

Cabinet papers 1988-89: Lessons from Labor in urgent budget repair

JOHN STONE, *The Australian*, January 01, 2015

AS *The Australian* has been reiterating, both editorially and through the writings of Adam Creighton, Judith Sloan and others, if a government has a serious budgetary problem it is no good promising to fix it “in good time”. It must address it now.

As 1988 began, the Hawke government (whose 1988 and 1989 cabinet records were released today) continued to face the consequences of its earlier budgetary profligacy during 1983-84 through 1985-86.

I say continued because, in 1986-87, after treasurer Paul Keating’s notorious “banana republic” comment, it had finally begun to redress those consequences. That year saw a real (inflation-adjusted) cut in commonwealth payments of 1.1 per cent, and a reduction in the budget deficit from 2 per cent to 0.8 per cent of gross domestic product.

After the 1987 federal election (when, more or less by chance, I became a senator for Queensland and, to further astonishment, leader of the National Party in the Senate), this course was maintained in the 1987-88 budget. Again, a real cut in payments of 0.9 per cent saw the budget actually move into surplus (0.4 per cent of GDP).

By 1988, then, what was the problem? In his two cabinet submissions of February 1988, Keating spelled it out. Despite the better budgetary situation and help from rising terms of trade, the economy was already departing from the over-optimistic scenario forecast six months earlier. As the National Archives’ visiting cabinet historian Nicholas Brown noted, “trends were not heading where the government hoped: inflation and domestic demand were higher than anticipated; wage increases still outstripped those of trading partners”, and the country was still “living beyond its means”. Does that sound familiar?

Also familiar (think West Australian Senate election re-run) was the government’s delay, until after the April 1988 NSW election, in addressing these problems. The May economic statement then cut net outlays for 1988-89. Writing in *The Australian* on the following day, I welcomed that as “better late than never”. Nevertheless, “the precious months which the government has lost, since its re-election last July, in again focusing upon the problems of our national public finances”, was regrettable. Again, sound familiar?

“The truth is” (I went on) “that these cuts are now brought forward over three years after our dollar began, in February 1985, its plunge towards the depths it has subsequently plumbed. That plunge ... conferred upon Australian industry, overnight, an enormous ‘windfall’ increase in effective protection against competition from imports” — but was also a key factor driving up domestic inflation and lowering real living standards. As Creighton wrote recently, those who take comfort from our declining dollar should think again.

Further spending restraint three months later, in the 1988-89 budget itself, saw payments for that year again cut by 3.1 per cent in real terms and the budget surplus increase to 1.5 per cent of GDP. Why then still the need for fiscal constraint? For the answer, look at what had been happening, meanwhile, to interest rates.

As Paul Kelly remarked in April 1988, the government had “inaugurated the most painful and debilitating phase” in its history as interest rates began to be raised dramatically. The 90-day bank bill rate, having averaged almost 12 per cent in 1987-88, climbed to average 15.5 per

cent in 1988-89, and continued climbing, averaging almost 17 per cent (and peaking at 18.5 per cent) in 1989-90.

No wonder that, in his cabinet submission of March 1989, Keating still argued for “a further real reduction in budget outlays”. It was important, he said, to show that “the government has not shifted in its resolve to maintain the fiscal consolidation process ... and that the period of restraint is not over”. In due course, the 1989-90 budget, while permitting a small (0.6 per cent) real increase in outlays, again recorded a surplus of 1.5 per cent of GDP.

During 1987-88 through 1989-90 we therefore saw an unprecedented (for Labor) succession of budget surpluses. Yet throughout most of 1988, and particularly after Keating and Bob Hawke’s infamous “Kirribilli compact” of November 25, Keating’s mind had been fixed not on the budget but on the Lodge, and the chief architect of this fiscal record was really his colleague, finance minister Peter Walsh.

John Stone was secretary to the Treasury from 1979 to 1984 and a senator for the Nationals from Queensland from 1987 to 1990.

