



PRIME MINISTER

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**TRANSCRIPT OF THE PRIME MINISTER
THE HON JOHN HOWARD MP
ADDRESS TO MENZIES RESEARCH CENTRE
PARLIAMENT HOUSE THEATRETTE, PARLIAMENT HOUSE**

EO&E.....

Building Prosperity: The Challenge of Economic Management

Thank you for the opportunity to again address the Menzies Research Centre. Robert Menzies brought to politics a deceptively simple view of government. He was particularly fond of Lord Acton's aphorism that 'the ship exists for the sake of the passengers', not the reverse.

My take on this is that governments should set clear goals, pursue them vigorously and then let people get on with their lives.

So what is the Government's core objective in 2007?

It is precisely what it has always been: to keep the economy strong and the nation secure so Australians can plan for the future with confidence.

Since 1996, we've embarked on a journey of bold reform backed by a firm commitment to Australian values – values of freedom and fairness; of reward for effort and compassion for those in need.

The results are clear. Australia today is a more prosperous, outward-looking and optimistic country. We are more confident in who we are and what we stand for.

Our \$1 trillion economy is, in real terms, more than 40 per cent larger than it was a decade ago. Economic reform has seen the average standard of living in Australia rise to surpass all G-7 countries except the United States.

Australian business is meeting the challenges of a fast-changing world with strong investment and record spending on research and development.

For the first time in 30 years, jobs are chasing people, not the other way around. The last time unemployment was at 4.5 per cent ABBA's Fernando was Number 1 and a 20-year old called Bill Gates was inventing something called 'software'.

Long-term unemployment today is roughly a quarter of its peak in the early 1990s. Thousands of Australians who'd dropped out of the labour market – many older, blue collar men and single mothers among them – are in jobs today: earning a wage, making new friends, rediscovering their independence.

Think of the last time you heard a Labor leader talk at any length about jobs. Think of where Labor left the long-term unemployed: staring out at a future of syrupy rhetoric, a few welfare dollars and a TV guide, as far as the eye could see.

Ladies and Gentlemen, our economy is not a bunch of abstract statistics. It governs every Australian's ability to handle the pressures of daily life and to give their children a better life.

We've come a long way in 11 years, but we still have a distance to travel. Our goal is to build even greater prosperity and opportunity. We want Australia to be the best country in the world to live, to work, to start a business and to raise a family.

We have great challenges in front of us – security challenges, the ageing of our society, raising our education standards, conserving our precious water resources and dealing with the challenge of global climate change.

Later this year the Australian people will be asked to judge which side of politics has the track record, the judgment and the policies to meet these challenges and to build our future prosperity.

Ensuring Australia has a strong, stable and growing economy is this Government's overriding priority. Everything we do is geared to this objective.

Future prosperity is possible, but it is not inevitable.

Just as our challenges are great, so are the risks of policy error.

We know from experience that it takes a mighty long time to fix an economy that's been wrecked by a Labor Government.

When Labor was in power, unemployment jumped from 6 per cent to 10 per cent in just over 18 months. It took eight years to fall to 6 per cent again.

Government debt under Labor sky-rocketed from \$17 billion to \$96 billion in just five years. It took us ten years in government to pay it off.

Interest rates have risen to above 10 per cent every time Labor has been in power in the last 30 years.

Australia's economy does not run on autopilot. There is no in-built Global Positioning System.

It needs disciplined management to lock-in and build Australia's prosperity in a fast-changing world. It needs policies of the sort that allowed Australia to face down the Asian financial crisis, September 11, a US recession, SARS, and the worst drought on record. It needs the economic management of Peter Costello.

I believe we are moving into a rather more difficult phase of economic management compared with the recent past, where the risks of policy error are greater.

Australians – especially in rural areas – continue to face real hardship from the effects of the drought. Farm GDP is expected to fall by about 20 per cent this financial year.

