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**THE INAUGURAL JOHN HOWARD LECTURE
FOR THE MENZIES RESEARCH CENTRE LTD
BY THE HON JOHN HOWARD AC
CENTENARY HALL, MELBOURNE
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Ladies and Gentlemen

I am greatly honoured that the Menzies Research Centre has inaugurated an annual lecture in my name and I am touched that the Centre has asked me to deliver the first of these lectures. As I look around the room tonight I see many people who, through the years, have given remarkable service to the cause of the Liberal Party both here in Victoria and throughout the entire nation.

Tonight I reflect not only on the achievements of the Government I led for almost 12 years and the enduring values of our Party, but also attempts now being made to discount the contributions of competitive capitalism and more open markets to the remarkable economic growth, in many nations, during these past thirty years.

It is appropriate that I do this under the aegis of the Menzies Research Centre, named after the great founder of our Party, here in his home state of Victoria.

I had the immense privilege of leading our party for a total of sixteen years – a quarter of its entire existence. My dearest wish is to see the Liberal Party back in office, not only nationally but here in Victoria and in other States.

I will always be in debt to the Liberal Party for the loyalty, forbearance and opportunity it gave and extended to me over such a long period. I owe it so much.

The legacy of the former Liberal Government is one that we should all want to own. Australia was a stronger, prouder and more prosperous nation in November 2007 than it had been in March 1996.

Now, however, we are in opposition. That brings new and different challenges and whilst there should be a broad continuity of policy between government and opposition, not every position taken in government is necessarily appropriate to the new circumstances of opposition.

I welcome Malcolm Turnbull here tonight. He has my respect and strong support in his endeavours to lead the Party back into government. Malcolm brings high intelligence and a practical understanding of business and economic issues to the intense debate in which we are now engaged about Australia's financial situation. Like every leader before him he will bring his own style and flair to the job.

Ultimately politics is a battle of ideas. Those who triumph politically are those who have not only superior arguments but also the capacity to present those arguments in a compelling fashion. Consistency of philosophy as well as consistency in the narrative of a political party, whether it is in government or opposition, are essential ingredients to success.

A major reason why the former government remained in office for so long was that it governed in a predictable and consistent fashion. Love us or

loathe us, and there were plenty of both, the Australian people knew what we believed in and what we wished to achieve for their country.

When I resumed the leadership of the Liberal Party on 30 January 1995 I laid out five objectives. It is with some pride that I now reflect on the extent to which the government I led acted in different ways to achieve the goals I enunciated so many years ago.

The Liberal Party of Australia is not a party of the hard right, nor does it occupy the soft centre of Australian politics. It is a party of the centre right. It is the custodian of two great traditions in Australia's political experience. It represents both the classical liberal tradition and the conservative tradition. Put another way, it is the party of both John Stuart Mill and Edmund Burke.

This is a view that I have held for a very long time, not only through the years when I was Prime Minister but well before that. The colloquial description of our Party, which I have frequently employed, as being a broad church is one that we should not only treasure but always give effect to as we reach our decisions. Ours is a Party which rejects extremes. We should not, however, be a Party which constantly seeks the mid point between opposing arguments. I deliberately employed the expression "mainstream", rather than "middle ground" or "consensus" to describe my position on particular issues. This was because I believed that both the desirable outcome and community feeling were often anything but at the mid point of opposing views on particular issues.

I am by instinct an economic liberal and a social conservative. It will come as no surprise for me to state this tonight. To some this is a contradiction. To the more thoughtful, it is a complementarity. Economic change of the type

experienced by Australia over the past thirty years has been extensive and, to many, quite unsettling, but it has been accepted as necessary. In accepting the inevitability of economic change Australians, sometimes unconsciously, have sought reassurance in the continuation of the status quo in other areas. It is against the human condition to be comfortable with change in every aspect of life. We all seek balance.

