

## A BETTER VISION FOR THE AUSTRALIAN ECONOMY

Address by Gareth Evans QC MP, Deputy Leader of the Opposition and Shadow Treasurer, to The Lawson Institute's *A Better Vision* Seminar, Perth, 11 August 1996.

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This year's budget is about much more than the Commonwealth's revenue and outlays for the next two years and beyond. It is about nothing less than the kind of society we want Australia to be.

Governments don't always have a lot freedom of choice in constructing their budgets. There are occasions, from time to time, when painful but necessary decisions have to be made - eg in circumstances of exploding inflation or current account deficits careering out of control. But more often than not - and this year is squarely in this category - there aren't any imminent disasters, but there are some problems requiring attention, and governments do have a clear cut choice as to the particular economic issues to which they will give *priority* attention.

There are nearly always some issues that do require attention. When you look at measures of a country's economic health like growth, employment, inflation, interest rates, budget balances, public debt, foreign debt and current account balances, you quickly realise circumstances are rarely so ideal in the real world that every single one of these indicators are simultaneously at its best possible setting. And you also quickly realise, when you try to fix those settings that are out of kilter, particular policy responses tend to have impacts that push in different directions. What may fix a budget deficit may not be at all helpful in reducing unemployment, or building competitive productive capacity in the long term. On the other hand, stimulating growth and job creation now might have the effect of contributing to some longer term structural problems for the future.

The crucial thing to appreciate in confronting these dilemmas is that the choices a government makes depends on the kind of government it is - the kind of values it has, and the kind of problems to which it is *attracted* to giving priority attention. If you choose, in circumstances short of full blown economic crisis, to give more weight to the budget deficit than the social deficit, to reducing government saving than to reducing employment, it is not because you have to, but because you *choose* to.

If you prefer to give greater weight to what the financial institutions are telling you to do than what people in the street are crying out for you to do, then it's because you choose to. And very often the financial institutions will be telling you things that are very much at odds with what ordinary people are telling you. As the ANU's Fred Argy put it starkly in

the last week's *Bulletin*, "Financial markets revel in unemployment because it means lower interest rates, higher asset prices, low inflation and...a stronger exchange rate."

Well we in the Australian Labor Party *don't* revel in unemployment. We have always had a very clear idea in our economic policy about the kind of society we want Australia to be. Our position is that the first priority for economic policy should always be people. 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.

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The kind of budget the Coalition is proposing this year - foreshadowing net savings of \$8 billion over the next two years - is *not* the budget that Australia now had to have. There is *not* some awesomely large inherited budget "black hole" which any responsible government would have to fix; there is *not* a current account problem of the kind which needs this kind of budget turnaround to fix; and, while we do have a serious unemployment problem, it is *not* going to be helped at all by this kind of a budgetary slaughter of the innocents.

The biggest problem in the Australian economy at the moment is unemployment. No other single issue needs to be addressed with such urgency, and none has such severe human consequences. Last week's figures confirm the scale of the problem:

- Total unemployment is now stuck fast at 8 1/2 per cent of the labour force, with 772,500 Australians now unemployed.
- Job growth has stalled. Over the whole thirteen years life of the Labor Government 2 million new jobs were created at an average annual rate of 2.2 per cent. (If jobs had grown at the much lesser rate they were created under the previous Fraser/Howard Government, the unemployment rate would now be 23 per cent - with two million Australians unemployed.) Over the last three years of our term in office we created 700,000 jobs, with annual growth running at an average 4 per cent, which put us well on the way to meeting our medium term unemployment rate target of 5 per cent by the year 2000. But over the last few months job growth has dropped away to negligible proportions.
- The *regional* employment outlook is particularly bleak. The most recent Departmental assessment shows that almost 260,000 jobless Australians are

looking for work in provincial cities, town and metropolitan suburbs where unemployment rates already are greater than 10 per cent, and the labour market outlook overall is deteriorating further.

- A number of private sector economic forecasters are predicting that unemployment will rise back to 9 per cent level in the not too distant future. A great deal of anecdotal evidence is now coming in (eg as summarised in the article "Kill or Cure" in last week's *Bulletin*) to the effect that speculation over the adverse impact on the economy of savage budget cuts in badly hitting business confidence in the economy.

