

AUSTRALIA'S ECONOMIC OUTLOOK : A VIEW FROM THE OPPOSITION

Speech by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition and Shadow Treasurer, to the CEDA Business Briefing, Melbourne, 24 April 1996

With the recent change of government and my appointment as Labor's Shadow Treasurer, it is timely for me to present the Opposition's perspective on Australia's economic outlook. I would like to do so in terms of past, present and future : how we came to be where we are, how we are travelling at present, and how our economic prospects are shaping up.

In a nutshell, the Opposition is of the view that, on any reasonable estimation, Australia's economy is in very good shape. We are currently enjoying our longest period ever of economic growth, at least since the advent of modern statistical methods. We are well positioned to sustain strong future growth. We will realise this prospect if, as a nation, we keep inflation under control, expand further our national savings, continue our drive into global export markets, and generally build upon the economic reforms of the past 13 years. I acknowledge that economic success will require us to undertake further, sensible changes to the structure of our economy. However, the reason why we are well-positioned to achieve sustained strong future growth is due to the legacy of change and reform left by Labor.

Economic Growth and Living Standards

The recent post-election political debate has brought into focus the question of economic change and reform, and whether its benefits are being felt by all members of our community. Strong and sustained economic growth is central to our living standards, and our economic well-being as a nation. Without a basis for strong and sustained economic growth, the living standards of all of us will decline - for some of us, disastrously so.

That is why governments of all political persuasions concentrate intensely on sustaining growth, both through economic management and longer-term structural change and reform. Labor certainly focussed on these issues throughout its period in office, right across the full spectrum of the nation's economic life. We pursued sound economic management through fiscal and monetary policies, and we undertook longer-term change and reform across the board in the areas of financial markets, national savings and superannuation, industrial relations, tariff and industry assistance programs, trade policy, communications and transport infrastructure, education and training, competition policy, and many more areas.

However, it is not enough to attend to the "economics of growth". Equally important is the degree to which Australians in different parts of our nation enjoy the benefits of growth, and the degree to which members of our community feel certain about, and (dare I say it) comfortable with, the changes and reforms which governments believe are necessary to ensure growth. If you cannot get the "politics of growth" right, you place yourself in danger of winning the economic battles, but losing the political war.

Labor made mistakes with regards to the "politics of growth". Our style was not always appropriate to the temper and mood of the electorate. We failed, at times, to communicate adequately the benefits of economic changes and reforms, their necessity, and their impact on people's daily lives. "Change fatigue" and economic uncertainty amongst many Australians were, as was suggested after the election, decisive factors in our defeat. Many of the economic changes of the past 13 years were not positively connected in the minds of many Australians with their own, and their families', personal circumstances. Many Australians did not see the material benefits flowing to them from the changes of the past 13 years. People heard about the pain, but couldn't easily see the gain.

I should stress that Labor didn't undertake the changes and reforms it pursued in order to make people worse off. Labor did these things to give us a chance of succeeding in an ever-changing and ever-integrating world. This changing world is offering us great opportunities. Consider what is now happening in East Asia. It is without precedent in world history. Compare it with the wealth generated by the Industrial Revolution two hundred years ago - which is the basis of the modern world and our high living standards - and then consider the relative size of the populations involved. East Asia has 2.5 billion people. The consistently high rates of economic growth being generated there, coupled with higher education, skill and technology levels being attained there, are producing new and rising levels of wealth and opportunity that knows no parallel in history. That is the reality of the world we face.

However, the changing world is also presenting us with great challenges. In today's global economy, living standards are becoming an uncertain thing - a nation's citizens face more competitors, have less certainties about the markets for their goods and services, have to adopt to higher forms of technology, and have to win capital for their enterprises from a more fluid and swirling system of funds than has ever been previously known. Earning a crust, and especially a better crust, these days is so much more complicated than it ever was. However, the dislocation and pain involved in not changing in the face of these challenges are worse for our community than the fatigue and uncertainty caused by making the changes.

Whatever mistakes we made in managing the "politics of growth", Labor certainly never lost sight of what the global economy means for sustained growth, higher incomes, improved living standards and economic security for all Australians. Right up until the

end, Labor had this concern etched firmly on its collective mind. It was driving our efforts on APEC and the World Trade Organisation initiatives ; national competition policy ; *Working Nation* ; innovation in industry ; enterprise bargaining ; and so many other areas we were working on for what would have been our sixth term of office. We were still working away on these things because you never complete the task. However, we went a long way in the task, and left Mr Howard a better legacy than the economic jumble which Labor inherited in 1983.

