THE CHALLENGE OF ECONOMIC POLICY : PUTTING PEOPLE FIRST

Paper delivered by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition and Shadow Treasurer, to Australian Fabian Society Conference, *Renewing and Revitalising Labor*, Melbourne, 28 July 1996.

I

The traditional Labor Party approach to economic policy has been built around a number of core values. We believe in meeting the needs of ordinary working people; we believe in helping those who are socially and economically disadvantaged; and we believe in the role of government not only in achieving these objectives but in securing many public goods - like first class education and medical research, the enjoyment of culture and the protection of our environmental heritage - which are simply unlikely to be delivered as effectively, if at all, by the private sector and the free market.

Economic policy always involves choice. There are many ways of measuring a country's economic health - among them growth, employment, inflation, interest rates, budget balances, public debt, foreign debt and current account balances. Circumstances are never so ideal that every single one of those indicators is simultaneously at its best possible setting. And particular policy responses tend to have impacts that push against each other. What may be helpful in reducing a Budget deficit may not be at all helpful in reducing unemployment or in building competitive productive capacity in the longer term; conversely, what may immediately stimulate growth or reduce unemployment might generate longer term structural problems.

It has to be acknowledged that sometimes economic necessity will demand all-out priority attention being given to a particular problem - like exploding inflation or a manifestly unmanageable current account deficit. In these circumstances, particular restrictionist policy strategies will for all practical purposes be compelled, whoever is in power. But more often than not governments do have the capacity to choose between competing policy approaches, and as often as not standard economic logic will simply expose the options - rather than compel a particular choice. In these more familiar circumstances, it is at the end of the day philosophical preference, whether overtly acknowledged or not, that will determine the policy choice.

The traditional Labor philosophy has been, very simply, that the first priority for economic policy should always be <u>people</u>. The basic objective is to improve people's living standards - through providing sustainable full employment and rising incomes. Everything else - controlling inflation, reducing current account deficits, bringing Budgets into surplus, reducing public debt, reducing foreign debt and improving saving - are second and third order objectives by comparison. They are means to the achievement of the primary objective of improving people's living standards, not ends in themselves.

I believe that these principles, and this general approach, continue to command assent throughout the Labor movement, and also would be seen by the majority of the wider community as relevant and attractive. But how successfully have we translated those principles into practice in the past? Do we have anything to answer for in the conduct of our economic policy over the years in which we held the reins? And what does all this mean for us in confronting the economic environment of Australia in the late 1990s - not least on the current battleground of this year's Budget, where a number of fundamental choices have now been very starkly exposed indeed?

II

By no means did we manage to get everything right in our thirteen years of government - no government ever does - and we certainly didn't explain ourselves, especially to our traditional supporters, as clearly and directly as we might have. But I believe our record of economic management, through a very difficult period of internationally driven change, stands up very well indeed against the principles I have just outlined. Let me remind you of the key elements in that record.

- We dragged the economy back from the disaster we inherited from the Fraser/Howard government - a budget deficit equivalent to $24 billion in today's dollars, with unemployment at 10 per cent and inflation simultaneously at 11.4 per cent.

- We confronted the reality, becoming ever clearer through the 1970s but ignored by our predecessors, that the luck of the lucky country, able to depend first on agriculture and then on mineral and energy resources, was beginning to well and truly run out - and that we had to make ourselves export-competitive in manufacturing and services if we were to maintain, let alone improve, the living standards of ordinary Australians. Not least through persistent jawboning, we did develop a new export culture in the country, and one specifically focused on our place in the Asia Pacific region.

- We put in place, albeit often with a good deal of transitional pain, the raft of policies necessary to make us export competitive. We floated the dollar, and brought competition and lower prices to banking, air travel and telecommunications. We broke down tariff walls, and brought greater efficiency to shipping and the waterfront. Our industrial relations policies produced major economic gains and unprecedented industrial peace.