We are a party of the individual rather than of the collective. We do not neglect our obligations as individuals to society, but rather we see the maximum good for the nation being achieved when each individual is encouraged to do his or her best. This was the philosophy which underpinned our successive reforms of the industrial relations system. The success of this policy was best illustrated by the extraordinary fall in unemployment, over our twelve years in government.

We are a party that should always see the family as the most important unit in our society, not only as a source of love and emotional security, but also, quite pragmatically, as the most efficient social welfare system that mankind has ever devised. A properly functioning family is a greater antidote to poverty and low self esteem than a plethora of labour market programmes and an army of counsellors.

The Liberal Party should always be a party of national pride and cultural self-belief. Many Western nations show signs of losing faith in their own cultural identity. They have developed the mistaken belief that if there is progressive accommodation with some of the more radical critics of their societies, then those critics will in time be absorbed into the mainstream of the nation. This is a mistaken belief. This nation is a magnet to millions from around the

world because of who we are and not because of what others would want us to become.

Liberals should always retain their strong belief in the fundamental force of the market. That does not mean that the market always functions smoothly or that it is not open to abuse. The notion, gaining traction because of the world's financial turmoil, that in some way markets need extensive re-regulation is based on a false reading of what has happened to the world economy in the past year and also ignores the reasons for the remarkable growth of the middle class in the Asia Pacific region and the consequent reduction in levels of poverty, which have occurred during the past thirty years.

Our Party should always be the champion of small business. We should not only give rhetorical effect to this but should ensure that we support policies which explicitly help small business. That is why my Government frequently sought to reform the absurd unfair dismissal laws introduced by the Keating Government. Complaint about those laws was a constant theme of the years of dialogue I had with small business as Prime Minister.

We should always be a party which maintains what I choose to call the Australian safety net for the less fortunate. Economic issues inevitably dominated the policy analysis of the former government. This meant that the scale of the reforms within the area of social security was often overlooked. I have deliberately employed the expression "the Australian safety net". One of the great achievements, often unremarked, of this country is that in the area of social security it has struck the right balance between the hard edges, sometimes verging on indifference, of the American approach to social security and the overly paternalistic approach of many European countries.

It is never defensible to say to people, who through no fault of their own, cannot find work, that after a certain period of time society will provide them with no financial support. Equally, however, a system which contains no incentives to move from welfare to work and thus perpetuates high levels of unemployment and welfare dependency should be repudiated.

In Australia we have got the balance right. The introduction, early in our term, of Work for the Dole was greeted with shrieks of horror from many commentators and the Labor Party. Yet, after a short period, it became fully accepted as part of our nation's approach. To most it struck the right balance. It provided support for people and, in return if they were able-bodied, the people receiving the support were required to do some work or provide some other community service. Likewise the Welfare to Work policy has lasting social benefits.

Internationally Australia should never move far from the doctrine of enlightened self-interest. In the twelve years of the previous government, and against many predictions to the contrary, Australia not only deepened and strengthened her relations with the United States but simultaneously brought a new dimension to our association with the nations of Asia, particularly those of North Asia. To be able to say at the end of 2007, that Australia enjoyed an even better relationship with both China and the United States, than had been the case a decade or more earlier, encapsulated the Coalition's success in this policy area.

As a counterpoise to the deepening relationship with China Australia, in partnership with the United States, placed great emphasis on the democratic traditions we held in common with other Asian nations such as Japan and

India. Not only did this send a clear message to China about the importance we attached to our common democratic values, it provided balance and reassurance to some other nations nervous about China's increasing muscle.

We should always remember that for all the value of certain international organisations, friends are more enduring than forums, and that common values bind nations together more effectively and in a more enduring way than undue faith in the efficacy of process and international structures.

Finally and very importantly we should be a political party which always actively pursues desirable reform. As is well known I have always brought an essentially "Burkian" approach to Australia's institutions. I support change and reform where that will clearly produce a better outcome. If it does not then there is no point in disturbing the status quo.