The wrong lesson to learn from our defeat would be for Labor, or the broader community, to retract or retreat from the broad direction of the economic initiatives we pursued in government. The changes and reforms of the past 13 years were undertaken because Labor believed them to be right for our nation's future. In terms of putting in place the changes necessary to get our economy ready for the 21st century, and in terms of building a base for higher living standards for ourselves and our children, Labor leaves an economic bequest of which the Opposition is proud.

While on the topic of economic legacies, I won't resist the temptation to make a quick partisan comparison between the legacy we left with that left by Mr Howard in 1983. Economic growth under Labor averaged 3.7 per cent, compared with only 2.2 per cent under Mr Howard. Despite this faster growth, inflation under Labor was nearly half that under Mr Howard : 5.2 per cent as against 9.8 per cent (taking the headline rate). Employment growth under Labor was 2.3 per cent as against 0.8 per cent under Mr Howard. Overall, Mr Howard left an unreformed, inefficient and unproductive economy which was dangerously over-reliant on narrow sectors of economic activity, and unprepared for the then emerging reality of a truly global economy. Mr Howard himself is so convinced of the wasted opportunities of those years that he never talks about them. There has been some discussion in recent weeks about "guilty parties" in politics. The true "guilty party" when it comes to the national economy was the governing party in which Mr Howard was Treasurer. Given his parole and rehabilitation after such a performance, Labor - whose legacy is so much better in comparison - can be optimistic of a much earlier return.

Labor's Economic Record

I will not go through a detailed catalogue of the changes and reforms we made over the period 1983 to 1996. You are all familiar with the story. I will focus on outcomes.

- Economic Growth : (the growth level 1983-96, relative to comparable economies.) Over the last term of the Labor Government growth averaged 4 per cent a year (Fraser 28 March 96, p2). This was achieved in spite of a severe drought, poor commodity prices and the lacklustre economic performance in our biggest trading partner, Japan.

- Inflation : (the inflation rate 1983-96, relative to comparable economies.) Over the last term of the Labor Government underlying inflation averaged 2.5 per cent a year (Fraser 28 March 96, p2), which was the lowest level for any period of government since the index commenced in the early 1970s (Willis 9 Feb 96, p3).
- Employment Growth : (creation of over 2 million jobs since March 1983, a growth rate of 2.3 per cent a year - Willis 5 Sep 95, p2). Over the last term of the Labor Government employment grew by over 710,000 plus jobs. This represented an increase of 8.9% over the three years, an average of 3.3 per cent a year. This needs to be compared with the annual employment growth rate of 0.6 per cent a year in OECD economies, which of course are the economies with which we are most comparable with (Willis 9 Feb 96, p2). (Can also make point about increased participation rate keeping unemployment level sticky - see Willis 30 Jan, p2, and Willis 5 Sep 95, pp 2-3.) (Also see Willis 30 Jan, p3 for LTU and youth unemployment.)
- Productivity Growth : (grew by 2.5 per cent a year in the 1990s, double that of the 1980s - Fraser 28 March, p3). Over the term of the last Labor Government growth in output per hour in the non-farm sector of the economy averaged 3.4 per cent a year, the strongest sustained period of productivity growth since these figures became available in 1978 (Willis 9 Feb, p3). Such good productivity outcomes reflected the substantial effect of structural reform undertaken by Labor, which have acted as a spur to increased efficiency and productivity.
- Export Growth : (grew from about 15 per cent of GDP to about 19 per cent of GDP over 1983-96). Over the term of the last Labor Government growth in the important ETM export sector increased by 45 per cent, or by an average annual growth rate of 16 per cent. Services exports increased by 38 per cent over the term, an average annual growth rate of 13.6 per cent (Willis, 9 Feb 96, p4).
- Incomes Growth : Real wages - measured by the real increase in Average Weekly Ordinary Time Earnings - increased by 2.9 per cent over the term of the last Labor Government, and by 5.5 per cent since June 1991 (Willis 9 Feb 96, p3). Real household disposable income per person increased by 6.6 per cent over the term of the last Labor Government. This reflected increases in real incomes, increased employment, and the \$3.5 billion income tax cut paid in November 1993, nearly eight months ahead schedule (Willis 9 Feb 96, p4). (Story over 1983-96?)
- Profits : Willis 9 Feb 96, p4 has data on gross and net profits, including for small businesses.
- Other indicators of improved competitiveness and efficiency in our economy : PG

to advise.

