

DOING IT HARD: THE GOVERNMENT'S FIRST - AND NEXT - 12 MONTHS

Address by Gareth Evans, Deputy Leader of the Opposition and Shadow Treasurer, to Property Council of Australia, Melbourne, 3 April 1997.

Introduction

- In its first 12 months the performance of John Howard's Government, and the Australian economy under it, has been much worse than
 - its supporters must have hoped
 - it must have believed, and
 - the Australian community as a whole had a right to expect.
- I know that in saying that, being who I am, you're going
 - to apply a discount about as big as that which Peter Reith received on his penthouse from Hudson Conway; and
 - to say that any such assertion, coming from me, is bound to be as fanciful as a Mal Colston travelling allowance claim.
- But I believe a strong case can be made out in support of what I've just said
 - and will come back in a moment to make it.
- The Government's next 12 months is largely going to be determined by what kind of Budget the Treasurer comes up with in May.
 - If the Government gets the settings right, Australia will be well placed (not because of anything it has done so far, but because of the basic underlying strength of the Australian economy) to achieve good economic outcomes through to the end of the century and beyond;
 - but if it gets the settings wrong, we face the prospect of a very different future, characterised by sluggish growth, continuing unacceptably high levels of unemployment, and a society increasingly divided and unhappy with itself.
- Of all the different industry sectors and sub-sectors around the country, there are not many whose fortunes depend so directly on the overall health of the economy as those buying, selling and developing commercial, industrial and major residential property.

- So I am comforted to know that even if I'm not likely to be preaching to the politically converted today, I sure am talking to the economically interested.

The Government's First 12 Months

• Why do I say this has not been a very flash first year for the Government?
Look at the evidence:

(1) *Nearly every basic economic indicator has moved the wrong way.*

- Overall growth is down.
- Overall unemployment is up.
- Youth unemployment is up.
- Long term unemployment is up.
- The number of hours worked is down.
- Foreign debt (remember the debt truck!) is not down but *up*.

(2) *The Government has systematically disappointed the expectations of nearly every industry group* - who believed it would be closely attentive to what they were saying, and understanding and supportive of their position.
For example:

- *the finance industry* is almost rioting over the new superannuation rules (and it's not going to be impressed by Costello still fiddling with the Wallis Report's release while the banking sector share market starts to burn with today's Westpac bid);

- *retailers* have been trying to cope with the Government's black-hole-talk engendered loss of consumer confidence, and lower private consumption expenditure;

- *small business*, after all John Howard's rhetoric, was expecting an Alexander Downer stocking full of goodies, but finds itself, after the Charlie Bell report, with nothing more than a size six sock and a handful of marbles; and

- *manufacturers* are enraged at the way in which the Government has been dismissing as dispensable "business welfare":

: a whole variety of specifically targeted and crucial support measures (including in particular the bounties on ships, machine tools, computers and books; and the R&D tax concessions);

: and a number of other measures which are crucial for their export performance (especially DIFF and EMDG).

(3) *The Government has been one of the most ordinary in living memory when it comes to standards of professional competence and personal integrity.*

- It has had performers like Downer, Vanstone, Herron, and Kemp Junior who have made Mark Taylor's run rate look good.

- On the integrity front

: it has lost two front benchers through breaches of the Code of Ministerial Conduct (Short, Gibson);

: has saved three more in their jobs only because the rules were changed along the way to protect them (Moore, Downer, Prosser).

: It has lost another one through a combination of about-to-be exposed financial and sexual scandals (Woods).

- And, in the biggest and most damaging scandal of all, it has been exposed as buying political support in the Senate by offering the Deputy Presidency (on the condition he would defect from his party) to someone who seems to be a living challenge to the theory of evolution. Moreover

: because the Government wasn't sure that once the gentleman in question was bought he would *stay* bought, the Prime Minister personally approved a staff upgrade worth up to \$70,000 to him a few days before the Telstra vote;

: the Government has gone on defending him steadfastly when his hands were caught so far into the till his wrists were breaking, his only defence being to blame it on his office staff (a bit like John Howard saying the appointment of Alexander Downer as Foreign Minister was a typing error);

: now we have this morning's news of Colston seeking a salary increase because of his increased responsibilities - the biggest piece of chutzpah since Peter Bartels gave himself a productivity bonus for stripping back Coles Myer's profit!