- We changed the shape of the economy as a result. We left an economy around 40 per cent more competitive than it had been a decade earlier. Our firms capitalised on our increased competitiveness, and our exports grew faster than those of the rest of the world. We grasped the opportunities of our region, and led the way in establishing new forums like APEC to bring trade and jobs to Australian firms and workers. Australia today is less reliant on commodities, and less vulnerable to world cycles; we export more manufactured goods, especially high value added goods; and we are moving faster than the rest of the world into the boom growth area of service exports.

- We grew the economy over the whole period at an average rate of 3.7 per cent, and employment at an average of 2.2 per cent, generating over two million new jobs in the process.

- We overhauled the nation's education and training systems to gear them to the challenges of competing in the international economy. We dramatically improved school retention rates: by 1993, 78 per cent of our 19 year olds were completing either year 12 or a post-schooling qualification: this compared with the less than 30 per cent rate John Howard left in 1983. We introduced *Working Nation* to offer those with the least skills, especially the long-term unemployed, the training and work experience they need to compete effectively in the labour market: one of the most important initiatives to enhance our nation's human capital ever seen in this country.

- We removed inflation as a problem in the Australian economy. At double digit levels in 1983, over the last five years inflation has averaged just 2½ per cent a year.

- We addressed the savings problem endemic in Australia, by producing in the late 1980s four Budget surpluses, unique in Australia's post-war history, and by implementing a revolutionary superannuation strategy to build up private saving. Superannuation, once the preserve of the wealthy and public sector workers, is now provided to 90 per cent of all employees.

- We markedly decreased the tax burden for all workers, with seven rounds of tax cuts for personal income over our time in office. The bottom marginal tax rate was lowered by us from 30 per cent under Howard as Treasurer to 20 per cent, with the tax-free threshold raised. Australia is now (after Turkey) the second lowest taxed country in the OECD.

- We achieved both economic and social justice objectives through our eight successive Accords in partnership with the trade union movement, delivering wage restraint and productivity gains that have been crucial in underpinning low inflation and steady employment growth. That faith has been rewarded with tax relief and substantial improvements in the social wage: including through Medicare, child care benefits, family payments, rent assistance and low income rebates. While real average earnings increased modestly by 6.9 per cent over our period in office, real household disposable income per capita rose by 21 per cent.

- We ensured, through many additional assistance measures, that necessary wage restraint did not impact unfairly on lowest income families: with family payments up to $121 a fortnight for each child, parenting allowances of up to $280 a fortnight for low income families as well as $500 million annually in rent assistance and access to a Health Care Card, with all associated benefits.

The scale of our achievement can be very simply summarised.

We inherited from John Howard in 1983 an economy that was on the rocks and breaking up - inward looking and uncompetitive, with high unemployment, high inflation, high interest rates, massive industrial conflict, and obvious massive social inequities - including two million people without guaranteed access to health care.

We bequeathed back to John Howard in 1996 a structurally sound and internationally competitive economy, which he himself was obliged to concede last month was "better than just good in parts" - one with high growth, low inflation, falling unemployment, greatly enhanced social equity, and with its fundamental forces better balanced than they have been at any time in the last twenty-five years.

III

There are still some problems with the Australian economy, but none of them are unmanageable or cause for alarm. They can and should be sensibly addressed by thoughtful, balanced and moderate strategies - strategies which, in accordance with Labor's philosophy, put people first.

The first and most serious continuing problem, and the one which impacts most directly upon people, is unemployment. Like every other industrialised economy we have been hit over the last decade by a combination of dramatic changes - in particular the cost competition pressures of globalisation, the large scale entry of women into the workforce and the explosive expansion of computer technology. These have together conspired to make realistic and acceptable medium term unemployment target like our 5 per cent by the year 2000 - a target which not so many years ago would have been quite unacceptably high.

We now have 760,000 unemployed people, 8.3 per cent of the labour force. This is an unhappy figure, but it should be kept in context. The participation rate - the proportion of those of working age seeking work - has risen very significantly since 1983, largely as a result of the welcome and overdue entrance of women into the workforce: if the participation rate were the same now as it was in 1983, the present unemployment rate would now be no more than 4 per cent. And had job creation remained throughout our term at the same low level it was under John Howard as Treasurer, unemployment would be over 2,000,000 now, with an unemployment rate of 23 per cent!