We've seen the emergence of, in some cases, a two-speed economy illustrated most starkly by the growth differential between Western Australia and New South Wales.

We've seen the re-emergence of state budget deficits – driven in part by a frenzy of infrastructure spending designed to make up for years of neglect – which in turn is complicating our macroeconomic management task.

We face the challenge of volatile global energy markets and at the same time we must deal sensibly and rationally with climate change in a way that preserves Australia's prosperity.

And finally we must be prepared for a softening of global economic growth, recognising that the last few years have seen the strongest growth phase since the early 1970s. Among the risks are growing protectionism and negative wealth effects from the fall in house prices in the United States.

All of this underlines the fact that Australia's current prosperity cannot be taken for granted.

The singular test of any government is its willingness to take decisions it knows to be unpopular today in order to build tomorrow's prosperity.

This is a test we have met, time and again.

We met it in balancing the budget and paying off Labor's debt.

We met it in reforming the waterfront.

We met it in reforming the tax system, ensuring state governments have the revenue they always pleaded for to fund schools, hospitals, roads, police and other responsibilities.

We met it in reforming social security to encourage work over welfare.

And we met it in bringing Australia's workplace laws into the 21st Century.

It hasn't been easy. We've had to balance competing interests. We've had to wear our share of political bruises. And we've had to fight Labor obstruction every step of the way.

Every single reform that has strengthened our economy, Labor has opposed. At every turn, Labor has chosen the path of short-term expediency over Australia's long-term economic interests.

Now Mr Rudd wants to claim there is no real difference between us. All our policies – balanced budgets, low tax, an inflation target, structural reform, flexible workplaces – are his policies too.

Mr Rudd wants you to believe that the Coalition is Tweedledee; Labor is Tweedledum – as if a few sound-bites can extinguish 11 years of policy indolence and opportunism.

My message tonight is very simple: there are real differences, critical differences, enduring differences – in our economic approach and in our policies.

The Coalition's approach to economic management, and the prosperity Australians have enjoyed in the past 11 years, rest on three central pillars.

- 1) a macroeconomic framework built on disciplined fiscal management for long-term sustainability;

- 2) continued structural reform to raise the competitive tempo of the economy;
and
- 3) policies that place their trust in the ideas, imagination and intelligence of the Australian people.

Building tomorrow's prosperity demands a broad-based, comprehensive approach to economic management.

By contrast, Labor has wasted the last 11 years. They have no plan to grow the economy because Labor in the end has no economic centre of gravity on key issues like tax, the budget, energy policy, climate change and industrial relations.

Nothing has changed with Mr Rudd – as Labor searches for the magic elixir, the short-term fix or the quick hit.

Building Australia's prosperity doesn't work like that. It's not about sound-bites or silver bullets.

It requires a long-term focus, a commitment to continued economic reform and a philosophy that supports and nurtures individual enterprise.

Beginning with macro-economic policy, an area where Labor in government was always addicted to the short-term. Budget policy under Labor always had a one-year time span – a once a year frenzy of accounting tricks and assets sales all designed for a political bottom-line.

The Coalition broke decisively with this myopic approach, refocusing fiscal policy from the short-term with two key reforms:

- a medium-term fiscal strategy; and
- the Charter of Budget Honesty.

The medium term fiscal strategy maintains budget balance over the economic cycle and carries a commitment to not increase the tax burden from 1996-97 levels.

Central to the reforms of the past decade has been a lower tax burden on individuals creating greater incentives to work and save. Income tax from individuals has fallen from 12.4 per cent to 11.2 per cent of GDP in the last decade.

Overall tax receipts as a share of GDP are now 20.7 per cent compared with 22.3 per cent in the last year of the Keating Government. If the Commonwealth tax receipts were the same share of GDP as in 1995-96, Australians today would be paying an extra \$16 billion in tax.

With an ageing population, locking in the benefits of low taxes is crucial to maintaining future workforce participation.