Current Economic Growth

This economic record has provided a firm base for sustained growth. This is apparent in how we are travelling at present. Growth in 1995 slowed from an unsustainable 5.5 per cent in 1994 (having reaching 6.4 per cent at one point - **when?**) to over 3 per cent(?) (Fraser 28 March 96, p2). We do not yet have the data for growth in 1996, but most commentators seem to agree that we will achieve over 3 per cent growth, and possibly well over. The general expectation is that growth will be stronger in the latter half of 1996 than in the first half.

This is a very strong position. With an economy now more competitive than at any point in our postwar history, and with the international economy showing some signs of strengthening, we are well set to establish new records for continuous growth, and to do so in the context of a rebound to strong rates of growth. It should be noted that even with our currently "bottomed-out" growth level, Australia will probably be the fastest, or near to fastest, advanced economy in the world (Willis 9 Feb 96, p8). If this occurs, it will be an outstanding result. It means that we will have "bottomed out" in the lower half of our business cycle at a world-best growth rate for advanced industrial economies of 3-plus per cent.

(Willis 9 Feb 96, pp8-11 has outlook for 1996-97 in following specific areas : CPI, underlying inflation, employment, interest rates, including home loan rates. But point is already made, I think.)

Longer Term Growth Prospects

Looking beyond 1996-97, what are our longer-term growth prospects?

The two principal growth constraints we face are the **current account** and **inflation**.

Challenges for Messrs Howard and Costello

I will finish by outlining the economic challenges the Opposition sees facing the Howard Government. How the Government responds to these challenges will determine how well Australia is able to get on with taking advantage of the opportunities we have in our grasp and the platform we have established.

Budget Policy : The Opposition is not convinced that the fiscal outlook produced by Mr Costello last month - based as it is on a narrow foundation of data - is a particularly credible one. There is no-one watching the budget debate in this country who doesn't

believe that the Howard Government was looking to make drastic cuts in the Commonwealth's budget, but was too unwilling to risk telling the Australian electorate before 2 March. These narrowly based forecasts served that political agenda.

(Budget outlook and forecasts, and why we didn't release forecasts - Willis 9 Feb 96, pp5-8.)

(Budget comparisons with NZ and OECD, showing that we have low tax levels and a small public sector - Willis 30 Jan 96, p6.)

Budget markers :

- . Opposition will await full data in Budget and will not concur with specific targets before then.
- . Opposition will assess impacts of cuts on services, and consistency with Coalition promises, especially with respect to transfer payments.
- . Opposition will amend Coalition measures which actually worsen budget balance (eg family tax could be converted to better targeted direct payments).
- . Opposition will carefully monitor Coalition revenue measures - especially surreptitious tax rises by another name (eg tariff concession system - the first tax broken promise : see Moore's comments reported 12 April 96).

Monetary Policy : The Opposition is not convinced that Mr Howard will be able to contain inflation, and this will have implications with interest rates. While Labor's competitive reforms of last 13 years will go a large way to containing inflation, Mr Howard's ability to manage the economy in the short-term will be compromised by his scrapping of the Accord (supported by Syntec report). Large-scale Budget cuts will not necessarily reduce short-term pressures on rates (see PG's note of 10 April 96).

Wages Policy : The Opposition is concerned at the post-Accord wages environment (supported by Fraser 28 March 96, pp8ff). By scrapping Accord, Mr Howard is taking a massive gamble with wages, inflation and interest rates (see PG's note of 1 April 96).

National Savings : The Opposition is concerned that the Coalition will undermine the national savings task (RSAs, home loan leakage, low-income earner leakage). Labor left a savings growth path of x, y, and z by 2020. Will monitor how savings growth tracks under the Coalition.

Social Policy : The Coalition made much of the "battlers" during the campaign and played on the insecurity and fatigue felt in some sections of our community. The Opposition is of the view that the Coalition's programme will bring more dislocation and pain, not less. Through budget cuts to services and transfer payments, industrial relations reforms, winding back of labour market assistance programs, cuts to industry development etc, Coalition will impact on the welfare of workers, their families, and others in our community.