(4) *The country is more divided and unhappy with itself than its been for a long time.* That has been evident, for example, in:

- the Hanson debate (and PM's determination to inflame rather than quell it with his "political correctness" speech), generating a mass of racist and anti-immigration sentiments which have been very unhappy indeed for both our domestic harmony and our international credibility;
- the native title debate which, while not of the Government's own making, has so far not been managed in a way to give any confidence of an outcome reasonably balancing and accommodating all the different stakeholder interests;
- the results of a deliberate and sustained political appeal to middle Australia by John Howard to be *resentful*, not only to those above them in the income and social stakes, but to those *below*.

The Biggest Failure - Jobs

- Another way of describing the Government's failure in its first 12 months is to focus on the way in which it has approached undoubtedly our country's greatest economic and social problem at the moment - unemployment.
- If you're going to generate jobs, *four basic strategies* have to be put in place simultaneously
 - to put it briefly and brutally, the Government has blown it on every one of these fronts.

(1) Generate internal demand through appropriate fiscal and monetary policy.

- *Budget policy* - has been deliberately contractionary, taking ½ per cent off growth rate otherwise achievable.
 - That might be defensible if growth was running at an unsustainably high 5 per cent plus, but in fact we've been limping along at just 2 per cent for the Government's first nine months in office
 - : way less than the Government's own projection of 3½ per cent for the year, and even further behind the 4-4½ per cent necessary to make any significant impact on unemployment.
- *Monetary policy* - has been more restrictive than it could and should have been. You may be inclined to say things can't be all bad if we've had three official rate reductions, with rates across the board lower than they've been for years, but

- the first rate reduction was three or four months later than it should have been because of the RBA's anxiety about the implications of the Government clearing up the Accord and abandoning wages policy; and

- it's certainly arguable that the RBA, with the direct support of the Government, has been overly focused on its statutory anti-inflation objective and insufficiently attentive to its pro-employment statutory objective.

(2) *Hitch on to external demand* - with a trade and foreign policy that enables us to take real advantage of our geographical proximity to the fastest growing region of the world.

- *Trade policy* - no obvious advances, though Tim Fischer one of the few real honest triers in the Government.

- but the only result of his "aggressive bilateralism" in the US, for example, on an issue like Howe Leather, has been to see poor old Tim flat on the floor.

- *Foreign policy* - we have plunged straight back to the days of "Little Australia" squandering a lot of hard won respect and credibility: and are real implications for us in attitudes taken by senior government and business decision makers.

- Hope that the PM has mended some fences with China after trail of wreckage left last year: but, despite "hyperventilation" (Sheridan) of many sections of the media, a trip isn't a triumph simply because you've avoided another disaster.

(3) *Have an industry and regional development policy* capable of translating general demand increases into specific commercial and job opportunities.

- Country like Australia, with considerable factor immobility, always going to need specific support at the margin to generate export-competitive activity.

- Government adopting a purist free market approach which simply out of sync with reality.

- I described in Parliament the other day the Government as having not only no industry policy at all, but nothing to fill the vacuum but "a silk handkerchief wearing, fob watch bearing, gin and tonic sipping streak of aristocratic insouciance". That might have been a little rough on John Moore, but I think I'd have a reasonable defence to a defamation action...

(4) *Have a conscious commitment to improving the nation's skill base* - so can

meet demand with appropriate skills and not have inflationary bottlenecks develop or, worse, send job opportunities offshore.

- That means not destroying university funding and not having a HECS scheme deterring people from higher education.

- It means not running down our State schools.