The Government's Charter of Budget Honesty has brought an additional long-term focus to fiscal policy. This year, the Treasurer will release the second Intergenerational Report showing the long-term impact on the budget from demographic and other pressures. This will provide a new benchmark against which to assess sustainable budget financing and what more needs to be done.

The Future Fund will give Australia additional flexibility to meet new pressures without future generations carrying the full burden. Our strong budget position and negative net debt means we are well placed to deal with demographic pressures compared with other countries (such as the United States, Japan and the UK) where government debt has continued to rise.

The Coalition's disciplined budget management stands in sharp contrast with Labor's short-termism, both in government and in opposition. In almost 11 years, Labor has attempted to thwart all the big steps we have taken to restore the budget to surplus and to pay down the \$96 billion of debt they left behind.

Let's be very clear. It was never Labor policy to get the budget back into surplus. They opposed our accumulated budget surpluses of \$63 billion every step of the way.

It was never Labor policy to make the Australian Government debt free. They opposed the sale of Telstra and other reforms which prior to T3 had yielded about \$46 billion.

It was never Labor policy to eliminate the \$8.5 billion the Commonwealth paid in interest payments in the mid 1990s, and to devote resources instead to urgent tasks like saving the Murray-Darling Basin.

The second key plank of economic management is ensuring robust competitive pressures across our economy through continued structural reform. This is vital to low inflation, to a strong investment outlook, to fostering innovation and to maintaining Australia's international competitiveness.

The countries that tend to benefit most from productivity improvements are ones with low product market regulation, a point made earlier this month by the OECD's 'Going for Growth' report. The OECD found that Australia has the least restrictive product market regulation in the developed world.

That doesn't mean we can shut up shop. There remains room for real improvement, especially in transport, electricity and water which have been the traditional domain of state governments.

The next meeting of the Council of Australian Governments (COAG) in April will consider further reforms to improve the productivity of transport, energy and infrastructure regulation, as well as to remove unnecessary red tape. We need to benchmark ourselves in these areas against the best in the world.

I particularly want to enlist the agreement of state and territory leaders for a new round of energy market reforms, building on the work of the Energy Reform Implementation Group.

I believe the next COAG meeting should set a timetable for achieving a truly national electricity market and transmission grid. In the 21st century, a national approach to electricity planning and investment is absolutely essential.

The Commonwealth's other key priority is a timetable for a rapid national smart meter rollout. By enabling consumers to better manage their electricity use, smart meters can facilitate major savings and also play a role in addressing the nation's greenhouse challenge.

Raising education standards and building Australia's skills base is another critical part of the COAG National Reform Agenda. Through our Skills for the Future package last year, the Australian Government initiated the largest single investment in this agenda – \$837 million over five years to raise the skills of Australia's adult workforce.

In April, I hope the Commonwealth and the states can also agree on practical ways of supporting higher literacy and numeracy standards in our schools. The Commonwealth already provides about \$1.8 billion for literacy and numeracy under our current four-year schools funding agreement.

Of course, we want to improve standards further, but we have no intention of paying states more for what they should already be doing. Our responsibility to Australian taxpayers demands nothing less.

The third pillar of successful economic management is something close to the heart of Australian liberalism – supporting and trusting the individual.

From its earliest days, the Liberal Party has stood for private enterprise against the heavy hand of state control. Fifty years ago, the defining battle was over the nationalisation of Australia's banking system, a platform from which Menzies built the party's great election victory of 1949 – a victory that ensured Australia avoided the excesses of post-war planning.

Today, we face very different battles but our creed of individual enterprise still provides a guiding light, illuminating opportunities in a less collectivist, more aspirational age.

We remain, unapologetically, a party that supports and encourages the 1.9 million small businesses in Australia. I grew up believing that the best thing you could do in life was to start a business, work hard, take risks, employ people and pass on that legacy to your children.

