's co-contribution scheme there would have been a matching contribution of $1,000?

How many low to middle income earners can afford to pay personal superannuation contributions of $3,000 a year, or $58 a week, to get the full benefit of the rebate? How many of them have the $60,000 in savings - in the bank or elsewhere - that would be the other way of getting the full $450?

How can it be just for high income earners - the great majority of whom are paying more than $3,000 into superannuation already, and already have more than $60,000 in other savings - to be getting the rebate? Why on earth did John Howard say it would be "stupid" and "crazy" for there to be a means test on the rebate, when his own pre-election savings document promised a means test on any savings incentive the Coalition introduced?

Why is it wrong, according to the Prime Minister, to accept the rebate when you have a high enough income to be able to save enough to be able to claim the full amount - yet okay to accept it provided you earn so little you'll never be able to save enough to be able in practice to ever actually claim it?

Ralph Willis put it nicely when he said in Parliament the other day that Mr Costello's original line that the Coalition's savings initiative would "knock your socks off" when it was finally unveiled, had really been misheard. What Costello had really said was "This'll knock you suckers off"!

It's no exaggeration to say that the Coalition savings rebate - which can at the end of the day be characterised as nothing more than a windfall tax cut for those that don't need it - is one of the worst designed, most indefensible and cynical pieces of public policy making in the financial history of this country. It's lousy economics, lousy social policy and lousy morality. The Government will long stand condemned for it.

Economic Developments and Prospects

The Government's first year in office has been marked by a sluggish economy: unemployment has risen, employment growth has ground to a complete stop and retailers have experienced some of the toughest trading conditions for a generation. But you wouldn't know it by reading this Budget. The reason is that the Government has this year literally cut out a crucial section of the Budget papers.

In the past, the Budget has included a major statement on economic developments and prospects. It is the most important official assessment of how the economy has performed over the last year and how it is expected to perform over the coming year.

But this year the focus is almost entirely on the economic outlook—a complete section on economic developments over the last year has been omitted. In the 1994-95 Budget, the "Recent Developments and Prospects" section of the budget contained 29 pages, in 1995-96 30 pages; and in 1996-97 it contained 27 pages. This year we only have an "Economic Outlook" report of just 20 pages.

Any chance of the Government being embarrassed by Treasury's assessment of its first year record on the economy has been eliminated.

Looking ahead, the Government has several factors, *for which it can claim no credit*, that are working in its favour:

- the world economic outlook is looking quite bright;
- the housing cycle is picking up; and
- finally, despite a dismal last twelve months, the economy remains free of significant macroeconomic imbalances. Corporate and household balance sheets are in good order, the current account deficit is manageable, and inflation is well and truly under control.

With these factors working in the Government's favour it should not be difficult to achieve the 3¾ per cent growth forecast in the Budget. In fact, the 4 per cent plus growth required if we are to make substantial inroads into unemployment should be easily within our reach.

However, the Government's performance over the last year does not provide confidence that it can actually deliver on the forecasts in the Budget. Indeed, there are some signs already that the economy might not be about to pick up as strongly as the Government is suggesting:

- First, recent statistics on housing finance suggest that the housing market may not be recovering quite as strongly as some forecasters, and the Government, have been expecting.

- Second, despite the modest retail recovery in the March quarter, it's still not clear that consumer confidence has recovered strongly enough to support the stronger private consumption growth forecast in the Budget.

- Finally, there are some worrying signs on the outlook for employment. The latest ABS business expectations statistics show that business expects an increase in full-time equivalent employment of 0.5 per cent in the year to March 1998. That's a long way short of the 2¼ per cent employment growth forecast in the Budget.

In addition, the Government's forecast for the unemployment rate falling from 8¾ per cent in the June quarter this year to 8 per cent next year overstates the expected fall in unemployment. It is mainly a product of Treasury's practice of rounding forecasts to the nearest ¼ per cent. In actual fact, with economic growth of 3¾ per cent, the unemployment rate is unlikely to fall by much more than around ½ per cent over the year to June 1998.

The Bottom Line

The basic difference between the Government and Opposition, when it comes to this Budget or just about any other dimension of public policy making, is that we have very different ideas of the bottom line.

This was bought home to me again on Monday this week when I visited the dental clinic at the Springvale Community Health Service on the edge of my electorate. You may remember me telling you on this occasion last year about a little Bosnian refugee girl I saw in that clinic this time last year, being treated under the Commonwealth Dental Health Program for a mouthful of the most appalling decay I had ever seen - the product of terrible living conditions and total medical neglect during the long years of the civil war from which she had just escaped.

I was moved by description by that experience, and I speculated then on what the implications would be, for so many others like that little girl, of this Government's abandonment of that scheme. This week I found out.

To make up for the loss of Commonwealth revenue, and to keep the service going even on a reduced basis, a significant co-payment has now been charged for everyone except the children of Concessional Cardholders. That payment is deterring hundreds of pensioners and others from now seeking treatment at all, but even so the waiting list for everything except emergencies is extending dramatically: from down to nearly six months, to now two years, and moving toward four.

The most immediate and unhappiest impact of all this has been on the School Dental Service. The little dental team previously looking after 12 schools in the area now has to look after 28. Because of the co-payment system, the complexity of the administration associated with it, and the impenetrability of that system now to non-English speaking parents, the number of kids coming forward for treatment from the school which the team had just visited had dropped from 600 out of 700 last year, to just 200 this year. That school happened to be the one from which came the little Bosnian girl I saw last year.

How many more kids like her are there?, I asked. Scores, maybe hundreds, I was told. How many have you seen for treatment this year, since the Commonwealth funding cut? Just a handful. What will that mean for these kids? We might be able to save their teeth if they came to us in the next two years. But if they don't their teeth will simply rot away and they'll find their way here eventually for emergency treatment and dentures. At a price the family will barely be able to afford.

I ask again now, as I did last year: are we reduced to this, as a society, that we can't any longer devote the resources to reaching out and helping those in this community who desperately need a helping hand, many of whom have come to this country trusting in our compassion and our generosity? Is the bottom line to be the accountant's bottom line, or is it to be the *human* bottom line?

There must be something about the view from Kirribilli, and the view from Toorak and Malvern, that simply stops the Prime Minister and the Treasurer from seeing that human bottom line.

They don't seem to see, and if they do see they don't understand, the enormous distress that so many of these budgetary decisions have been causing to so many people, with the steady deterioration in human services that has been involved in the expenditure cuts of the last two budgets.

Above all they seem to have failed utterly to understand how serious is the human plight of those 800,000 Australians who want to work but presently can't - and who have been utterly demoralised over the last year to see their chances of work not only getting no better, but in fact getting worse.

That, in the face of all this, the Treasurer's Budget speech could make just one or two passing references to unemployment, and set out no initiatives or strategies, and mobilise no resources, to deal with our greatest single national economic and social problem, is an indictment of this Government.

It's an indictment of its arrogance and insensitivity, its complacency, its lack of understanding and compassion, and above all its lack of vision, direction and leadership.

If this Government doesn't want to accept the responsibilities of leadership, it should step aside for a Party that demonstrably can and will.