Private sector economists, including Westpac and Access Economics, estimate that \$4 billion cuts in each of the next two years will mean 1/2 per cent less GDP growth each year than would otherwise have occurred. 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.

What we need is not contraction of the economy, but maintenance of 4 per cent-or-better growth. It is only by sustained growth of this order of magnitude that we will be able to find jobs for those who want them.

The Reserve Bank of Australia recognised this in its decision a few days ago to cut interest rates by 1/2 per cent. That cut was not a gift to the Coalition Government in anticipation of a horror budget, but rather a reward for the low inflation legacy to the *Labor* government, combined with a recognition that the economy at the moment was very flat, growing at a slower rate than it could and should be growing.

Despite the efforts of Messrs Howard and Costello to talk up the prospect of a further interest rate cut in response to a tough budget, the Governor of the Reserve Bank, Bernie Fraser, made it absolutely clear last week that "the Budget as such doesn't really have any immediate short-term implications for interest rates". If there is further movement in interest rates, this will be a Reserve Bank response to the overall condition of the Australian economy, including the likely impact upon it of global developments. The only way this year's budget could impact on interest rates is through the extra unemployment that a horror budget will generate.

The Government says that the biggest and most urgent economic problem confronting Australia is not unemployment, but Australia's poor saving rate - that governments are not good at saving public money, spending more than they raise, and private saving by households and companies is not what it should be. Messrs Howard and Costello constantly point to our larger than comfortable current account deficit as the most visible consequence, or symptom, of our underlying saving problem.

It is not the Labor Party's position to say that national saving is not a problem. It clearly is, and this Government should be doing something about it, just as ours did. But it is a problem that ought to be kept in perspective:

- The current account deficit for 1995/96 came in 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 4 1/4 per cent.
- The main contribution to our current account deficit problem these days is what it costs to service our accumulated foreign debt. But that foreign debt level is not very dramatic by international standards. At 38.8 per cent, it is less than a number of other OECD countries, including New Zealand. And we are much more able to pay the interest bill than we used to be - we can service the debt with only 11.6 per cent of our exports today, compared with more than 20 per cent in 1990.
- Despite all the Government rhetoric, there is no direct one-to-one correlation between reducing budget deficits (or government "dissaving") and getting the current account deficit problem fixed. It didn't work for us when we had budget surpluses in the late 1980s. It doesn't seem to be working in Malaysia, where despite a comfortable budget surplus (and a national saving rate of over 32 per cent), the current account deficit is running this year at a disconcerting 8.8 per cent of GDP. And it certainly doesn't seem to be working in every dry economist's apparent favourite country, New Zealand, where the Budget Papers forecast a budget operating surplus of 2.9 per cent in 1996-97 - accompanied by a current account deficit of 5.1 per cent!

- The point is that 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 that simply doesn't happen.

The Labor Party's position is that we do need to address the national savings problem, but we don't need to address it manically, by huge budget cuts within a drastically short time frame. Our position is built around three specific propositions:

- The first is that it is demonstrably true that *the best way to get national saving up is to get unemployment down*. When unemployment is reduced, public savings increase. As unemployment benefit payouts reduce, government revenue increases; private savings also tend to increase simply because of a higher capacity for saving by employed people.
- The second proposition is that *you don't make any useful contribution to lifting*

*national saving by improving public saving at the expense of private saving.* If the Government abandons the co-contribution payments that Labor promised, that will drastically reduce the payouts in superannuation that wage and salary earners will get on retirement. And it will throw into limbo what would have been a crucial element in developing a national retirement incomes policy, to enable us to meet the needs of our ageing population. But it *also* means that superannuation will make nothing like the contribution to lifting the overall national saving rate that it would otherwise have done: while the government portion of the co-contribution might be saving-neutral (because what is lost as a contribution to private savings is gained as a reduction in government expenditure), that certainly can't be said of the proposed *employee* contribution: that will simply disappear from the national savings pool.

