



PRIME MINISTER

16 November 2007

**TRANSCRIPT OF THE PRIME MINISTER
THE HON JOHN HOWARD MP
ADDRESS TO THE MENZIES RESEARCH CENTRE,
ADELAIDE CONVENTION CENTRE, ADELAIDE**

EO&E.....

Australia's Economic Choice

As we head towards November 24, the focus of this campaign shifts inexorably towards the core issue of economic management.

Today, Australia's economy is stronger than at any time in the nation's history:

- running near full capacity, where it is supposed to run;
- with unemployment at a 33-year low;
- notwithstanding the cost of living pressures that I know are real, inflation and interest rates are low by historical standards; and
- the biggest investment surge in our modern history is adding to Australia's future economic capacity.

Far from relying on luck Australia has, in the words of the OECD, ‘made its own luck’ in recent years by embracing sound economic policy.

Where our income per capita was in the bottom third of the OECD in 1990, today it is in the top third. We are one of only a handful of developed countries to have averaged more than three per cent annual growth since the start of the millennium.

The past really is another country. We don’t want to go back there.

Think for a moment about the pall of pessimism that hung over our economy not so long ago.

It wasn’t so long ago that people doubted our economy’s capacity to generate full-time jobs.

Not any more. Of the 438,600 jobs created since our workplace relations laws took effect in March 2006, a massive 91 per cent are full-time jobs.

It wasn’t so long ago that Australia was derided as The Land of the Long Weekend whose people faced a future as the Poor White Trash of Asia.

Now the average standard of living in Australia exceeds that in all the major industrialised countries, with the exception of the United States.

It wasn’t so long ago that deep thinkers routinely jetted off to Sweden or Japan or Germany in search of the secrets of economic success.

Those secrets, we now know, were here all along.

They are to be found in the hard work, enterprise and adaptability of the Australian people. And in a willingness by government to take strong, consistent – if sometimes unpopular – decisions on economic policy.

One thing we know with certainty. Tough and perhaps unpopular decisions will be required in the future to keep our economy strong and growing.

Economic competence matters more than ever as Australia enters a new and more complex period of economic challenge.

The unfolding sub-prime housing crisis in the United States has led to a tightening of global credit markets. This is still to play itself out.

Along with the drought, high oil prices are putting upward pressure on inflation.

These and other economic storm clouds underscore the fundamental importance of strong budgets and a flexible market economy to cope with any economic shocks that may come our way.

Under the Coalition, Australia is one of the few countries in the world to run consistently large budget surpluses. The United States is not running a budget surplus; Japan is not running a budget surplus; Great Britain is not running a budget surplus.

Our medium-term fiscal policy framework has delivered stable, responsible and predictable budget policy that has removed the damaging influence of wild swings in budget policy. This in turn has made the job of monetary policy easier.

Under the former Labor Government, budget policy was a series of accounting tricks and assets sales with a single motivation to achieve a budget night headline. It's just that the bacon was never brought home.

The budget swung wildly from surplus to deficit with disastrous effects on the economy. And all the while my predecessor as Prime Minister boasted of having the Reserve Bank in his pocket.

The Keating Government's fiscal legacy was \$96 billion of debt and budget deficits as far as the eye could see.

It took tough decisions to turn this around. It took the Coalition to turn this around, in the teeth of Labor opposition.

All but four of the Hawke-Keating budgets were deficit budgets. All but two of the 12 Howard-Costello budgets have been surpluses.

Having eliminated net government debt, we are now saving for the future. As the economy has strengthened, we have tightened fiscal policy.

In the last three financial years, we have targeted budget surpluses of 1 per cent of GDP and delivered surpluses of around 1.5 per cent of GDP.

We also took a deliberate decision to exclude the Future Fund earnings from the budget surplus. The Future Fund now earns around \$3 billion a year which otherwise would have accrued to the budget and been available for spending.

As a result, to maintain spending at its current levels we as a government have had to find efficiencies of \$3 billion elsewhere. The Treasury has estimated that this tightening of fiscal policy is equivalent to 0.5 per cent of GDP.

We have delivered strong budget surpluses while containing the size of government, keeping taxes low, maintaining a comprehensive social safety net and increasing investment in services like health and education.

Under this Government, real spending growth has been lower than under any other government for the last 30 years. Government spending has fallen to 20.8 per cent of GDP – the lowest level in over 30 years.