The way to address our continuing unemployment problem is not to go down the deregulatory United States path on which the Howard Government is now embarked with its industrial relations legislation. Kim Beazley put it eloquently in a recent speech to the AMWU. "People are not commodities... Labour is not just another commodity". It is simply not acceptable in our society, and with our tradition of equity and fairness, he said, "to ‘clear’ labour markets in the same way you clear the copper market, by dropping the price until suppliers leave or demand picks up".

The way to cut back unemployment is rather by economic strategies designed to keep growth running at a sustainable 4 per cent or better. When we averaged 4 per cent growth over our last three years in government, we not only beat our 1993 target of 500,000 new jobs, which the Coalition had scoffed at, but exceeded it by over 40 per cent, creating well over 700,000 jobs (70 per cent of them in small business since 1993), putting us well on the way to achieving our stated target of 5 per cent unemployment by the year 2000. All this has obvious implications for budgetary policy, to which I will return shortly.

The second significant problem still evident in the Australian economy is the current account deficit. Although likely to come in for 1995-96 at some $7 billion less than the previous financial year, falling as a percentage of GDP from around 6 per cent the previous year to 4¼ per cent, a current account deficit of this order of magnitude is a constraint on growth, and we would be much more comfortable with it running at no more than 2-3 per cent of GDP.

That said, the problem is perfectly manageable at the moment, and one that should sensibly be addressed as a medium term priority, not one demanding all-stops-out immediate action. The difficulty is not with merchandise trade, which continues to be more or less in balance, or even with services, but rather with net income, in particular interest payments to service debt borrowed abroad. But Australia’s net foreign debt is not especially dramatic by international standards: at 38.8 per cent it is less than in a number of other OECD countries - including New Zealand (with only 8½ per cent of it owed by the Commonwealth Government, 60 per cent being private). Moreover the debt service ratio - the proportion of our exports needed to pay interest on outstanding debt - is presently a comfortable 11.6 per cent (way down on the peak of 20.6 per cent in 1990).

Certainly it is nonsensical to argue - as Peter Costello continues to do - that a major budget deficit reduction exercise will translate directly into an improved current account. While it is perfectly true that the key to longer term improvement in the current account is greater national saving (assuming that no-one wants to reduce domestic investment), a reduction in government dissaving by reducing the budget deficit will not translate directly into a reduction in the current account deficit unless private savings and investment behaviour remains absolutely constant - and in the real world (as proponents of simplistic "twin deficit" theories now have to concede), that simply doesn’t happen. The huge effort made by Labor to generate budget surpluses in the late 1980s did not make any direct impact on our current account deficit then, and there is no reason to assume a similar exercise would have any different impact now.

The message is that government dissaving does have to be addressed, and it is desirable for this reason for budgets to be in balance or better, but this objective should not be pursued in a way that cuts across other goals, inhibiting the solution of more pressing problems. Putting people first means not ignoring the current account problem, but - in the present environment - treating it as a lower priority one than hauling back unemployment.

The third and remaining problem, or in this instance, <u>alleged</u> problem, with the Australian economy at the moment is the size of the Commonwealth budget deficit after nearly five years of continuous economic growth. The precise size, and certainly the significance, of that deficit is a matter of intense political controversy.

Whether the starting underlying deficit for 1996-97 is $8.9 billion, as Costello is currently claiming, or anything like that figure, continues to depend on official estimates about future growth and inflation rates. Those estimates have been wrong in the past (not least for the 1995-96 financial year just completed, when inflation proved significantly lower than predicted, and revenue fell accordingly). And with the best will and the most competence in the world, such estimates are bound to be wrong, to a greater or lesser extent, in the future. But what does seem clear is that the growth estimates for 1996-97 will be revised up on Budget night from their present 3¼ per cent to at least 3-3/4 per cent. And with that revision - and some accompanying likely downward revision in the GDP deflator measure of inflation - a significant proportion of the alleged problem will disappear.