- Our third proposition is that *the government dissaving, (or budget deficit) problem is one that should be addressed as a medium term objective.* Labor in government had a track record of taking budget deficits seriously: we were the only Post-War government ever to deliver a surplus, and we did so four times in a row. The Coalition's record, by contrast, whether in government or Opposition, has been simply appalling. Where was the sense of economic responsibility in the Coalition opposing, as it did, budget tightening measures totalling \$10 billion over the past three budgets (and last year actually succeeding in stopping \$2.6 billion worth of such measures)? Where was the responsibility, during the election campaign this year in making, as John Howard did, nearly \$7 billion worth of election promises for the next three years, but failing to make proper provision for their funding to the tune of some \$4 billion?

The Government of course says that the budgetary problem is not a medium term but an urgent short-term problem because it inherited from its Labor predecessor an \$8 billion "black hole". Well, let's get a few things clear about that assertion:

- In determining the size of the starting point deficit for 1996-97, everything depends upon official forecasts about growth and inflation rates for the forthcoming year. Budget forecasts, as often as not, have been wrong in the past - as they were last year to the tune of \$3.6 billion, largely as a consequence of inflation proving significantly lower than predicted - and they will be wrong in the future.
- Even if the starting deficit for this year did prove to be as big as the Government says it is, the fact is that a deficit of around 1 1/2 per cent of GDP is not massive, or even very large, by international standards. The OECD estimates our deficit to be (with that of the US) the third lowest of the major industrialised countries (after Denmark and Norway): by relevant international standards, not only is our budget deficit problem an easily manageable one, but our taxation is very low, our public expenditure is very low, and so too is our government debt.

- If our budget deficit after five years of positive growth is still larger than we would ideally like it to be, that is not the product of the Labor Government mismanagement, but rather specific economically beneficial policy decisions, especially these:
  - our successful drive to achieve dramatically *lower inflation* rates (meaning among other things that governments lose the luxury of "fiscal drag" to automatically generate a rapid and expanding pool of revenue without any budgetary changes);
  - our successive *tariff reforms*, which have made us internationally competitive, to the great benefit of the whole Australian economy, but at the expense of an increasing amount of revenue each year (some \$6 billion worth in 1996-97); and
  - in particular, our decision to make a massive expenditure commitment to education, training and job readiness programs, so as to build a skilled human capital base for our future.

On the Government's own figures the deficit problem that is claimed to exist is one that is largely *self-correcting* over the life of this Parliament. Using the Treasurer's March figures, and factoring in quite cautious growth and inflation assumptions for the years in question, by 1998-99 the underlying budget deficit will be not much more than \$2 billion, or \$3 billion at the outside.

The Australian Labor Party's view is that, given all the factors I have mentioned, and the primacy of our unemployment problem as compared with all others, the proper target to be setting ourselves is the achievement of budget *balance* by 1998-99. This means a savings target of \$2-3 billion. And this is obviously a whole order of magnitude easier to achieve than the \$8 billion task the Government, wrongly, is claiming to be necessary.

There is always a degree of nervousness, real or contrived, about the likely reaction of international markets to any perceived backsliding, even when expectations have been wrong-headedly generated. But I don't believe that the Australian economy would be marked down by the adoption of a balanced and moderate approach to financial consolidation of the kind I have outlined. In many discussions in the last two months with financial institution leaders, government policy makers and private and public sector analysts throughout the major East Asian capitals and then New York and Washington I found a consistently clear-headed appreciation of the relative scale of Australia's remaining economic problems; I found a recognition that we have had a good track record of addressing structural issues in recent years; and I found a consistent acknowledgment

that what market analysts wanted to see was simply a serious minded effort, consistently pursued, to bring down the budget and current account deficits, over a reasonable time frame.

The Government will continue to argue that much *bigger* cuts than those I have mooted are necessary. But when you hear Messrs Howard and Costello making these points, understand that what they are about is politics rather than economics. And, properly understood, it is very crude politics indeed. There are three clear motivations for the \$8 billion massacre operation that is now being mounted:

- The first motivation is *Thatcherite ideology*. This is an outfit which values small government for its own sake - which sees the reduction of government services as a matter of honour rather than shame, which sees little or no role for government in redressing inequity, and which has difficulty in believing that anything is worth having that the free market can't or won't deliver. But this is also a Government which knows that there is a good deal of pain involved in this retreat from public responsibility - be it in medical research, the arts, the protection of environmental heritage, legal aid or anywhere else. So it is trying to shift the blame for a good many of the cuts on to Labor, by arguing crudely that they are made necessary by an inherited "black hole".
- The second motivation is to *conceal irresponsibility*. The Government needs to find nearly \$7 billion over three years to pay for its irresponsible pre-election promises, including the inequitable family tax package and in the extra assistance to those with private health insurance. But it didn't calculate honestly or accurately the savings necessary to get there - leaving on our estimate a \$4 billion hole of its own. So again the Coalition needs to find a Labor "black hole" as an excuse for the extra slashing required in highly sensitive and vulnerable areas.
- Most crudely of all, is the *bribery* motivation. This is a government that wants to build a war chest to buy the next election. Since on the Government's own figures, the present deficit is self correcting, down to \$2-3 billion by 1998-99, then an \$8 billion savings exercise will produce a \$5-6 billion surplus by the last year of this Parliament. The hope is obviously by then that the pain will be forgotten - or, better still, blamed on the Labor Party. This would allow the Coalition then to get on with the kind of "fistful of dollars" campaign for which Mr Howard was responsible in 1977, or the kind of bribery that was on offer as recently as this year's election campaign.

The combination of wrong-headed economics and crude politics means, as we have been saying in a number of forums in recent weeks, 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 doing its best to deal with a real economic crisis.

Just how far we will go in pursuing our opposition on any particular measure will be a matter for detailed consideration by us when the Budget is brought down. But we will be taking into account the impact, positive or otherwise, that particular measures make on employment and improved living standards, on distributive justice and equity, and on making Australia a more decent, caring and civilised society; and whether or not they involve the breaking of promises solemnly (if not always sincerely), made.

We will certainly be asking how the Government is going to increase growth and generate new jobs when it is:

- cutting up to 30,000 jobs from the Public Service, with 15,000 gone already;
- overseeing the cutting of around 25-30,000 jobs from Telstra;
- cutting labour market training job readiness programs to the likely tune of over \$1 billion;
- cutting higher education funding and raising HECS by a total of \$1.8 billion over the next four years in ways which will impact very adversely on human capital formation;
- cutting CSIRO funding and abolishing R&D syndication;
- cutting AusIndustry, Export Market Development Grants, and the DIFF programs which, quite apart from the impact of those cuts on our credibility and reputation overseas, will bite into export opportunities especially for small and medium enterprises; and
- cutting regional development programs worth \$150 million, the very ones aimed at creating jobs in the most disadvantaged areas of the country.

We will be asking how the Government is going to maintain or help raise the living standards of ordinary Australians by cutting the services and support they rely on government to provide:

- by cutting hundreds of millions, and possibly billions, from Social Security programs;

- by cutting higher education support and raising HECS by \$1.8 billion, with all that means in terms of access by the less wealthy;
- by tearing into the labour market programs that are making adults job-ready and generating relevant new skills for youngsters; and
- by forcing the sick to shell out more for prescriptions through cuts to the Pharmaceutical Benefits Scheme, in addition to whatever is planned for Medicare itself.

And we will be asking how the Government is going to make Australia a more decent, caring and civilised society:

- by gutting the ABC - the communications lifeline of rural Australia, the standard bearer for independent news and current affairs, and the country's most accessible window into its own national soul;
- by gutting the Human Rights and Equal Opportunity Commission, cutting funding to ATSIC and programs for migrants - with the Government absolving itself of any responsibility for those subject to disadvantage and discrimination;
- by cutting legal aid for anything but Commonwealth matters (a tiny proportion of the total business of the Courts) - which means the end of any kind of fair go for people who can't afford expensive private lawyers; and
- by cutting spending on environment programs, and urban renewal, arts and heritage programs - all "public good" areas where the free market simply can't or won't deliver.

In the cuts proposed in this Budget, we will be witnessing a systematic betrayal by the Howard Government. It won't just be a betrayal of all those people who voted for the Coalition believing the legion of promises - promises not to cut the ABC, not to cut university funding, not to cut labour market programs and all the rest - which are now being broken.

It will be a betrayal of the idea of an Australian society which is egalitarian and cooperative in spirit, where wealth and position are not the primary standards of value, and where those who choose to devote their career to public service are not maligned and devalued.

And it will be a betrayal of the kind of society the Australian Labor Party, throughout its more than one hundred years of history, has fought to hold together - and will continue to

fight for so long as we draw breath.