Australia now has the third lowest level of general government outlays in the OECD; slightly lower even than in the United States and Japan and significantly lower than the average in Europe.

In international terms, ours is a government that is lean, but not mean.

Australia remains the 8th lowest taxed country in the OECD. We have cut tax in 2000, 2004, 2005, 2006 and again in this year's budget.

At the start of this campaign Peter Costello and I detailed a new tax plan for Australia's future – one that will reward hard work, create more incentive and draw more people into the workforce.

We want to get to a point where:

- those earning \$20,000 or less pay no tax;
- 45% of taxpayers pay no more than a 15% tax rate;
- 85% pay no more than 30%; and
- 98% of taxpayers pay a top rate of no more than 35%.

This is the modern, competitive tax system Australia needs for the 21st Century. It will help us drive unemployment down towards 3 per cent and it will help Australian families with cost of living pressures.

There is an odd school of thought in this election campaign which seems determined to classify tax cuts as irresponsible spending. This is one of the shallowest economic propositions I have heard in a long time.

Tax cuts are tax cuts, not spending. Far from increasing the size of government, they are a means of restraining future growth in spending that would flow from automatically higher revenues.

Let me be crystal clear about this. I believe it was both responsible and fair to set out a plan to reduce tax on working Australians by \$34 billion at the start of this election campaign – especially as this reflected higher than expected revenues compared with budget time.

That Mr Rudd couldn't find it within himself to support all of our tax cuts – particularly our goal of putting 45% of taxpayers on a marginal rate of 15% or less – is a measure of his timidity; not his economic conservatism.

Rudd hypocrisy

Timidity is not Mr Rudd's only attribute when it comes to economic policy. There's hypocrisy as well.

Economic policy is more than a political branding exercise a few months out from an election. It's about believing in things, committing to them, arguing for them and doing them.

My opponent's embrace of economic conservatism is a pose, not a position. It is in stark contrast with the Kevin Rudd of just a few years ago who argued, with passion of course, that a 'red thread' should run through all Labor policies.

Let me cite just some of the stances Mr Rudd has taken on economic policy and I'll let you be the judge as to where his true convictions lie.

He voted against the sale of Telstra and hence against the paying down of Labor's debt.

He voted against tax reform and the GST. The same GST that has underpinned state government service provision, he described as 'the highest form of fiscal vandalism'.

At the time of the first Intergenerational Report in 2002, he – like the rest of the Labor Party – opposed the hard decisions we took on the Pharmaceutical Benefit Scheme and the disability support pension to prepare for the costs of an ageing population on the budget.

He voted against our welfare reforms that have helped to ensure Australia's welfare system is sustainable in the long term.

He voted against lower taxes in 2005.

He voted to keep tax on superannuation contributions.

He voted against our bans on secondary boycotts.

He voted against enshrining into law the rights of independent contractors.

He voted against establishing the Australian Building and Construction Commission.

He voted against the repeal of job-destroying unfair dismissal laws.

This record of irresponsible hypocrisy must end Mr Rudd.

The Australian people aren't mugs. You branding yourself an economic conservative is about as plausible as me converting to republicanism.

Market-oriented economic reform

Mr Rudd's signature economic policy commitment – repeated at his policy launch on Wednesday – is to roll back one of the major economic reforms that have underpinned modern Australia's prosperity.

By committing to tear up our workplace laws and restore union power, a Rudd Labor Government would see Australia turn its back on economic reform for the first time in a quarter century.

This would be a misstep of historic proportions.

The great struggle of Australia's first century of nationhood was to reconcile a market economy with a fair and decent society. And for much of the time, we struggled to get it right.

Despite rising living standards, Australia's economy spent much of the 20th Century in gradual relative decline. Now, at the start of the 21st Century, we are getting it right. Australia is working again, after decades of falling behind.

Five major economic reforms have been crucial to modern Australia's prosperity. They are financial deregulation, tariff reform, privatisation of government business enterprises, tax reform and workplace relations reform.

I have always paid credit to the former Labor Government for its record of reform on financial deregulation and tariffs. The Coalition has gone further with tax reform, privatisation and reform of workplace relations, all of which have made our economy more flexible and competitive.

We have gone much further if you count our medium-term fiscal strategy and move to ensure Reserve Bank independence.

Where we in Opposition supported all the big reforms undertaken in the Hawke-Keating years, the Labor Party in opposition has fought every major reform we have undertaken to strengthen our economy.