Even if the starting underlying budget deficit for 1996-97 were to prove to be of its present alleged order of magnitude, there are some very important points to make about its significance.

The first is that a deficit of around 1.5 per cent of GDP is not massive, or even very large by international standards: certainly it wasn't regarded as alarming by any of the key economic policy-makers and financial institution players I spoke to in the course of visits I have made in the last few weeks to the financial capitals of East Asia and North America. The OECD estimates our deficit to be, with that of the US, the third lowest, after Denmark and Norway, of the major industrialised countries. Some of these comparisons can't be made too often. Not only is our tax/GDP ratio the second lowest in the OECD, as already stated, but our public sector expenditure is the third lowest (after the USA and Japan), and our net government debt is the fourth lowest (after Japan, Norway and Finland).

The second point to make is that the make-up or character of any country's budget deficit is as significant as its size. The key to understanding why the present Australian deficit is still apparently quite large, notwithstanding several years of positive growth, is simply our success in tackling inflation - with all the benefits that has brought for competitiveness, investment, saving and social equity. The low inflation rates we have now achieved have made the task of restoring the Budget to surplus in the 1990s much more difficult than used to be the case. In the past governments could simply rely on the magic of fiscal drag to automatically generate a rapid and expanding pool of revenue without having to make any budgetary changes, but that luxury is no longer available.

Other factors that have contributed significantly to present budgetary balance problems have been Labor's progressive tariff reforms, which have denied us increasing amounts of revenue each year, some $6 billion worth in 1996-97; Labor's decision in government to shield the States from the largest impact of the fiscal fallout of the recession by maintaining general purpose payments in real terms while Commonwealth revenue collapsed; and in particular Labor's decision to make a massive expenditure commitment to education, training and job readiness programs, building a skilled human capital base for the future.

What is absolutely clear is that the significant deterioration in the underlying budget outcome for 1995-96 as compared with that predicted in May 1995, which in turn has set back the base on which this year's budget has to be constructed, was not in any way the product of an unjustified blow-out in spending. Nearly all of the change - over 87 per cent of it - was due to changed parameters: in other words Treasury and Finance had their forecasts, of inflation especially, quite wrong. The forward estimates for this year are simply not riddled with wasteful spending commitments: that is why it is simply not possible to find $8 billion worth of cuts without hacking into valuable, efficient and well-targeted programs.

The third point, and in many ways most important point of all, to make about the budget deficit is that, on Costello's <u>own</u> figures, the problem that he and his Government have claimed to be so exercised about is one that is largely self-correcting over the life of this Parliament. In March the Treasurer estimated - with very conservative 3¼ per cent growth assumptions - that, without any policy changes, the purported $8 billion black hole would be reduced to just over $3 billion by 1998-99. Even factoring in, as he now has, the $1.3 billion slippage from last financial year, it is completely possible to get to underlying balance within three years with just a fraction of the Budget cuts now being proposed by the government.

This is because on entirely reasonable assumptions - for example those recently published by Banker's Trust economists, involving real economic growth ½ per cent higher and CPI inflation ½ per cent lower than in the latest published Treasury estimates - for the 1998-99 financial year the underlying Budget deficit would be no more than around $2 billion. And a $2 billion savings task is obviously whole orders of magnitude easier to achieve than the $8 billion task the Government is still claiming to be necessary.

IV

Against the background I have been sketching, it is not hard to expose both the economic wrong-headedness and the crudely political nature of the Government's present behaviour.

First, the wrong-headed economics. The last thing the Australian economy needs just right now is a sharp and savage dose of contraction. While inflation is manifestly under control growth at the 4 per cent level needed to bite into unemployment, is simply not assured. After a year in which employment has grown by only 1 per cent, and unemployment has stuck at around 8½ per cent, there is a pressing need to generate new employment growth.

