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Nelson Address to the Melbourne Institute

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Leader of the Opposition

E&OE

First of all, I'd like to thank and congratulate The Australian and the Melbourne Institute for continuing to generate debate about the economic and social policy agenda that will best ensure widespread opportunity and prosperity for future generations of Australia.

A policy agenda that marries old-fashioned virtues of reward to effort, initiative and smart thinking with traditional Australian concerns for the less privileged and the less able.

And a reform agenda that recognises Australians must be given the tools and incentives they need to take advantage of opportunities available, and to prevent individuals and families from falling behind.

Economic reform, as many of the guests and participants at this conference have recognised over the past six years, is not just about wealth creation. It's also about promoting opportunity for all to enjoy today's prosperity.

But first, allow me to put today's prosperity in its proper political context.

When he was Treasurer, Peter Costello likened the Australian economy to a high performance motor car. Much to the disappointment of the Liberal-National Coalition, last November the Australian people told us to give the keys to Labor. It was their turn to drive.

When we handed over the keys, the car was in perfect condition. We now see the two co-drivers – Kevin Rudd and Wayne Swan – swerving all over the road, blaming the previous driver. Already the duco is scratched and there are a few dings in the bumper bar.

It is not our job to be back seat drivers. Labor can't have Peter Costello and Nick Minchin in the back seat as back ups. The future is a dangerous and treacherous road -- it always has been, as the Asian financial crisis a decade ago demonstrated.

Labor is now in the driver's seat. The Australian people saw how we drove the car and handled the terrain over nearly 12 years on what was the equivalent of a Bathurst 1000. The focus is now solely on them. And it will be the Coalition's job in opposition to hold them to account.

I mention all of this, because since the election Kevin Rudd and Wayne Swan have been more concerned with undermining and misrepresenting the Howard-Costello legacy rather than seriously grappling with the economic challenges ahead.

But we should never forget that thanks to the leadership of John Howard and Peter Costello, Australia became a stronger, more prosperous, more confident country.

Of course, a lot of the credit for creating today's economic miracle belongs to the innovative managers and hard-working employees. But the Howard-Costello leadership helped create a culture of competition and hard work that has driven Australia to today's prosperity.

During the past 12 years, everything that should be up – incomes, economic growth, consumer and business confidence – was up, while everything that should be down – unemployment, inflation, interest rates – was down.

The Australian economy is in its 17th year of the longest economic expansion in our nation's history.

During the Howard era, we enjoyed strong economic growth at an average of 3.6 per cent a year – higher than most other developed countries, including the US. The Australian economy is, in real terms, 50 per cent larger than when the Coalition took office in 1996.

Today, Australia's growth is higher, and unemployment and inflation are both lower, than in the US and Europe.

We combined high economic growth, low unemployment and inflation managed on average in the midpoint of the RBA's target range of two to three per cent.

Unemployment has halved to a 35-year low – from 8.2 per cent in 1996 to 3.97 per cent today.

Real wages grew 21.5 per cent from March 1996 to June 2007. (By comparison, real wages fell by 1.8 per cent under the previous Labor government from March 1983 to March 1996.)

The Coalition also left Labor with investment at record high levels, showing the absurdity of the ALP's arguments about the Howard government presiding over underinvestment in infrastructure.

Productivity growth, far from falling to zero in 2007 as Labor contends, has been increasing over the past two years. As Malcolm Edey from the Reserve Bank argued on March 5: "Productivity growth has now picked up to a more normal pace."

Strong surpluses, furthermore, allowed us to repay Labor's $96 billion debt and establish the Future Fund and Higher Education Endowment Fund.

Now this prosperity, remember, took place at a time of the Asian financial crisis of 1997-98, the US recession of 2000-01, the September 11 and Bali terrorist attacks, the financial collapses of Ansett, HIH Insurance, One.Tel, the SARS epidemic, and Australia's worst drought in a hundred years.

It's a testament to the dynamism of a modern, flexible Australian economy that it has been able to absorb such shocks and keep growing during the past decade.

The reason for this prosperity? A smart mix of free-market structural reforms and prudent monetary and fiscal policies.

From the interventionist mindset that delivered economic turmoil in the 1970s, Australia has moved to an era of sounder policy and more durable prosperity.

True, there has been some painful adjustment for some Australians; Pauline Hanson’s One Nation movement in the late 1990s was, in many ways, a backlash against rapid economic change as well as a reaction to the dislocation and creative destruction involved in the process.

Still, it is fair to say that during the Howard years Australian society offered unparallelled opportunities. Far from producing Dickensian sweatshops, as predicted by the labour unions and several economic commentators, the workplace changes produced steady and low-inflation wage growth.

Trade unions, once the bedrock of the nation’s workforce, are in serious decline while shareholders, small business owners and individual contractors are on the rise. Indeed, not so long ago, Australia passed the point that was reached in the UK under Margaret Thatcher’s government where we now have more shareholders than union members.

