MANAGING THE ECONOMY TO MAXIMISE VALUE ADDED IN AUSTRALIA

Address to the MTIA National Forum by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition and Shadow Treasurer, Canberra, Monday, 21 October 1996

John Howard was very chirpy over the weekend as you saw, not least from the front page headline in the *Australian* saying, "Get Out of My Way" Opposition. Here we go: a revised new mandate, life is now complete and rich, and all systems go. It reminded me of the initial conversation I had when I became Resources and Energy Minister in 1984, when I asked Rod Carnegie what his expectations and demands of me in Government were. He said; "Just one very simple thing - get the hell out of our way!" And that's, of course, a very familiar refrain in conservative rhetoric, whether it comes from business or the government side of the equation, and, certainly, it seems to have been taken very much to heart by this Government in its approach to economic management.

So we've had, for a start, the Government getting out of the way when it comes to abandoning any semblance of a wages policy and, certainly, the Accord - with the result that the interest rate reduction that we would certainly have had immediately after the election was deferred by four months while the Reserve agonised as to whether there would be a wages explosion, or at least increase, in the new environment. Now we have got the Reserve, just a few days ago, making clear that it's still worried about wage pressure in this brand new deregulated wage-policy-free, Accord-free environment. And so we're still waiting for a further interest rate reduction.

We've had, secondly, the Government dramatically reducing its expenditure in the context of getting out of the way in the Budget with a very contractionary policy, with the result that there will be half a per cent less growth in the economy as a direct result of that squeeze this year, another half a per cent next year: 80,000 jobs that otherwise might reasonably have been expected to be created won't be there as a result. We can expect, on the Government's own figures, no better than 3½ per cent growth through to the end of the century. Employment growth is already significantly down on Treasury forecasts - running at the moment at around 0.6 per cent, whereas Treasury was forecasting over 2 per cent. Long-term unemployment is dramatically up: it has been increasing for the last four months after having been declining for the 32 months before that. And, for unemployment generally, as you all well know, we're looking at 8 per cent at least - maybe worse than 8 per cent - through to the end of the century. So that's the second contribution that's been made by this Government getting out of the way.

The third contribution that's been made is to get out of the way in the context of industry support policies, right across the spectrum. You know very well what the list is in terms of trade policy: the debacle over the withdrawal from DIFF; the capping and lowering of the Export Market Development Grants and associated programs; significant budgetary reductions to Austrade, with the support that they're able to offer to small and medium enterprises in particular. In industry policy, we've had shipbuilding, books and computer bounties, all of which have been extremely significant in their own areas, being terminated earlier than would otherwise have been the case. We've had the massive assault on research and development support from the public sector, amounting to close to $2 billion over the next four years. We've had manifestly no enthusiasm for the car plan, the steel plan, the Factor (f) pharmaceutical plan, or any other form of sophisticated support for industry of the kind that was very much par for the course for us: all plans designed to encourage the production of innovative, high quality goods in demand around the world, but in the context of course of a strongly competitive overall environment, and one in which a very significant measure of tariff reduction and general deregulation occurred.

The fourth contribution we've had to macro policy involving the Government getting out of the way has been the dramatic reduction in labour market programs: programs that have been aimed, as you all well know, in growing skills on the supply side of the equation, and at the human level giving hope to the distressed who will otherwise, unless they can clamber their way back into the labour market through support programs of this kind, be destined to remain outside it for the rest of their lives. And, as to the budgetary dimension of that, those programs were of course designed to reduce the longer term budgetary problem of effectively total and permanent welfare dependence. But the Government has decided that that's not the sort of thing that should be supported on anything like the scale that we were supporting it. As a result, over the next four years there will be at least 230,000 people of all ages, particularly youngsters, who won't be getting the benefits of those programs.

As a result of all these exercises in enlightened withdrawal from the business of economic management and support, we have an economic environment in which, since the Budget, consumer confidence is already down, according to the latest Westpac survey, by 5 per cent - in fact, it's been low all year since the election. We've had business confidence down: on the most recent NAB survey a couple of days ago, putting things together on a weighted basis, 40 per cent of business was saying that its plans were negatively affected by the Budget. We've had investment expectations, while still high by comparison with last year, much lower than they were at the beginning of this year: in February there was something like a 27 per cent increase in investment expectations as compared with the previous year; that figure has steadily come down with current outlook for investment growth expected to be only 13 per cent or so next year.

The Australian Labor Party's approach to macroeconomic management is very different to that of the Government. Let me try and briefly summarise what we're about. It's really a matter of saying that the Government has a very different priority to ours. They're giving total, overwhelming emphasis, to the exclusion of all else, to the problem of saving - too low public sector saving, too low private sector saving. We say, yes, that is a problem: it's been something of an endemic economic problem over many years, and ought to be doing something about it. But it's a medium term problem, best addressed by rational, moderate, balanced, medium term strategies.