Private sector economists, including Westpac and Access Economics, estimate that $4 billion cuts in each of the next two years will mean ½ per cent less GDP growth each year than would otherwise have occurred. In other words, instead of working to help the economy maintain 4 per cent-or-better growth, the cuts will work in exactly the opposite way. Apart from the tens of thousands of jobs now being directly cut out of the Public Service, cutting away growth on this scale means throwing away the opportunity to create some 80,000 new jobs over the next two years.

It cannot be assumed that the cuts will translate into a massive rise in business confidence, with new investment "crowding in" as a compensating consequence. Recent surveys have shown business investment expectations to be in fact already quite buoyant - with planned increases of around 20 per cent in the coming year - so there is simply not the scope for an additional increase in private investment of the magnitude that would be necessary to offset the blow of the proposed cuts on the economy.

It is now being argued by Costello that a deficit reduction exercise on the scale the

Government is proposing would be quickly rewarded by interest rate cuts - and that this is another reason why the Government should be applauded for its application to the task. But while a savagely contractionary Budget will of course create its own momentum for interest rate cuts, they will come not as a reward for good fiscal behaviour but rather as either a reward for our excellent recent inflation record or as a necessary corrective for an economy with the stuffing knocked out of it.

One of the worse economic consequences of the proposed cuts is their impact on education, training and other labour market programs which have been designed specifically not just to help individuals lead more rewarding lives but to strengthen the capacity of the whole economy to perform competitively in the future. The US President's Council of Economic Advisers Chairman, Dr Joseph Stiglitz, sounded this warning in unequivocal terms at the recent OECD ministerial meeting:

> We must also recognize that deficit reduction is not an end in itself, but a means for increasing living standards and growth by raising available savings and fostering investment. This has one strong implication: How we cut matters. Too often, governments under fiscal stress cut spending on research and development, training, and other investments - gutting the very policies that have the greatest effect on long term economic growth and opportunity.

But this is a warning that has gone unheeded by the Howard Government.

There is certainly a case, given Australia's weak saving performance and the state of our current account deficit, for reducing government dissaving. Targeting for budget balance or better is a legitimate and proper objective - one that we would certainly have continued to pursue had we stayed in office. But to choose to achieve that target through savage budget cuts within an excessively abbreviated time frame is simply economically wrong-headed, given the manageability of the current account problem in the short to medium term and, by contrast, the seriousness and urgency of our unemployment problem.

It is the choice of a Government that certainly does <u>not</u> put people first - that is bent rather on the pursuit of a radical Thatcherite small-government ideology; which sees virtue in cutting the size of public sector personnel and programs as an end in itself; and which is either blind or indifferent to the pain it will cause ordinary working people and the harm it will cause the economy.

<u>Our</u> choice, by contrast, would be to target a return to budgetary balance by 1998-99, setting ourselves in the process a savings task, to be achieved by that time, of some $2 billion. We have already pointed out, before the election (in Treasurer Willis's detailed statement of 28 February) a number of measures which would make significant inroads on

that target, and it pales into relative insignificance by comparison with the over $30 billion worth (in 1995 dollars) of reduction in outlays we progressively achieved over our thirteen years in government.

Now as to the politics.

The Coalition's behaviour from the outset has been governed far more by political opportunism than any genuine sense of economic necessity, but the honeymoon mist has tended to conceal until now just how crude that behaviour has been. There are four distinct charges in the indictment.

The first charge is that the Coalition's "discovery" of the so-called $8 billion "Beazley black hole" was deliberately contrived to place the blame on Labor for the pain associated with the general expenditure cutting and program slashing it was determined to embark upon anyway for its own Thatcherite small-government ideological reasons.

Whatever the accuracy of the growth and inflation projections on which they were based, the truth is that before last Christmas predictions were being made by Treasury officials and many in the private sector of a significant deficit outcome for 1995-96 which would flow through into 1996-97. As Max Walsh put it in *The Sydney Morning Herald* on 10 May 1996:

> 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 second charge is that the "Beazley black hole" was really just a further Costello con designed to divert attention from the Coalition's own $4 billion credibility problem in the costing of its pre-election promises (to spend $6.8 billion over the next three years) - promises even more irresponsible had the Coalition <u>genuinely</u> believed that it would be confronted with a big deficit legacy from the Labor Government.