During the past decade or so, the Left and Labor partisans claimed that in John Howard’s “brutopia”, the rich were getting richer and the poor were getting poorer.

Yet the bottom of the income distribution was not ignored. As The Australian reported on Monday, the incomes of the poorest households rose more dramatically than those of the richest Australians in the final years of the Howard government.

No wonder, given that minimum wages have been regularly increased through the industrial commissions; and welfare payments have targeted low-income families while rightly putting more onus on welfare recipients to strive for work.

Of course, Labor partisans keep promoting the old myth that the outstanding prosperity Australia experienced during the Howard-Costello era was directly due to economic reforms made by the previous Labor governments.

And, to be sure, Bob Hawke and Paul Keating did deregulate the financial markets, cut taxes and lower import protection (with, remember, strong bipartisan support led by John Howard and the federal Liberal and National parties).

But if you want a more accurate picture of Labor in power, recall the other side of the ALP’s legacy: the “recession we had to have”, 11 per cent unemployment, 17 per cent interest rates, record high budget deficits and a $96 billion national debt.

And recall that Labor opposed most of the Howard Government’s economic reforms that kept the good times rolling – including economically conservative policies that helped turn a whopping fiscal deficit into a budget surplus.

During last year’s election campaign, Labor appeared to acknowledge the good work of the Howard government and pledged to build on its “economic conservativism”.

Since the election, however, the new Labor government has spun a tale of economic revisionism and trashed the Howard-Costello legacy. They should be more focussed on the economic challenges ahead.

Inflation and the two-track economy

Inflation is one of those challenges. You will all be aware of the mantra from Mr Rudd and Mr Swan that there is some sort of inflation crisis in Australia.

We in the Coalition do not deny that there is an inflation challenge that has to be met by the Government. The current inflation rate is three per cent, and is likely to increase in the near future, but then fall back again. But this is not a "crisis" nor is it something unprecedented.

All governments must run policies to keep inflation under control.

That is why the Howard-Costello government set up an independent Reserve Bank with an inflation target of between two and three per cent over the course of the economic cycle. And that is why we had an industrial relations policy that stopped pattern bargaining and stopped unsustainable wage demands.
The ALP, remember, opposed both of these policies.

We kept inflation under control.

It is not accurate to say that we are facing the worst inflation crisis for 16 years. One of the principal measures of inflation does show a 16 year high. The other measures don't.

For example, the headline inflation rate is currently three per cent, but was 4 per cent in 2006 when a cyclone caused banana prices to skyrocket. And headline inflation hit 5.1 per cent in 1995 just before the Coalition was elected.

Another measure is inflation excluding volatile items, which is currently at three per cent as well, and was higher in 2002 and early 1996.

Indeed, the price index of household consumption from the national accounts, considered by many economists as a more accurate measure of the incidence of inflation in the economy, shows that inflation rate is currently 2.6 per cent and fell over the last two quarters.

Also, bear in mind inflation is a global trend at present, driven by increasing food and energy prices. If anything, given this global trend, to which Australia is not immune, and the strong Chinese demand for our commodities, it is all the more remarkable that our inflation rate is lower than that in the US and many European nations.

The truth is that because of the Charter of Budget Honesty introduced by Peter Costello, Mr Rudd couldn't use the age-old blame game of an incoming government pointing to some deficiency in the budget surplus or deficit.

Therefore they have created a new blame game by confecting this story about some sort of inflation crisis.

To state again: there is, as always, an inflation challenge to manage, but there is no crisis.

It will be a particularly bad policy result if the Government believes its own rhetoric and runs an economic policy based on their exaggerated rhetoric rather than facts.

Combating inflation in the pro-growth states of Queensland and Western Australia is one thing; doing so without sending the sluggish states of NSW, Victoria, South Australia and Tasmania into an economic downturn is another thing.

The latest GDP figures showed that demand in Western Australia grew by 9.7 per cent during 2007, around double the rates in Victoria and NSW, while demand grew in South Australia by a very sluggish 2.7 per cent.

The Coalition demonstrated it could handle the tricky situation of a two-track economy. But the Rudd-Swan government appears to be running a policy of slowing down growth and increasing unemployment that will be intensely painful in the southern states.

Industrial relations

In fact, the Coalition knows that Mr Rudd will have trouble controlling inflation because he has outsourced his industrial relations policy to the union movement.

As even former Labor leader Mark Latham has recently argued: “The government claims to be pursuing an anti-inflationary economic policy, yet it has introduced a pro-inflationary industrial relations policy.”

We are very concerned that Mr Rudd's industrial relations changes will have serious consequences for inflation and unemployment.

Despite continual denials from Julia Gillard, we remain unconvinced that the Government will be able to stop pattern bargaining across the economy by their union mates.

Simply put, the rigidity that is being built back into labour market regulation has the potential to jeopardise the economy's ability to withstand wage cost pressures being fed by the mining boom in Western Australia and Queensland.