If one had stood at the vantage point of Australian economic history in 1980 it would have been possible to say very clearly that our nation needed five great reforms. We needed to deregulate our financial system, fundamentally change our taxation system, make our labour markets freer, reduce excessively high levels of tariff protection and rid the government of ownership of commercial enterprises which would not only be better run by private enterprise but, by dissolving government ownership, conflicts of interest would be eliminated.

By 2007 these five great reforms had been achieved. I have always given the previous Labor government credit for implementing changes to our financial system and also tariff reform, each of which was achieved in no small measure because of the strong bipartisan support given to those changes by the Coalition when in Opposition. In the case of financial deregulation the

detailed blueprint for reform was contained in the Campbell Report produced during the time of the Fraser Government, and the implementation of which had been commenced prior to the change of government in March of 1983.

The willingness of the Coalition in opposition to support desirable reforms in the national interest was not matched by the behaviour of the Labor Party in opposition when responding to the reforms of my government. Labor attempted, at every turn, to frustrate our reforms to the taxation system, the workplace relations system and also our policy of privatisation of government owned assets.

If one can be philosophical, it is fair to say that those five reforms were an essential Australian contribution to what one might properly describe as the neo-liberal experiment of the past thirty years. The fact that two of these reforms were supported by a Labor government has apparently escaped the attention of an Australian political figure who, recently, has waxed lyrical about the alleged failures of neo liberalism.

If, as appears certain, the Rudd Government proceeds with its plans to dismantle the industrial relations reforms of the Howard Government, but also restore to our industrial relations system features which existed more than twenty years ago, it will represent the first time in a quarter of a century that an Australian Prime Minister had rolled back a major economic reform. This will be a poor signal to send to the rest of the world about this country's attitude towards economic change and reform.

The highlights of the Coalition's economic achievements are well known; the elimination of \$96 billion of government debt, the introduction of major reforms to our taxation system, the lowest unemployment level for more than

thirty years, a freer and more open labour market which capitalised on the natural trading advantages of Australia, and a level of fiscal rectitude which meant that Australia entered the current economic plunge in a stronger state than any other Western nation.

One of the greatest compliments paid to the former government was the campaign approach in 2007 by the now Prime Minister. With the exception of his stance on climate change and industrial relations, he sought at every turn to diminish the differences between himself and the Coalition. Even gestures such as the formal apology to indigenous people, which have been highlighted since the change of government, received only muted references during the campaign. Likewise, Iraq received scant attention from Mr Rudd during the election campaign.

I have watched with fascination the contradictions flowing from senior government figures as they deal with current economic challenges. They deserve their rhetorical dilemma. They cannot have it both ways. It is not plausible for the Rudd Government to argue on the one hand that Australia has entered the financial crisis in better shape than just about any other nation, and yet declare my government guilty of the extreme neo-liberalism which has allegedly brought about the crisis. Both positions cannot be right.

This dilemma was best illustrated by the contribution of the Deputy Prime Minister, Julia Gillard, at the World Economic Forum in Davos.

Simultaneously with the release of a certain essay some three weeks ago Julia Gillard declared her pride in the well regulated Australian banking system, the great strength of the Australian economy, and the fact that our nation entered these difficult economic times in better shape than others. All such statements were completely correct.

The strength of the Australian banking system, of which the Deputy Prime Minister is so proud, is a direct result of a sensible balance between market forces and prudential regulation in Australia which was both reaffirmed and modernised by the Wallis Financial Inquiry's recommendations adopted by my government not long after it came to office.

In addition, the former government resisted pressure to relax the so-called four pillars policy whereby the four major trading banks were not allowed to merge with each other. Ironically, the argument used by many in the financial sector, wanting this policy changed, was that a change was needed to strengthen the relative position of Australian banks against banks in other parts of the world. Yet as everyone now knows, because our banks were stronger, better supervised and better managed than others, their relative position compared to other banks has improved significantly as a consequence of the financial events of recent months. There are only fifteen banks in the world which now have a AAA credit rating. The four major Australian banks are amongst those fifteen. Given the size of our economy this is a remarkable tribute to Australia and her banking system. The four did not need to become two in order to survive in a hostile world.

