

## ECONOMIC POLICY UNDER LABOR

Introduction to Chapters 2 and 16 of Draft National Platform by Gareth Evans, Deputy Leader of the Opposition and Shadow Treasurer, ALP National Conference, Hobart, 19 January 1998

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What the economic commentators hardly ever tell you, and what conservative politicians in the line of succession from Thatcher to Howard to Costello never tell you - is that managing the national economy always involves choice

- and the choices a government makes depend, far more often than not, simply on what kind of government you are, your values and your priorities.

There are always some economic indicators out of kilter - not at the right level, or not pointing in the right direction. Short of a major crisis, what particular problem you move to fix, or fix first, is not a matter of textbook necessity and inevitability, but of conscious political choice.

The Labor Party in and out of government has always understood the reality of that choice - and we have always made our choice very clear: it is to put people first.

As the Draft Platform says in the very first paragraph of Chapter 2, the fundamental objective of economic policy is to promote the well-being and improve the quality of life of all Australians - by providing maximum employment opportunity and rising incomes.

All the other specific economic objectives that governments properly set themselves - controlling inflation, reducing current account deficits, bringing budgets into surplus, reducing public debt, reducing foreign debt, improving savings and so on - are not ends in themselves, but means to the achievement of the primary objective of improving people's well-being and living standards.

If you put people first, there can be no doubt what Australia's biggest economic problem, and highest priority, is and should be - to reduce unemployment.

This is so in the economic circumstances that have prevailed since the Coalition Government took office; in those now looming with the Asian economic crisis; and indeed in those that have prevailed through most of the 1990s.

It's simply unacceptable to claim, as the Howard Government does, that Australia's

economic fundamentals are right when the most fundamental right of all - the right to have a job, with all the security and dignity and opportunity that goes with it - is not a reality for three-quarters of a million Australians, and never will be a reality so long as this Coalition Government stays in office.

It won't be a reality because the Howard Government has chosen not to make it so. Their choice - their priority - has not been to create jobs, not to improve the living standards of ordinary Australians, but to permanently reduce the role of government in Australia.

The proof is in the performance:

- The Howard Government has been creating jobs at only half the rate we were during our last term in office [113,000 average per annum, compared with 223,000].
- 135,000 public sector jobs have disappeared in the last two years.
- Even with the recent lift in activity, trend unemployment remains stuck at just about exactly where it was when we left office [768,500 in February 1996, 767,100 today].
- If the trend unemployment rate has slightly improved recently, it's only because so many people have become so discouraged and depressed by their job prospects that they have left the workforce altogether. The trend participation rate is now a full half percentage point lower than in February 1996, and that means 73,000 people fewer looking for work. If they were still in the workforce, the unemployment rate would now be 9 per cent.
- Overall growth has dropped right back, under Howard and Costello, from the 4 per cent or better we need to significantly reduce unemployment - and with the impact of the Asian crisis there is little or no chance under present policies of seeing 4 per cent plus sustained into the future.

What we have seen from the Howard Government then, as a matter of deliberate policy choice, is two years of putting employment not first, but last - and they have been two tragically, horribly wasted years so far as three-quarters of a million Australians are concerned.

What would we have done differently?

Well, the Draft Platform Chapter 2 tells you, as clearly as any Platform statement could. Our highest priority, putting people first, would have been jobs and job security - and the

key to that would have been, in turn, focusing on maintaining strong sustainable economic growth, at the 4 per cent plus level we in fact achieved in our last term of office.

It's not good enough for Australia to just jog along in the middle of the OECD pack, as we did last year. Because our population growth rate is higher than nearly all other industrialised countries [we rank fifth out of the OECD 29], with our labour force growing at more than twice the rate of the G7 countries, we have to grow our economy close to a full percentage point higher than the G7 to avoid an increase in unemployment.

Of course there are constraints on growth to which any responsible government has to be constantly alert.

One is inflation. We know the damage inflation can cause; we understand the benefits of low and stable levels of inflation, and we are the Party who achieved in Government just that, something that John Howard as Treasurer never could.

