



FEDERAL LABOR LEADER KIM BEAZLEY

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

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Thank you, Michael Stutchbury, distinguished guests, and ladies and gentlemen.

Congratulations to the Melbourne Institute and *The Australian* newspaper for bringing together leaders in politics, business, media and the academy, in an open forum like this. This conference is a unique opportunity in our nation's calendar to advance the economic reform debate.

Though this is only the third Economic and Social Outlook conference, it's quickly assuming a special place in Australia's national life – so much that it feels like it's already becoming an Australian tradition.

Today I want to speak about another Australian tradition that I've witnessed during my 25 years in Parliament – the tradition of economic reform.

It's a story of how in government in the 80s and 90s, Labor rose to the historic challenges it confronted, abandoning its own prejudices to pursue an aggressive program of economic reform.

There was urgent work to be done.

And though it was often tough, we set aside our own ideological prejudices. In the face of rigid opposition - from our supporters, as well as our opponents - we achieved structural changes that over two decades, turned our economy around.

It was what the times required.

The second half of the story concerns John Howard, a man whom many had hoped would be a champion of economic reform, but who has never delivered on those expectations.

He has failed to abandon his own prejudices to make the changes that could have moved Australia forward to its next stage of growth.

Instead of embracing a clear-eyed approach to reform, he has spent the balance of his prime ministership distracted by his own personal obsession, a culture war in which he has sought to recreate the imagined Australia of his childhood.

And while he has enjoyed the dividends of Labor's past reforms, he has neglected and sometimes even weakened Australia's longer term economic prospects.

Today, we need a new reform agenda that deals with the urgent structural challenges that face the Australian economy.

Labor's reform agenda will confront these challenges head-on and fireproof this economy against the growing threats to our prosperity.

Australia's urgent need for reform

One thing must be clear. Australia needs far-reaching economic reforms, and it needs them urgently.

Some say that we don't have the urgent need for reform that we did in the 80s and 90s.

That is wrong.

We don't need to wait for the rolling thunder and the lightning strikes to know that the sunshine won't last forever.

And frankly, we shouldn't be waiting for an economic catastrophe to embark on reform.

Even now our economy is flashing warning signs.

- Economic growth is slowing while interest rates are heading up. While John Howard in 1997 promised average annual growth rates of 4 per cent throughout the present decade, we averaged only 2.9 per cent in the first half of this decade.
- Reserve Bank Governor Ian Macfarlane has confirmed that we face a lasting slowdown, saying we need to reduce our expectations, with future growth rates starting with 2s and 3s and not 3s and 4s.
- Our long run of strong productivity growth during the 1990s appears to be over.
- We have severe skill shortages in 42 occupations that are constraining economic growth and putting upward pressure on inflation and interest

rates. Yet we have more than 2 million people who aren't participating in the workforce as they would like to do.

- Years of underinvestment have left us with a creaking infrastructure that is constraining growth and raising inflationary pressures.
- Australia is simply not paying its way in the global economy. We've had the best terms of trade since 1974, and yet the longest run of trade deficits in our history. Since 1996, the rate of export growth has halved from 10 per cent to 5 per cent per year, and it's been even lower since 2001.
- We also face serious environmental and demographic challenges.

Our economic fortunes could change abruptly with just one of any number of external events – a drop in minerals prices; an increase in global interest rates; financial markets adopting a less permissive attitude to our high foreign debt and current account deficit, a sharp fall in the dollar or some other external shock.

Our prosperity is far more fragile than the Government recognises.

We should have used these years of plenty to invest in the next wave of productivity growth and reduce our vulnerability to external threats.

But John Howard has been eating the seeds rather than planting them.

Our government should be seized with the ambition to build an economy that can give Australian families the highest living standards in the industrialised world, just as we had a century ago.

In the 1990s, we reversed the nation's downward slide in the international league table, and we had climbed to tenth in the world for living standards by 2003.

But that momentum is dwindling.

We need a government that identifies our reform needs, and delivers on it.