Cabinet papers 1988-89: One year of savings eclipses Tony

Abbott bid The Australian, January 01, 2015, David Uren, Economics Editor, Canberra

IN just the one year of 1988-89, the Hawke government achieved savings three times greater than those planned by the Abbott government over the next three years, as it sought to reduce Australia’s foreign borrowing.

However, former Hawke minister and treasurer in the Keating government John Dawkins nominates the pursuit of structural reform as the biggest economic policy achievement over the late 1980s.

TIMELINE: The events that shaped 1988 and 1989

“It was in these years where the focus shifted to structural adjustment of various kinds to free up what was a very ossified and protected economy,” he said.

“These were the years where we changed gear, while not losing interest in the fiscal issues, but moving in a direction designed to improve productivity.”

Cabinet papers reveal a huge range of reform initiatives from tariff cuts to privatisations, deregulation and laying the foundations for enterprise bargaining.

However, they also contain more than 200 submissions on savings measures ranging from increasing the waiting period for unemployment benefits, assets tests for student assistance, raising the pension age for women and cuts to state government grants for health and education.

Treasury secretary at the time John Stone said Labor’s performance from 1987 through to 1990 was “extraordinary”.

“Compared with the shambles we have today in our fiscal affairs,” he said, “it is worth remembering that in these three years the Labor Party not only produced three budget surpluses, which you can do in all sorts of ways, but they also did it by actually cutting government spending.”

Spending fell by 2.1 per cent of GDP in 1988-89 alone and by 4.1 per cent of GDP over a three-year period.

The Abbott government is targeting a 0.7 percentage point reduction in spending by 2017-18.

It was an anxious time following the sharemarket crash of October 1987, which left Australia's share index at half its peak level of that year and cut average household wealth by 5 per cent.

However, Treasury had been worried a debt boom among businesses and households was boosting consumption while exports were faring poorly.

Australia needed to lift its international competitiveness.

Paul Keating argued to cabinet that, despite the share crash, the government had to stick to its policy of restraining demand with high interest rates while reducing the government's call on savings and maintaining wage restraint.

"Microeconomic/structural reforms, by facilitating the flow of resources into profitable tradeable activities and by improving efficiency and productivity generally, will complement the thrust of macroeconomic policy," he told cabinet, adding that "they are not a substitute".

Treasury believed many Australian industries were uncompetitive internationally, and much of the structural reform program was designed to remove bottlenecks imposed by government regulation. In the coal industry, there were initiatives to improve handling through ports while high-cost mines were persuaded to close.

Amalgamations were encouraged in the dairy industry, which was also forced to become more self-reliant for its marketing.

In the beef industry, the government promoted Japanese investment in beef-processing in Australia to strengthen inroads being made into the Japanese market.

By the time the 1989-1990 budget was being prepared, Mr Keating was telling cabinet: "The main problem facing the Australian economy is, in a nutshell, that it has been too buoyant," with investment growing so quickly that the current account deficit remained large.

The lift in interest rates from 10.8 per cent to 17 per cent over the previous year was "beginning to have some effects in slowing demand", he said.

Finance minister Peter Walsh, whom Mr Stone credits for much of the budget restraint, was warning cabinet as it prepared for the 1990 election and its fourth term in office: "We do not have the luxury of being able to contemplate undisciplined wish lists."

All new spending proposals had to be offset against savings and only the most urgent would be allowed, "even when the amounts involved in any particular case seem relatively small".

Cabinet papers 1988-89: Budget fix needs urgency, ambition, bipartisanship

The Australian, January 01, 2015, Troy Bramston, Columnist, Sydney

THE trio of former prime ministers who implemented major reforms to the economy have called for the budget to be urgently repaired and the government and opposition to unite behind a transformative economic policy agenda.

The exclusive interviews with former prime ministers Bob Hawke, Paul Keating and John Howard come as the National Archives of Australia today opens the cabinet papers from 1988-89.

The papers serve as a timely reminder of an era of groundbreaking economic, social and environmental policy change.

Mr Hawke, prime minister from 1983 to 1991, said there was a need to educate the electorate about the economic challenges facing the country and convince voters of the need for reform.