Of all the Labor reform myths, the most fatuous one is the claim that Australia's modern labour market arrangements date from the Keating-Brereton reforms of 1993.

In reality, they were no more than tiny, half-hearted steps towards the sort of decentralised bargaining arrangements we have today. We know this because between 1993 and 1996, only 231 limited, non-union collective agreements were made, covering less than 1 per cent of employees on collective agreements.

By contrast, under today's workplace laws, Australians are participating in a much more diverse set of bargaining arrangements, reflecting the diverse needs in our economy.

Our goal is to enhance the right of choice of employees and employers to bargain directly with each other without the intervention of a third party. The right of people to join a union, or to have unions bargain on their behalf if they so desire, is in no way impaired.

The great con surrounding Mr Rudd's claim to be an economic conservative is the notion that returning to a more regulated, union

controlled and centralised industrial relations system will have no adverse economic consequences.

The simple fact is that a Rudd Labor Government will drive up unemployment. At a time when Australia needs every worker it can get, at a moment when for the first time in decades we can aspire to full employment, jobs will disappear.

The gaping contradiction at the heart of Mr Rudd's policy is his simultaneous commitment to abolish our workplace laws while claiming that there are no differences on macroeconomic policy.

This week's wage figures again illustrated the risk Mr Rudd's industrial relations policy poses to inflation and interest rates. Again they showed well-contained wage outcomes despite a very tight labour market.

Any roll back of industrial relations reform at this time is a dagger at the heart of Australia's future prosperity.

For the first time ever, we are avoiding a wage breakout in a resources boom. This has never happened before and it's all because of today's decentralised bargaining system.

In June, Reserve Bank Governor Glenn Stevens described the current arrangements as providing for a 'textbook case of adjustment', where relative wages change but without inflation taking off across the whole of the economy.

I don't know what sort of economics was taught to Mr Rudd and Mr Swan. But if the teachers at Nambour High were anything like those at Canterbury Boys High, it would have been clear that wages policy has always been part of macroeconomic policy.

Labor's union-dominated industrial relations policy would put upward pressure on inflation and interest rates.

Anyone who understood the pressures on our economy and our need to stay resilient in the face of economic storm clouds would not be advocating a retreat on economic reform.

They would understand that this sends a signal, not just to Australians but to the world, that Australia has lost its stomach for economic reform; that we have lost our nerve.

And in the end, I think it sells the Australian people short. The Australian people realise that we are part of a rapidly globalising world. They realise we need to be competitive and that our workplaces are the arteries of the economy. They realise that no amount of industrial regulation or union power can guarantee a steady job with rising wages.

That's why Mr Rudd's so-called new leadership is a false promise. Because what he's trying to sell is new leadership for an old Australia.

An Australia suspicious of markets. An Australia fearful of competing in the world. An Australia that places power in the hands of union bosses and centralised bureaucracies rather than trusting employers and employees in the workplace.

Conclusion

Ladies and Gentlemen, Australia must not give up on economic reform.

At this election, only the Coalition has a comprehensive approach to economic reform based on strong budget surpluses, saving for the future, investing in our education and skills base, investing in our nation's infrastructure, keeping the tax burden down and ensuring our workplaces are flexible and competitive.

That is the way to build Australia's economic future; not to turn our backs after a brief quarter century of market-oriented reform.

Continued prosperity is possible, but not inevitable.

Continued economic growth, even lower unemployment, continued low inflation, budget surpluses that put downward pressure on interest rates – all these are possible, but not inevitable.

Our economy is very finely balanced. There is no scope for policy error – where you get your tax sums wrong; or embrace radical environmental policies that destroy jobs; or implement an industrial relations policy that leads to a wage breakout; which in turn pushes up inflation and leads the Reserve Bank to slam on the brakes with high interest rates.

Now more than ever, Australia needs strong, experienced and careful economic management.

The ultimate test of economic management is a capacity to deliver, not a capacity to recite a focus-group tested script.

The Coalition has demonstrated over 11-and-a-half years that we can deliver. Mr Rudd has only delivered a record of economic hypocrisy.

In the days ahead, the choice at this election will centre increasingly on one question: which side of politics is best equipped to keep the economy growing with full employment while keeping inflation and interest rates low.

I asked for your support to put Australia's future prosperity first at this election.