Reform requires leadership

I learned from my years in the Hawke and Keating Governments that a comprehensive reform program requires far-sighted leadership.

- A government that can discern the priorities for reform, and has the maturity to abandon its own prejudices when they stand in the way of what needs to be done.
- A government that puts the national interest first, ahead of its short term political interests.
- A government that sticks to its guns even when its own constituencies resist the reforms.
- A government that can work cooperatively and forge alliances, sometimes with old foes, to get results.

We took a broader perspective on economic reform than many other countries. We looked at the economy as a whole – the roles of government, regulation, competition, state enterprises, trade, industry policy, foreign debt, the labour market, taxation, retirement incomes policy. It was all on the table.

People on all sides of politics contributed intelligently to that debate, and rigorous scrutiny from the media helped keep us true to our reform commitments.

That wide ranging reform debate sets Australia apart from the US and Britain, where policy debate tends to be so much narrower – in Britain, a debate mainly about public services; in America, a debate centred on individualistic issues of personal economic liberty, like tax and personal investment accounts.

Australia's reform tradition is more all-embracing.

Sure, it can sometimes get a little technocratic as people quibble over vertical fiscal imbalance and hypothecation.

But that wide-ranging debate served us well in the 80s and 90s. It lifted economic literacy on both sides of politics, it informed voters, and it resulted in better public policy.

With the challenges we now confront, I believe it's critical that we stoke the fires of the national economic reform debate again.

It's one of the reasons why the Melbourne Institute and The Australian deserve a slap on the back - because this conference helps to elevate economic reform in public debate.

That's a boon for any open-minded government that recognises how important it is to get a clear-eyed and unprejudiced view of what needs to be done.

A reformist government must abandon its prejudices

In constructing a reform agenda for the next decade, we will not need to repeat the dramatic modernisation program of the Hawke and Keating years.

Those reforms changed the Australian economy fundamentally. The economy was restructured top to bottom – a reform program that affected almost every sector and institution in Australia.

After inheriting an economy in long term decline, with a poor record on living standards, productivity, inflation and unemployment, the Hawke and Keating Governments lifted the hood on the economy, reconditioned the engine and flushed out the pipes:

- Opening Australia up to a competitive global economy
- Floating the Australian dollar
- Deregulating the financial system
- Deregulating aviation and telecommunications

- Restructuring the tax system, by cracking down on lurks, broadening the tax base and cutting personal and company tax rates
- Ending protectionism
- Privatising government businesses like Qantas, Australian Airlines and the Commonwealth Bank
- Transforming the high-inflation, dispute-plagued industrial relations system into a low-strike, low-inflation system, and then into a decentralised, productivity-based system.
- Introducing the most comprehensive package of microeconomic reforms this nation has ever seen, the national competition policy reforms.

We didn't pretend that we were building a new Jerusalem. We just did the job that needed to be done.

And we weren't perfect. We made our mistakes.

But we didn't shirk the hard work and the tough decisions.

It wasn't the easier path.

We forced ourselves to take a clear-eyed, unprejudiced look at the reforms that the Australian economy needed.

Just think of how we set aside our own prejudices on industrial relations reforms.

Our ideology favoured comparative wage justice, the principle that workers should be paid equally for equal work.

In principle, that was fair. But it didn't provide enough incentive to improve work practices.

By the 90s we had to face the reality that the wages system needed to give individual enterprises more flexibility to reform work practices and reward productivity.

That's why we completed the transition to productivity-based enterprise bargaining in 1994, while still underpinning agreements with decent award standards.

We achieved 13 years of wage restraint under the Accord. The wage share of GDP came down from 60.1 per cent when we took office down to the lowest it had been since 1968. We left office with the wage share of GDP at 55.3 per cent.

That allowed corporate profits to rise to record levels in 1984. For every year afterwards, the corporate profit share of GDP was higher than in any recorded year before we had come to office.

By the 1990s, the profit share of GDP was consistently around 23 per cent, a full 5 percentage points higher than when we took office. In other words, we basically slowed wage growth so that we could raise corporate profits by a whopping 5 percentage points of GDP.