We are happy with the Reserve Bank's current objective, set under Labor, of achieving an average rate of inflation of 2-3 per cent over time. There is nothing to be said for doing better than that if it comes at the expense of jobs and growth. Unlike the Howard Government, we don't believe that low inflation is a sign of successful economic management if it's achieved by holding the economy below its long term growth potential, or by maintaining high rates of unemployment.

The other big constraint on any responsible government is the current account, now looming as a serious issue again with the Asian economic crisis.

Large current account deficits financed through foreign debt can leave an economy vulnerable to adverse swings in financial market sentiments. Irrational though those confidence swings may often be, they're an ever present reality in today's globalised economic universe, and you ignore their potential at your peril.

Despite all the "debt truck" nonsense during the last campaign, foreign debt has in fact been rapidly increasing under Howard and Costello, and the current regional environment is not going to make it easy for any government to turn that around.

Our Draft Platform recognises the need to continue to build Australia's national savings to reduce our reliance on foreign debt, and ensure that the current account is maintained within a sustainable range.

The big difference between us and the Government is that we don't believe that public saving, as distinct from private saving, should be seen as the sole element in this equation.

Unlike the Howard Government, we do not believe that national savings should be built up by tearing down the public sector, hacking into programs that provide vital support for families and by dismantling government services and jobs in rural and regional Australia.

We think it's crazy to reduce private saving by reducing private income through budget policies which deliberately cause lower growth.

And budget policies which buy extra public saving at the expense of less private saving are simply wrongheaded. No more irresponsible budget decision has been made by this Government than the abandonment last year of the superannuation co-contribution scheme - which would have translated, by the year 2020, into a \$400 billion addition to the national savings pool.

### **A Strategy for Jobs**

There is one other significant component of Chapter 2, in addition to all the material about basic objectives, priorities and constraints I have been describing: the box "*A Strategy for Jobs*" [p23], which outlines how all the different pieces, in this and other chapters of the Platform, which will be debated later in the week, would come together as we mounted in government our assault on unemployment.

The strategy has five elements:

1. *Growing the Australian economy as fast as we sustainably can.* That means using appropriate combinations of budgetary and interest rate policy to meet the 4 per cent plus growth target I have been describing.
2. *Selling to Asia and the World.* This means using trade and foreign policy - including export support programs - to enable us to generate growth from external as well as internal demand.

For all the strife the Asian economies are in at the moment - for reasons essentially to do with poor micro-management of their banking and financial system, and in some cases poor overall governance - there is no reason for other than optimism about their longer term growth potential. Certainly there is no reason to think that the emphasis we placed in government on trading with Asia, not at the expense of efforts elsewhere, was misconceived.

3. *Supporting industry and regional Australia.* Unlike the Howard Government, we understand the need to walk both sides of the industry policy street. On one side of the street is the need to create productive and

efficient firms, which means continuing to pursue structural policies to make Australian business more competitive.

But there is another side of the street, and it involves providing specific government industry support carefully targeted to areas - such as research and development - where pure market forces alone are not guaranteed to work effectively.

*4. Making sure we have the job skills.* That means on the supply side having the education, training and labour market job readiness programs in place to ensure that when demand is generated it translates into business and job opportunities

- and doesn't lead to inflation bottlenecks or, worse, those job opportunities going offshore.

*5. Directly creating jobs to meet community needs.* There has always been in the past a sense in which the public sector has been an employer of last resort - and one of the tragedies of the massive decline in public spending in public sector employment under the Coalition is the decline in work opportunities for older Australians, people living in some regional areas, and those who find it difficult to acquire the skills needed for the new jobs that are being created.

The unhappy reality is that strong economic growth alone may not produce employment for all Australians who want to work, and we do see a necessity for the creation by government of additional publicly-funded jobs in areas of unmet community needs.

## **Chapter 16: Financing Government**

We are debating Chapter 16, on Financing Government, cognately with Chapter 2, because obviously it goes to the heart of budget policy and administration.

But there is a significance in this material being placed last in the Platform, rather than just being bundled in as usual with the purely economic Platform items. This is because we see revenue and outlays and Federal-State financial issues as not being driven wholly by macro-economic considerations, but rather by our assessment of what it's important to raise and spend money for.