All of this highlights the falsity of the claim that our side of politics has pursued a policy of total deregulation and the unrestrained operation of market forces. In government ours was a policy of giving preference to the operation of market forces. That did not mean that there was no supervision or no insistence on standards. With the financial sector, our approach was that the right balance should be struck between the free operation of the market, tempered, to the extent required to ensure stability, provide

reasonable levels of protection for depositors and other risk-takers and maintain an ample degree of transparency.

Likewise, it is wrong to argue that the Coalition, in government, pursued a policy of total deregulation of the labour market. We wanted a freer labour market and we delivered it, with manifest benefits in much lower levels of unemployment. There was, however, nothing in our workplace changes which could fit the description of a total deregulation of the labour market. That would have involved no fixed hours of work, no minimum standards, no minimum wage and the complete absence of other protections in our industrial relations legislation.

The world, including Australia, will not respond effectively to the global financial meltdown unless we properly understand its origins. That will not be achieved if there is an artificial politicisation of our assessments, with thinly veiled attempts to divide different governments and philosophies into economic “goodies” and “baddies” without proper regard for what in fact happened.

The sub-prime debacle originated in the United States. Australia has never had anything like the volume of what the Americans call sub-prime or what we call low document loans. Nor to my understanding has the United Kingdom. In America the regulations about the making of loans were far too lax. Clearly regulation failed in this area. Some of this laxity had been there for years. Some of it was, however, more recently deliberately driven by legislators, overwhelmingly Democrat but including Republicans as well. They set out to skew the financial system to deliver housing finance to poorer sections of the American community. The inevitable result was that far too many people received loans who had absolutely no capacity to repay them.

It was a laudable social goal that home ownership be spread as widely as possible but the method employed, namely the distortion of the financial system, was economically flawed and has had disastrous consequences. It is yet another illustration of something that I learnt a long time ago. If governments wish to assist a particular section of the community, that assistance is better delivered through direct expenditure appearing openly on the budget bottom line, rather than through the distortion of the operation of the financial system which can have immense and costly implications.

There have been failures of regulation, especially but not only in the United States, which have contributed to the severe economic circumstances we now face. There have been excesses on Wall Street and elsewhere. I do not seek to defend those excesses. These failures, however, and the challenges we now face do not represent a systemic failure of capitalism or indeed of the market system.

The construct of Mr Rudd's essay in *The Monthly* is clear. The wicked neo-liberal governments of Margaret Thatcher, Ronald Reagan and John Howard pursued policies of total deregulation which let the market rip, yet by contrast, the more benign social democratic administrations such as the Hawke Government, the British Labour governments of Tony Blair and Gordon Brown and the American Democrats under Bill Clinton followed a different path and got the balance right. It now falls, according to Mr Rudd, to the social democrats of the world to unite to save capitalism.

I have already illustrated how the facts do not allow Australia to easily fit his thesis. An examination of the British experience reveals the same contradiction for the Prime Minister. Three of the most prominent features of

Margaret Thatcher's economic programme were industrial relations reform, a deference to monetarism as an economic doctrine, and privatisation of government assets. Thatcher's policies in these three areas were embraced by the Blair Government, in which Gordon Brown was Chancellor of the Exchequer. One of Tony Blair's defining moments, as Prime Minister of Great Britain, was to tell the Trade Union Congress that fairness in the workplace started with the chance of a job.

Blair was proud of the fact that he maintained the essential components of Margaret Thatcher's industrial relations reform. Not for him the turning back of an historic change for the better. Equally proud was Gordon Brown of his decision to give the Bank of England independence in setting interest rates which, incidentally, followed what Peter Costello and I had done a year earlier with the Reserve Bank of Australia. Monetarists were well pleased.