Convincing our supporters that this was the right thing for a Labor Government was not easy, but we believed it was needed to cultivate an investment-friendly, pro-growth climate – a climate that in the long term would benefit all Australians.

We also had to abandon our prejudices in restructuring the tax system.

Convincing our own support base of the need in 1985 to cut the top marginal tax rate from 60c to 49c in the dollar was hard. We knew it was essential, as a trade-off for broadening the tax base and as a means to lift incentive and international competitiveness.

When we ended the double taxation of dividends, many of our union colleagues thumped their tables, questioning how a Labor Government could ask for wage restraint from workers while rewarding shareholders with this tax cut. But we felt it was necessary and in the nation's long term interest.

Our decision to allow foreign banks into Australia in 1985 was bitterly opposed even by some of our own MPs. We were prepared to put aside our history of distrust of foreign banks in order to foster a more competitive financial sector.

And I could go on to talk about other battles we fought, over issues like privatisation, deregulation and industry-based training.

These measures weren't vote winners, either.

We were opposed by many of our supporters, who thought those reforms were a betrayal of our principles. Some of our supporters still think that way.

We took the fight through the Cabinet room, Caucus, national conferences, branch meetings and public forums throughout the country, because we were convinced that we were doing the right thing for Australia.

We were willing to spend our political capital on unpopular decisions that would benefit Australia in the long term.

We faced an opposition that often took the short cut to easy popularity by opposing our reforms. John Howard now plays a strange game of political amnesia now when he says the Liberal Party supported our reforms when they were in opposition.

They opposed a great deal of our reform agenda.

They opposed our tax reforms throughout the 1980s:

- They opposed the fringe benefits tax that cracked down on executives getting up to half their salary tax-free in the form of fringe benefits.
- They opposed the entertainment expenses tax that cracked down on the long boozy business lunches taxpayers were subsidising.
- They opposed the capital gains tax which ended the distortion of taxing earned income while letting speculative gains pile up free of any tax.

- They even opposed the petroleum resource rent tax which returned a share of oil company profits from exploiting Australian resources back to Australians.

They opposed our targeting of welfare payments, like the assets test on pensions. That was one of the earliest intergenerational reform measures to fireproof the budget, but we almost lost an election on it in 1984.

They opposed the superannuation guarantee levy in 1992 – even though universal superannuation has done more than any other policy to build retirement income security for ordinary Australians. It's also provided a massive pool of funds for investment, and lifted savings levels. While we were introducing the superannuation guarantee levy, the Liberal Party was promising to abolish it the day they came to government.

Getting today's reform priorities right

Today's reform challenge requires the same clear-eyed, far-sighted approach that characterised the Hawke and Keating Governments.

That starts with getting our reform priorities right.

Today's economic challenges are different to those we faced in the 80s and 90s.

Our greatest economic need is to restore strong productivity growth. Because it's only by restoring strong productivity growth that we can simultaneously achieve higher growth rates, low inflation, rising real incomes and improved international competitiveness. As Princeton economist Paul Krugman famously said, productivity isn't everything, but in the long run it's almost everything.

We need to ask ourselves how we'll generate the next wave of productivity reforms.

The scope for productivity gains from the old reform agenda of deregulation, privatisation and industrial relations reform is largely exhausted.

There's still some unfinished business – in particular, in electricity and water – but with the large-scale structural changes mostly behind us, we won't repeat the windfall productivity gains of the 90s.

The Liberal Party's only answer to the productivity dilemma is to work people harder and longer with their ideological delusions about industrial relations reform.

Labor believes in labour market policies that help people to work smarter. That means investing in the know-how of Australian workers, not returning to a 19th century world of dog-eat-dog industrial conflict.

To improve productivity of capital, we need long term investment in the nation's infrastructure.

I find it extraordinary that instead of giving priority to new investments in infrastructure and skills, the Howard Government has made cutbacks – leaving us with crises in both areas.