I agree with Mr Rudd on one thing. The contest at the next election is about the future versus the past.

I believe history will judge the start of the 21st century as a tipping point in the creation of a more aspirational Australia, a point Mr Rudd misjudges completely with his rhetorical overkill about ‘Brutopia’ and ‘market fundamentalism’.

The century’s turn was roughly the point at which the number of owner-managers in our economy exceeded the number of trade union members. It’s also roughly when the number of direct share owners eclipsed trade union membership. And the point at which the number of Australian Workplace Agreements in our economy began to climb dramatically from around 100,000 to almost 1 million today.

Here we find one of the crucibles of today’s political contest – the debate over our hard-won gains on workplace relations reform.

Labor ideology is unable to comprehend, let alone accommodate, a world where a union is not the main determinant of the living standards of most Australians. The idea that someone can sit down with his or her employer and come to mutually beneficial work arrangements is simply anathema to the labour movement.

Labor’s world-view is that unless an Australian has a union official looking over their shoulder they can’t be trusted to look after their interests. They want nothing less than to restore the effective monopoly the union movement had over the bargaining process in the old industrial relations system.

Mr Rudd would return Australia to a tightly regulated labour market, restoring union power at a time when trade union membership has fallen to about 17 per cent of the private sector workforce.

All his fudging and dissembling cannot disguise that he would abolish Australian Workplace Agreements, restore job-destroying unfair dismissals laws, increase the rights of union officials to enter businesses arbitrarily, remove protection from secondary boycotts and wind back agreement-making at the enterprise level.

Under Mr Rudd's policy, a business would have to notify the union that it was intending to negotiate with employees, even if neither the business nor its workers wish the union to be involved. It would mean a return to a rigid system of 'one-size-fits all' agreements, threatening the livelihoods of more than a million Australians on AWAs.

Labor's great myth is to argue that their policy represents nothing more than a kinder, gentler form of workplace flexibility, with no real economic consequences. They tout the half-hearted enterprise flexibility of the Keating-Brereton years as a great policy achievement.

To say this was small beer is a crushing understatement. Between 1993 and 1996, only 231 of these limited non-union agreements were made, covering less than 1 per cent of employees on collective agreements.

Labor's industrial relations policy will see a return to industry-wide, pattern agreements right across the economy. This is a dagger at the heart of Australia's prosperity.

A more flexible labour market is the crucial policy difference that has allowed Australia to manage our current prosperity well compared with earlier periods of high commodity prices.

The Reserve Bank Governor, Glenn Stevens, affirmed this last week in his testimony to the House of Representatives Economics Committee in Perth. He perfectly described what happened in resources booms in the past when he said, ‘the strong sectors would get a big pay rise and, through the centralised wage setting system, that would flow through to everybody else, through the Arbitration Commission. That does not happen any more.’

The point he was making is that today’s workplace relations system is handling pressures in our labour market extremely well compared with earlier times.

This has a direct bearing on interest rates because both inflation and interest rates would be higher without today’s workplace flexibility. So when I say that interest rates will always be higher under Labor than under the Coalition, my point is not just about the past it is about the future.

Australia cannot afford a return to a union-dominated, centralised industrial relations system that would put upward pressure on interest rates.

Conclusion

Later this year Australians will face an important question about the future – who has the experience, the policies and the discipline to build our prosperity.

Our future prosperity is not inevitable. Government policy is crucial to securing it.

My commitment to the people of Australia remains what it has been throughout my public life – to make the decisions, difficult and unpopular as they sometimes are, to keep our economy strong and our nation secure.

Australia is a great country. We know that. What we don’t know yet is how much better it can become.

The progress we have made in the last 11 years now gives us the chance to aim higher still – to make Australia the best country in the world to live, to work, to start a business and to raise a family.

For as Robert Menzies knew well, the role of government is not to prescribe its own purpose to society. It is to let society flourish towards its own ends.

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