The Reagan Administration did not pursue unrestrained free market policies. It intervened very directly with billions of dollars to protect depositors and restructure the thrift institutions after the collapse of numerous savings and loans institutions in the 1980s. Likewise, Reagan often followed a protectionist line in relation to industry policy. In his essay the Prime Minister rails against the repeal of the Glass Steagall Act, which decreed that commercial and investment banks should be separate. He says "in the United States, the pursuit of financial deregulation crossed the Rubicon with the repeal of the Glass Steagall Act, which had been established in the wake of the Great Depression". Well if the Rubicon had been crossed by the repeal of that Act, then the crossing was led by the centre-left American Democrats during the Clinton Administration, albeit with Republican support.

Not surprisingly, Mr Rudd has singled out Wall Street as the principal crime scene of the neo-liberals. We can only wonder at the political motives involved in not, likewise, designating the square mile of the City of London as a crime scene as well. The use of many of the exotic financial instruments of the recent decade or more, including the dreaded derivatives, has been just as prevalent in the City of London as it has been on Wall Street.

We all face a very difficult economic climate. There will be legitimate differences in our responses, based on different philosophies. Nothing, however, will be achieved by stretching the facts to serve an unsustainable economic proposition, designed to score a base political point.

Our current predicament is not the result of some malign economic philosophy having held total sway for the past thirty years. If so that philosophy, to a greater or lesser extent, has beguiled both sides of the political divide in many countries. In reality the causes of the problems we now confront are a lot more prosaic than that.

In the past thirty years the freer functioning of markets inherently involved in the globalisation process has lifted hundreds of millions of people out of poverty. Competitive capitalism has been integral to this historic development. So far from failing, it has succeeded. In the process, some regulation has failed and some have not been enforced. In some instances governments have not intervened enough. In others, such as through Freddie Mac and Fanny Mae in relation to the spread of sub-prime mortgages governments, their agencies and legislators have intervened too much.

What matters now is how we here in Australia and the world responds.

Our circumstances do not warrant a knee-jerk return to the policies which delivered stagflation in the 1970s and early 1980s. We should not be panicked into fiscal profligacy and the burdening of future generations of Australians with huge amounts of debt. We in the Liberal Party know that it took ten years for Australia to repay the \$96 billion of federal government debt left behind by Mr Keating. We can only contemplate the length of time needed to liquidate the \$200 billion of debt our nation now faces as a consequence of recent policy decisions.

Malcolm Turnbull and his colleagues were right to oppose the government's stimulus package. It needlessly plunges Australia deeply into debt with a poorly targeted spending spree. One has the distinct impression that the global financial situation has provided members of the Rudd Government with the perfect opportunity to do what, deep down, they have always wanted to do and that is spend large amounts of taxpayers' money.

If the principal concern of the government, as it should be, is to preserve jobs then the government's revenue and expenditure measures should, in addition to being more modest, be directed overwhelmingly towards reducing the cost for Australian firms of retaining their existing staff and removing impediments for taking on additional employees. Even in a recession some firms hire new workers.

I conclude by wishing the Federal Opposition great good fortune in the months ahead. The remarkably strong budget position bequeathed by the Coalition has given the Government a much easier start to its time in office than has been the case for most newly elected governments in recent times. Decisions adversely affecting the financial position of individuals have

largely being avoided to date. The inevitable realities of government will soon confront Mr Rudd and his colleagues.

Despite superficial commentary to the contrary the Labor Party's majority in the Federal Parliament now is roughly similar to that of the Whitlam Labor Government back in 1972. As a newly elected Prime Minister, Mr Rudd does not have the buffer of seats of the type enjoyed by Malcolm Fraser in 1975, my newly elected Government in 1996 or indeed the Hawke Government in 1983. In other words the task for Malcolm Turnbull and his colleagues, although immense, is not unattainable.