These are both areas that require a more hands-on approach from government. On these issues, markets functioning alone will fail.

- Without incentives and public investment in education and training, employers simply will not invest enough in the skills of workers – because with the cost of training, it's easier to poach a skilled worker than pay to train an apprentice who might in turn get poached by another business.
- Without making infrastructure development a national priority, we just won't get critically needed infrastructure projects on track. Many infrastructure projects are simply too big, and involve too many regulatory issues, for government not to be involved. Public sector investment of some kind will often be required, since not all infrastructure projects can produce commercial returns.

Now some will say, "Well isn't this just a typical Labor argument? Labor always wants to expand the public sector. And all Labor wants to do is just spend money on training and on infrastructure."

I challenge that.

A policy commitment to training Australian workers and building our infrastructure is not a reflex Labor policy.

It's the result of a clear-eyed, unprejudiced look at what the nation's economy now needs.

The facts don't support the claim that Labor always expands the public sector. Between the 1983 and 1995 budgets, we reduced government spending as a percentage of GDP from 27.4 to 26.1 per cent of GDP. In fact, we cut government spending as a percentage of GDP by 5 percentage points during the 1980s.

A Beazley Labor government will only invest in public sector spending if that's the best allocation of those resources.

The public sector alone will not solve these problems.

The solutions to Australia's skills and infrastructure crises lie in partnerships with the private sector – on issues like funding, construction, service provision and incentives.

But we now have a crisis in skills and infrastructure, because the Liberal Party has never understood the need for public sector leadership on these issues.

It boosts politically popular, short term public sector consumption spending while public sector investment languishes.

The actions most needed to address our economic challenges just don't fit with the Liberal Party's prejudices.

This government is too blinded by its own right-wing, American hand-me-down ideology to accept the need for renewed public sector leadership.

They are blinded by an obsession with cracking down on unions and weakening collective bargaining. They think that's the only way we can increase productivity growth.

They don't want to work with the states on infrastructure, they distrust TAFE colleges and universities, and they want to reserve government spending for political purposes and not the nation's long term needs.

So instead of letting the facts challenge their prejudices, and putting them to one side, the Howard Government has closed its eyes to the skills and infrastructure crises, and ignored the signs of declining productivity.

I find the leaders of our business community far more pragmatic on these issues than this Government.

That's why a government that I lead will have no problems working with Australia's business community. They just want to see these problems fixed, and they expect the government to lead.

But we're not getting leadership from this Government, because they're preoccupied with their narrow ideological obsessions, and won't abandon their prejudices.

Instead, as the cracks appear in the façade of their economic strategy, they opt for quick fixes – like John Howard's bottlenecks task force. Or they find a distraction – blaming the States, the unions, the Keating Government or whatever other invention.

This is not a mature or consistent approach to economic reform.

Instead of blaming the States, the Federal Government must work with them – just as Labor did in government. Let's not forget that by the end of 1993 we had conservative governments in every State and Territory except Queensland. While we had our robust exchanges, we worked together – such as agreeing on the national competition policy reform package, widely regarded as the most comprehensive microeconomic reform measure in Australian history.

I don't pretend that the Howard Government's approach has not worked well for them politically.

But in large part, that's because they have been able to coast off the momentum built up from the restructuring of the economy during the 80s and 90s. And they've had their share of good fortune, most recently with the soaring prices for mining exports.

The enduring payoffs of Labor's reforms, and some good fortune, have meant that their chickens have been slow in coming home to roost.

Indeed the once-in-a-generation windfall from the resources boom might give them a reprieve for a little while yet.

But in the long term, Australia won't be able to escape the effects of this Government squandering these years of prosperity.

John Howard's legacy: Culture wars, not economic reform

When the historians come to assess John Howard's legacy, I suspect it will tell a surprising story.

When he came to office nine years ago, many thought that John Howard could be a great economic reformer. Certainly, a great many of his supporters hoped so.

The great irony of his time in office is that his legacy will not be economic reform – but rather, his true obsession of the last nine years: igniting the culture wars, to turn this country into the imagined place of his childhood and not the confident, independent and outward looking nation it was becoming in the 90s.