Further, we have been hearing alarming reports of huge wage demands from unions in the resources sector – for as much as 10 per cent per annum increases. And we have heard other reports of unions seeking to see such wage flow-ons to the non-resource sector parts of the economy.

Despite press reports to the contrary, the Coalition remains committed to the core values of industrial relations reforms that have underpinned Australia's economic prosperity over the past decade.

The Coalition has heard the message from the electorate about WorkChoices and AWAs, and we no longer support them. Having said that, it is important for Australians to understand that we continue to support individual statutory agreements with a fair, no-disadvantage test.

Second, we remain adamant that small business needs protection from the re-introduction of job destroying, red tape ridden unfair dismissal provisions.

Attack small business and you attack jobs.
We could not have achieved our 3.97 per cent unemployment if it had not been for our small businesses.

Third, we oppose the abolition of the Australian Building and Construction Commission.

It was created after a royal commission exposed the rorts and corruption perpetrated by unions in the construction sector. Remove the ABCC and the bad old days will return with a vengeance.

Fourth, we remain committed to the principle of freedom of association.

That principle means freedom to belong and equally not to belong to a trade union.

We are witnessing a major re-regulation of the labour market, with increased trade union power being favoured by the Government.

This too has implications for inflation and unemployment.

These are four points of fundamental difference between the Coalition and Labor on the critical economic policy of labour market regulation.

Tax cuts

Tax cuts are another important element in the reform agenda. Of course, the Coalition has long championed tax reform, both in terms of lowering the burden of taxation generally, but also in terms of replacing inefficient taxes with efficient ones.

Tax cuts are not inherently inflationary. It depends on overall budget surplus/deficit whether the budget is inflationary. Indeed, tax cuts can be anti-inflationary to the extent that they encourage workforce participation and discourage excessive wage claims.

The $31 billion in tax cuts is not only desperately needed by families with children to house, clothe and feed. They are likely to increase workplace participation by some 65,000.

The Rudd-Swan government has said that after the $31 billion in election tax cuts promise they have no plans for future tax cuts.

The Rudd-Swan government is obviously refusing to return bracket creep in the future. This means that tax as a share of GDP will rise – a very significant broken pre-election promise by the Rudd-Swan government.

All working Australians will be paying more tax under the Rudd Government. Mr Rudd has committed the Government to reducing work incentives, discouraging workforce participation, harming incentives for small business and increasing the financial burden on Australian families.

Full Employment

As I outlined earlier, one of the Coalition’s great achievements was to take unemployment from around 8.2 per cent in 1996 to its current level of 3.97 per cent.

As a nation we must strive to reduce unemployment further.

I’d remind you that we were told in the late 1990s that it was not possible to get unemployment below 5 per cent.

I remember many in the Labor Party said that we were reaching the natural rate of unemployment.

They were against our Job Network reforms which provided an incentive to private sector firms to find jobs. In our Job Network, payment is linked to a private sector firm or community organisation finding a job for a job seeker. It has worked well.

We introduced Work for the Dole, which was built around the important principle of mutual obligation. That principle is basically that society will look after you if you are down on your luck and can’t find a job.

But we expect the individual will also be willing to make a small contribution via work for the dole to give their labour for community projects as part of that social contract. Labor despised work for the dole.

They also penalised small business by imposing the unfair dismissal reforms.

I make an iron clad commitment today that the Coalition Government will have as one of its key policy objectives to seek to achieve full employment in Australia.

Drawing on the experience of John Curtin, and the 1945 White paper on Employment, I recommit Australia to achieving the lowest possible level of unemployment.

Some may ask: what is that level?

I do not believe we should give a number to that. To do so would be to restrict our own imagination.

In our free enterprise economy, it is vital that we ensure that job seekers have the opportunity to secure paid employment.

We all know that a job builds financial independence, it underpins important values such as hard work, reward for effort and commitment.

A job largely shapes our self esteem. It provides life and development opportunities.

Moreover, the more that people that are employed, the greater the opportunity to spend the national budget on other priorities rather than making a transfer payment.

And in that regard there is no more important player than Australian small business.

Small business is the engine room of the economy. It is the largest employer. Again, get the conditions right for small business and employment will flourish as businesses grow.

Which brings us back to the motor car analogy I referred to earlier. The car we bequeathed to Labor last November was in tip top shape. But there are growing doubts about the ability of the new Government, in cahoots with the unions, to drive the car as smoothly in the face of new economic turbulence.

We have, for instance, already seen very large falls in business and consumer confidence. The Sensis Business Index showed small business

confidence in the performance of the Government fell by a massive 34 per cent, the largest fall in the history of the index.

The prosperity of the Howard era is a reminder of why governments should keep faith in the reform agenda and provide opportunities for people to prosper from using their skills. The economic miracle won’t last if Canberra decides that the hard work of policy reform is over. Sadly, the signs from the new Labor government are far from encouraging.