- It means having effective labour market programs that will provide real job experience, real training and a real psychological boost for those who might otherwise become permanently welfare dependent

 - : it needs something much more than an ill-designed, politically opportunist, narrowly focused, limited numbers, no training, work-for-the-dole scheme, which I have described elsewhere as the "Bob Woods Memorial Rock Painting Program".

The May Budget: What the Government Should be Doing.

There are three very clear priorities the Government should be adopting for the forthcoming Budget. I don't believe for a moment that Mr Costello intends to embrace any one of them, but if he doesn't the Government is in for as bad a second twelve months as was the first - and, worse, the country is in for a very unhappy longer term future.

(1) Give priority to growth and job generation.

- Budget deficit reduction/balance ensuring is a legitimate medium term strategy, but in the present condition of the Australian economy - with very high unemployment, very low inflation, and by international standards very low levels of government deficit and overall public debt

 - we can afford not to be too obsessive about further assaults on public spending.

- I always try and avoid choking people over lunch with too many statistics, but it can't be said too often that, by international standards, Australia simply does not have a serious budget deficit or public debt problem

 - in Europe governments are currently struggling to meet the Maastricht criteria for monetary union, ie budget deficits of less than 3 per cent of GDP, and government debt of less than 60 per cent: only one European country (Luxembourg!) presently meets those criteria;

 - but Australia romps it in on both counts, with general government

deficits of around 2 per cent, and public debt of not much more than 40 per cent.

- In particular, we don't need another massive expenditure reduction in the crucial areas of

- industry and regional development support; and

- education, training and labour market job readiness programs.

- The basic need is a change of mindset: it must be accepted that it's just as great, if not greater, a sin to grow the economy at lower than its sustainable potential as it is to grow it unsustainably fast.

(2) Increase private saving and continue the task of building a world class retirement income system.

- In our final Budget in 1995, the Labor Government earmarked \$4½ billion to be paid each year, when the system was phased in, as government contributions to superannuation.

- the Howard Government committed itself before the election, and again at the time of the last August Budget, to delivering that benefit in full (subject only to some possible changes in the delivery mechanism)

: this would have meant for the national economy, when the whole compulsory system was in operation a rise in aggregate superannuation fund assets from under \$300 billion now to over \$600 billion by the year 2005 and to around \$2000 billion by the year 2020 - a phenomenal, and phenomenally important, increase in our national savings pool.

- Mr Costello has now made it abundantly clear that the Government will abandon this in favour of some far less generous, albeit politically carefully packaged, savings alternative

- this will mean the loss of over \$100,000 from their retirement package to a worker now in his or her mid-30s on average weekly income;

- and it will mean the loss of that massive boost to our savings pool.

- It's not only lousy morality, and lousy social equity, it's lousy economics for the long term future of the country as a whole.

(3) *Ensure that any Budget measures are progressive.*

- Lower income earners were far and away the group hit hardest in the Government's first Budget - as part of the Government's deliberate political pursuit of the politics of downward envy.
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- It would be a travesty if they were first to shoulder any burden again this year. Any budget measures, whether on the outlays or revenue side, should be progressive and not operate to undermine the living standards of ordinary Australians.

Conclusion

If the Government delivers a fair Budget that sets the sails for growth, takes a moderate and balanced approach to deficit reduction, boosts private saving and enhances retirement incomes, it will be supported by the Labor Opposition.

Contrary to constant jibes from the Government about our occupancy of the Temple of Doom, Labor will unambiguously applaud any evidence that the economy *is* moving to a faster growth phase. Our traditional supporters certainly don't need any more hard times, and we don't as a political party either want or need hard times in which to thrive politically. On the contrary, we unequivocally welcome the greater freedom of action that good times allow us to deliver strategies for overall increases in the standard of living of all Australians - for good business policy and good public policy.

I believe, however, that the prospects of this Government delivering those good times in the foreseeable future are about as remote as Senator Colston paying \$3.00 for a sandwich when he can send a Commonwealth car across town to get one for \$2.50.