There is no doubt that the Coalition's promises were ludicrously underfunded. Before the election the Finance Department specifically found $1.2 billion worth of error in the Coalition's *Meeting Our Commitments* calculations - in the form of unachievable savings or underestimated expenditure; another $1.3 billion involved costs that were unavoidable if Coalition policies were implemented; and there was a further $1.4 billion funding shortfall arising from the $3.3 billion of proposed measures which were too vague for even Finance to cost. No information that has emerged since the election has done anything but reinforce that shortfall analysis.

The Coalition’s "family tax package" election bribe, which we will no doubt see triumphantly reannounced in the forthcoming Budget, is manifestly inequitable in its application (providing, for example, exactly the same benefits to a family earning $70,000 as a family earning $20,000). But it can also only be paid for by a frenzy of cost-cutting programs which will, among other things, decimate labour market programs, vandalise higher education, emasculate our export drive, damage our relations with our Asian neighbours and take away resources from the most vulnerable and needy members of our own community. The Howard Government has taken political bribery to new levels of effrontery - not only offering bribes which it says with another face that the economy can’t afford, but stealing the bribe money as well!

The third charge is that the Howard/Costello Government is taking political promise-breaking to breathtaking new levels of brazenness. To take just those budgetary promise breaches about which there can at this stage be absolutely no doubt, without speculating about what is yet to be announced, we have:

- the introduction of new taxes on imports - against the pledge that "there will be no new taxes and no increases in existing taxation under a Coalition Government";

- the cuts to higher education - with only the size still to be declared - against the promise "to maintain the level the funding of operating grants to universities";

- the cuts to Skillshare, NEIS, LEAP, Jobskills and the New Work Opportunities programs and to CES offices - with again only the size to be finalised - against the promise to "maintain the expenditure on labour market programs in real terms";

- the cut of $65 million to the ABC - against the promise to "maintain existing funding for the ABC";

- the ending of the R&D tax concession on syndication - against pledges to "maintain support for R&D through the 150 per cent tax concession" and previous expressions of concern about changes to the syndication scheme "drying up" effective mobilisation of venture capital;

- the announced abolition of regional funding - against the pledge to "maintain funding for regional development at $150 million over four years"; and

- the cuts to State Financial Assistance Grants and Special Purpose Payments - against the pledge to provide a "fixed share of Commonwealth revenue" which would be "revenue neutral".

It is difficult to believe that against this background anyone could ever again take at face value any promise made by any member of the Howard/Costello Government.

The fourth charge, and this is just about the biggest scam of all, although so far the least remarked, is that what this Government is about with its $8 billion worth of budget cutting is not fiscal rectitude and economic responsibility but a crudely political exercise to put itself in a position to buy the next general election due by March 1999.

As we have seen, there will be in 1998-99 - on the Government's own figures, supplemented by some reasonably cautious further assumptions about growth and inflation - an underlying budget deficit not much more than $2 billion. That means that if there are $8 billion worth of cuts over the next two years, the budget by 1998-99 won't merely in balance but in surplus to the tune of some $6 billion. Even if the deficit reduction outcome is $7 billion or less (as has been suggested in the last few days, as the acceptable slash-options narrow even for these Huns and Visigoths) the surplus would be of the order of $5 billion.

As we saw as early as 1977 with the "fistful of dollars" campaign, and as recently as this year's election with the nearly $7 billion worth of family tax and related promises, John Howard has a long track record of bribing his way to government. With a war-chest of $5 billion or $6 billion available, it is not difficult to see how this scenario will play out again in 1999.

The only complication for John Howard is that if the Government proceeds to the double dissolution in mid-1997 for which it is now blatantly positioning itself, this will be in the middle of the pain part of the cycle it is now creating - and too early for the Government to reach into its forthcoming war-chest. This consideration is no doubt why we are now beginning to see reports that the Government is in fact planning to defer its double dissolution until the last constitutionally possible moment in 1998, just six months before the next election is due!