Of course macro policy considerations are always going to set the basic parameters and limits within which budgets are constructed, but the difference between the Coalition

Government and ourselves is that, putting people first as we do, we have an acute sense of the positive role that the public sector could and should play in Australian society, and we don't see reductions in outlays and revenues - the whole small government agenda of the Coalition - as ends in themselves.

- Macro-policy will always be a huge constraint, but an important consideration too is the need for government to be able to deliver public goods and services which the private sector and free market, left to themselves, cannot or will not deliver as well, or at all.

As a matter of overall budget discipline, we of course recognise the virtue of delivering, over the course of the economic cycle, budget neutrality or better.

In this context, clause 3 specifically recognises the virtue of Australia's hard-earned status as an economy with relatively low levels of taxation and public debt.

- It's worth remembering that for all the talk of the budget deficit we left behind on leaving office, on the current Government's own figuring that deficit was largely self-correcting, in that - with no policy changes - the underlying deficit would have fallen to \$4 billion, or less than one per cent of GDP, by 1998-9.

- It should also never be forgotten that at the time of the change of government, Australia's overall budget deficit and public debt position was better than every European country but Luxembourg, and way below the targets that the European Union set as pre-conditions for Monetary Union. The notion that Australia in 1996 had a budgetary and debt crisis that demanded drastic government action was a nonsense: Costello's budgets were not a matter of economic necessity but of political and ideological choice.

At this stage of the political cycle, Chapter 16 is necessarily rather constrained in what it says about tax issues. This is a policy area about which we will obviously be saying rather more later in the year. But the Platform has set out a number of basic principles which govern our approach to the tax system.

One of those principles, spelt out in clause 3, is that there are limits on our capacity and willingness to tax. In particular

- Labor will not increase the burden of taxation on lower and middle income Australians; and

- Labor will not seek to raise revenue beyond the proportion of GDP established over the past decade.

This latter provision is intended to operate as a discipline on Labor governments, but one which still allows for some necessary flexibility as each budget is drawn up and economic and social priorities are evaluated.

- The Coalition Government is actually at the moment, in 1996-7 and 1998-9 raising more revenue than the average over the last ten years, but is operating within the range of revenue figures established over that period.

The Labor Party readily concedes that the Australian tax system needs reform. It always needs reform in the sense of ongoing repair, maintenance and occasional renovation.

If, for example, we had not changed the income tax scales when we were in office (as we did in fact seven times)

- the top marginal tax rate would still be 60 cents rather than 47 cents in the dollar, because that is where John Howard left it when he was Treasurer
- and we would be collecting now around \$30 billion more revenue annually.

The biggest challenge for tax reform is to maintain the integrity of the income tax system. High income individuals must pay their fair share. We need to deal with the overuse of trusts as a device for tax avoidance. And we need to stop the erosion of the PAYE system.

The second challenge is for the tax system to be fully sensitive to business needs, with the taxation of inputs into exports one area requiring to be addressed.

In Federal-State financial relations, there has to be a sensible balance to ensure the effective delivery of public services to all Australians, and we remain open to debate about options which would secure greater revenue for the States.

One area where we don't have an open mind is a GST. We oppose it, and the Platform (in clause 6) makes clear that we oppose it.

We do so for a great many different reasons that we have spelt out in the past, and will again as the need arises. But the basic reason is simply that a GST, however you construct it and attempt to compensate for it, is inherently regressive and unfair so far as lower and middle income earners are concerned. We need to address the income tax scales, as we have in the past, but we won't pay for tax cuts by charging ordinary Australians a new tax on everything they do or buy.

So we're back to where I came in. Labor's approach to economic management, including

budgetary management, enshrined in this Platform and these two chapters in a multitude of different ways, is to put people first.

That's been, throughout our history, our approach to economic policy, part of the distinctive Labor tradition: when we've ignored it, we've done so at our political peril and cost. And putting people first will certainly be the approach that Kim Beazley and I bring to economic management when we put all this into practice, as I hope and believe we'll be doing after the next election.