TIMELINE: The events that shaped 1988 and 1989

The deteriorating budget bottom line had to be addressed because governments “can’t just keep pushing up taxes”, he said. “I have always operated on the assumption that ignorance is the enemy of good policy. Once people know the facts, normally they will respond favourably to reform. We started an education process at the 1983 Economic Summit and we continued it right through the government’s term. Producing three budget surpluses (87, 88 and 89) showed that we could manage an economy, bring in significant economic reforms, lower unemployment, reduce inflation and do it in a way that didn’t endanger the fiscal position of the country.”

Mr Keating, who served as treasurer from 1983 to 1991 and as prime minister from 1991 to 1996, cited the economic reform program of 1988 and 1989. It produced surplus budgets delivered alongside structural adjustments to the economy such as tariff cuts, industry deregulation, asset sales, wage restraint and taxation reform. “It was, of its essence, a momentum play,” Mr Keating said. “That is, my old line: ‘Good policy is good politics.’ It was the belief that if you brought the community with you into the conversation, where the government was running an inclusive discussion, then you could run a reform program of this kind and be rewarded for it.”

Australia needed to address the underlying structural problem in the budget as spending in some areas had become unsustainable, Mr Keating said. This required a vision, political courage, and the capacity to make a compelling argument to voters. “Policy ambition and urgency, that’s the lesson for today,” he said. “Without policy ambition, and without the core of the government believing changes are absolutely necessary and competently selling them, and doing it with urgency, then these sorts of tasks can’t be undertaken.”

Mr Howard, who served as opposition leader from 1984 to 1989 and succeeded Mr Keating as prime minister in 1996, said a key lesson from the 1980s was that the Coalition and Labor could work together to fix the budget and implement economic reform. “The lesson is that at crucial times you do need an acceptance on both sides ... that bipartisanship around measures that are clearly in the nation’s long-term interest is essential if the long-term interest is to be promoted,” Mr Howard said.

“There was only one sustained period — and even then not on everything — of bipartisanship between government and opposition on economics and that was the period we’ve been talking about (the 80s). Most of the reforms they undertook, I supported (such as) tariff reform, financial deregulation and most of Labor’s fiscal consolidation ... I did argue that Hawke should have gone further on reform in some areas. So, politically, adopting that position made it easier for the government of the day.”

Mr Hawke’s principal remedy for budget repair is for Australia to become a depository for the disposal of nuclear waste. His “mission” in 2015 is to convince the Coalition and Labor to support this idea. Joe Hockey had given it “a positive reaction”.

“We have to take the world’s nuclear waste,” Mr Hawke said. “It will totally transform the fiscal situation. A significant part of dealing with climate change is increased use of nuclear power. The limiting factor is the disposal of nuclear waste. Australia has the safest remote geological sites in the world for the storage of nuclear waste.”

The Abbott government faces deficits totalling \$103.9 billion over the next four years, up from \$43.6bn forecast at the time of the May budget. The forecast deficit for 2014-15 is \$40.4bn. A surplus is not forecast until 2019-20.

Former Treasury secretary Martin Parkinson has warned that Australia is living beyond its means, with too much spending on health, welfare and education. He called for “politically tough decisions” like those in the 1980s to address the “structural problem at the heart of the budget”.

Mr Howard said Labor was being obstructionist, but he also set a key test for the Abbott government, struggling to gain public or parliamentary support for key budget measures. “We clearly have a budget problem that will get worse unless we make progress ... It has long been my view you can win public support for difficult reforms if you satisfy two criteria: it is in the public interest and it is fair.”

Mr Keating said the Coalition did not support all of Labor’s economic reforms, such as the Accord or superannuation, but he recognised some bipartisanship. The opposition should support the government’s program, provided it was credible and in the national interest, he said. “I think it is a good idea if the government knows what it is doing,” Mr Keating said.

“But without the government articulating a strategy — a saleable, doable, adoptable strategy — then you won’t have the co-operation. This idea about letting people just read about structural changes in the budget is the pathway to ruin.”