All this political manoeuvring and promise-breaking might be marginally excusable if there were a genuinely powerful economic rationale for achieving budgetary balance - or surplus - within the abbreviated time frame proposed. But, as I have argued throughout this paper, given the real nature and relative scale of Australia's remaining economic problems at this time, the compelling economic logic points in a very different direction - viz. to budget balance by 1998-99 which could much less painfully be achieved.

All this means that Labor in Opposition will be much less tolerant of the Government's deficit reduction proposals, and much more willing to expose each of them individually to scrutiny and, where appropriate, attack, than would have been the case if we thought that the Government was genuinely and honestly confronting a real economic crisis. In addressing CEDA in April I spelt out some of the key criteria that would determine our reaction to government economic initiatives, including:

- whether they put at risk sustainable economic growth and the living standards of ordinary Australians;

- whether they involve broken election promises; and

- whether they offend values for which we in the Labor movement have traditionally stood - in particular equity, distributive justice, the protection of those in need, and the provision of public goods which are incapable of being delivered as well, or at all, by the private sector alone.

Of course it is the case that elected governments must be allowed to govern, and bear the consequences of any misgovernment at the ballot box, in accordance with proper constitutional processes. But while we are not going to revisit 1975, the Government should be drafting its Budget in the full knowledge that, for all the reasons I have spelt out in this paper, we regard a significant number of its likely components as simply indefensible.

V

I have been dealing in this paper primarily with the familiar set of great macro-economic policy issues which are the staple of mainstream press and parliamentary debate and to which, whether in government or opposition, we have to continually respond. My central argument has been that it is critical for our unity and credibility as a Labor movement, and alternative government, that we respond to those issues along the lines of our "put people first" traditions and values.

But if Labor is to recapture the confidence and majority support of the voting community, we will need to do rather more than even all that. We will have to try and get inside the hearts and minds, and be seen to be doing so, of those millions of ordinary working men and women who are bound to see the economic issues effecting them from a rather less grand perspective.

We have to talk, in language that can be understood, to people who feel insecure - about their jobs, about the changing nature of their work, about their wages and conditions, and about the whole unrelenting process of change to which they have been subject over the last decade.

More specifically, we have to *connect* with people:

- who feel vulnerable about their own employment future, because of their perception that there is no such thing any more as a secure permanent job (maybe no less in Australia than in any other industrialised country, but - here as elsewhere - international comparisons don't mean as much as personal experience);

- who don't necessarily see intuitively how it is that our engagement with Asia, and the trade opportunities that flow from that, will be of particular relevance to them;

- who worry about the employment prospects for their children, however much extended education or training is available to them;

- who know all too well that whatever virtue industry restructuring may have for the economy as a whole, all too often the new jobs aren't precisely where the old ones were lost, and don't involve the same sort of skills;

- who see all too clearly the changing nature of work, and in particular the disappearance, under technological onslaught, of a great many traditional unskilled and semi-skilled jobs;

- who may not feel personally confident about their capacity to be retrained or learn new skills - or even to find a niche in the domestic and community service areas of employment which are continuing to rapidly expand;

- who may not be confident that they can afford early retirement, or occupy themselves satisfyingly without their days being filled with work;

- who are unimpressed by the economic virtue of a lower interest rate environment because they are significantly dependent for their income on interest from investments; or

- who may just <u>feel</u> less well off in a low inflation environment, simply because there are less new dollars going to their pay packets or home valuations: it may be "money illusion" for the economists, but for many ordinary Australians that illusion is very real.

So the challenge of economic policy for Labor now, in opposition, is to not only articulate and act in the Parliament, on the big macro-policy issues of the day, in accordance with clear, economically defensible and equitable principles. It is to be systematically working away at a whole range of related micro-policy issues related to the future of work; the regional and local impact of structural reform, including competition policy; retirement incomes; lifetime education and training; satisfying and dignified "third-age" occupation - and all the other very specific issues that do matter to ordinary working Australians.

Unless we do care, and are seen to be caring, about the things that do matter to people, we can’t complain if they in turn don’t care very much about what happens to us.