The big and overriding problem of the Australian economy at the moment, which demands a draconian assault, the bigger problem even than saving - is that of unemployment. When we confront the situation of close to 9 per cent unemployment at the moment, with all that that indicates about the general underlying condition of the economy, our strategy should be designed to, while not ignoring the problem of saving, give primary weight and emphasis to unemployment.

We say that the Government has much exaggerated the intensity and critical nature of the problems that we have on the public debt and budget deficit sides of the equation. The best and quickest way of making that point is through international comparisons. In the OECD's table of major industrial players, we have the fourth lowest national debt and the third lowest national budget deficit. And there's another way of making the point starkly to those of you who've been following, at least at a distance, the European experience: by reference to the Maastricht convergence criteria that will determine who gets membership of the new European Monetary Union. There are a number of criteria, but when it comes to public debt, the limit is no more than 60 per cent of GDP; when it comes to budget deficits it can't be any more than 3 per cent of GDP. How many of the 15 European Union members, at the moment, meet those criteria? Answer - one, Luxembourg. Does Australia meet it? Yes, in spades. Our deficit situation, not just nationally but putting the States together as well, is no more than around 2 per cent of GDP. Our national public debt situation, putting the States and the Commonwealth together, is only around 30 per cent of GDP, about half the good housekeeping standard in Europe. So, that's an important way of putting in context the supposed nature of the crisis that all this budgetary pain and angst and the assault on the disadvantaged is meant to be justified by.

Of course, when you come to foreign debt - as distinct from public debt - when you come to the current account deficit, it has to be acknowledged that we are towards the other end of the league tables on those particular deficit criteria. That's true; we should be doing something about it. We accept that and that's why we accept the principle of doing more on the saving front. We do accept the principle of getting back to a balanced budget as soon as possible, and we certainly accept the principle of putting in place policy strategies designed to improve private savings - thus all our emphasis on superannuation which we, of course, would have continued with the the new 3 per cent Government plus 3 per cent employer co-contribution to be introduced next year.

You're not going to solve current account problems, however, by mindless enthusiasm for immediate draconian deficit reduction strategies. The days of simplistic, simple-minded, twin deficit theories - that there's some one-to-one relationship between fixing your budget deficit and fixing your current account deficit - have surely by now been exploded for even the most unsophisticated of Ministerial economists. New Zealand and Malaysia, just to give two close regional examples much in the news, are anecdotal evidence to the contrary. New Zealand's had for a number of years now a much better budgetary situation than us: lots of surpluses, yet it's staring down the barrel of a 5.1 per cent of GDP current account deficit at the moment as compared with our 4 per cent. Malaysia, with a massive saving ratio of around about 32 per cent and very big budget surpluses, is looking at a current account deficit of 8.8 per cent of GDP. There is simply no one-to-one correlation between fixing your public sector deficit and fixing your current account deficit, and it is absolutely mindless and illiterate economically to claim otherwise. Everything depends on what's happening to savings and investment on the private side of the equation as well as on the public one.

Our approach is very simply this: to target deficit reduction, but to do so by a low-cut road rather than a high-cut road. We say, given the shape of the budget and the profile of likely (without policy change) deficit reduction - with that budget deficit in fact coming down, a very different situation from that of a couple of years ago - measures which don't squeeze and contract the economy on a draconian scale, but rather are smaller in their impact, will in fact allow room for more growth in the economy: more employment growth, more money being paid by way of taxes, less money by way of outgoings in social welfare and as a result a lesser deficit reduction task. We say that a budget fiscal consolidation strategy that aims at simply taking around about a billion dollars out of the economy this year, and a billion on top of that the next year, and another again (making a total of three) the year after, would, in fact produce a situation, on the Government's own figures, where we would, in fact, be getting back to balance without anything like the pain that is being experienced at the moment. It's not magic pudding or voodoo economics. It's a different approach, but an entirely legitimate approach: less contraction means more growth and a much less painful budget balancing task.

What the Government's macroeconomic policy is all about is nothing to do with economic necessity, but everything to do with ideology of smaller government, getting out of our way. I don't mind the Government getting out of the way - we did a lot of that ourselves through the 1980s in terms of financial deregulation and so on - if it's for a good purpose. But, "getting out of the way" in all the different ways that I've listed today, and in the context of a basically mindless bit of ideological budget posturing, is doing no good at all for the Australian economy. And it's certainly doing no good at all, as you know better than I, in the manufacturing sector.

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