John Howard has turned his back on an Australia that could unselfconsciously celebrate its cultural diversity.

- He has turned his back on the important work of reconciliation with our indigenous people.
- He has turned his back on a humane Australia that respects human rights and works constructively with international bodies like the United Nations.
- And he has targeted for relentless attack the institutions that he sees as most embodying the cultural values that he hates – institutions like the ABC, universities, unions and non-government organisations.

Now you can think what you wish about John Howard's culture wars. But one thing is clear: to most Australians, the national economy is far more important than John Howard's obsession with his personal culture wars.

But he's neglected the work of shoring up our economy and addressing our long term challenges. Because the only reforms he's been prepared to invest political capital in are those that have been wrapped up in his own cultural obsessions.

So instead of genuine reform, we end up with silly ideological indulgences, like arguments about the price of sausage rolls to justify voluntary student unionism.

This is a government that in 2005 is wasting its energy on its inane cultural obsessions, rather than a serious agenda to address the critical need for a skills agenda.

These are not reforms, they are crusades:

- Forcing workers onto unfair Australian Workplace Agreements won't solve the crisis in child care that stops mums getting back into work.
- Cutting university funding won't create more skilled workers.

- Stacking the ABC board with Liberal Party zealots won't rebuild Australia's run down infrastructure.

Labor's reform priorities

I can assure you that in contrast, Labor will work hard on an agenda to address Australia's long term challenges.

But our priorities in the areas of skills, infrastructure, participation and export competitiveness are not new themes for us.

We have warned about these problems, and the economy would not have its critical problems if the Government had been listening.

From the time John Howard started cutting training and education funding in 1996, we warned about the risk of skills shortages, and the economic damage that would result from treating education as a cost and not an investment.

In each election we've made it very clear that we consider training and education to be the highest priorities of the Federal Government, and we've had very specific proposals to invest in vocational education and training, apprenticeships and universities.

Our tax and welfare policies have focused on knocking out work disincentives for low to middle income earners – such as with the earned income tax credit in 1998, and the tax and family package last year, which would have brought tens of thousands back into the workforce and eased high marginal tax rates.

We've sought to draw attention to national infrastructure needs since the late 1990s, urging the Federal Government to take on a national leadership role through a national infrastructure advisory council (and before that, a National Development Authority). The Business Council's Infrastructure Action Plan for Future Prosperity released last week has echoed this policy, urging the Government to set up a peak intergovernmental body to take the politics out of the infrastructure debate.

Conclusion

Today, we need a focused government that will take its blinkers off and tackle the problems that put our prosperity at risk.

I will lead that kind of government.

I've been accused of many things in my time, but I don't think too many people would say I'm an ideologue.

I'm not so much into doctrine, whether it's economic ideology or the ideologies of the culture wars.

I was warned off ideological excesses as I grew up, by the experience of watching my father denied the opportunity to fulfil his potential in the Labor Party of his day, because of petty ideological squabbles.

I bring a certain hard-nosed pragmatism to leadership.

I'm interested in simply solving problems.

So when I look at Australia today, I see a massive squandering of a once-in-a-generation opportunity to lay the foundations for sustained prosperity in the years ahead.

I am distressed by the reckless waste, the \$66 billion spending spree between last year's Budget and the election – and the rorting of hundreds of millions of dollars for marginal seat election campaigns by Liberal and National Party MPs. We can't afford that when we face crises that result from chronic under-investment in education and infrastructure.

I am troubled by the way that spending, imports and debt have soared in recent years, way beyond the growth in what we are producing and what we are selling overseas.

I am disturbed by the erosion in our trade performance, especially in manufactured exports and services, and our spiralling foreign debt.

I know these trends are not sustainable, despite the blithe responses of Mr Howard to the warning signs.

That's why I am committed to leading a government that will initiate a new wave of economic reform, with a far sighted approach to economic reform, and great ambition for Australia's economic future.

Thank you.