



## SPEECH

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Member for Rankin

14 February 2007

### **Appropriation Bill (No. 3) 2006-2007 Appropriation Bill (No. 4) 2006-2007 Second Reading**

**Dr EMERSON** (Rankin) (4.08 p.m.)—When debating any appropriation bill, it is valuable to reflect on the overall progress of the Australian economy and the quest to sustain prosperity in our country. No better reflection could be provided than by the Business Council of Australia in its budget submission for 2007-08 titled *Passing on prosperity: rising the high bar on reform*. The Business Council of Australia observes:

The benefits that rising commodity prices have provided to the economy have masked underlying structural weaknesses.

This is a point that I have been making for about five years—that structural weaknesses have emerged in the Australian economy and they are not getting the attention they deserve. They have been masked by the strong rate of economic growth that has been achieved in Australia over the last 16 years. I point out that the government seeks to claim credit for all of that, including the almost six years of it that occurred under the previous Labor government. Nevertheless, the government does frequently boast of 16 years of sustained economic growth and in statistical terms it is correct; it has been the longest period of unbroken economic growth in Australia's history.

The structural weaknesses that began emerging in the Australian economy around the turn of the century have been masked by that strong growth. It was growth that was built on the reform program implemented by the previous Labor government which unleashed a productivity surge through the 1990s. Today's productivity growth is tomorrow's prosperity, and today's prosperity is a consequence of yesterday's productivity growth. More specifically, it is a consequence of the productivity growth of the 1990s.

As the benefits of that productivity surge began to wane, the Australian people looked to this government for a new reform agenda. But it has come to pass that this government is reform lazy. It could have seized the opportunity to build on the productivity boom of the 1990s, but instead it has built ongoing economic growth on two subsequent booms, neither of which can be expected to continue indefinitely. The first of those was a housing boom in the early 2000s. We would not want a housing boom sustained indefinitely, because we can see now the consequence of it, with the lowest level of housing affordability for decades,

including during the period of high interest rates of the late eighties and early 1990s.

When that housing boom petered out, as we hoped it would, a new boom came to take its place—the China boom. The Reserve Bank’s statement of monetary policy, released just yesterday, confirms that Australia’s terms of trade are not now the highest in three decades but the highest since the early 1950s. So there is a huge surge of income coming into Australia not as a result of the good, hard policy work of this government but as a result of the rapid rate of economic growth in China and also in India. Of course, the Minister for Trade claims credit for these record high mineral prices. It is strange, is it not, that the government claims credit for everything that is going favourably and blames everyone and everything else for anything that goes wrong. But the consequence has been a housing boom, followed by a China boom, masking these structural weaknesses in the Australian economy. What are those weaknesses? Again, I need not go to any source other than the same report by the Business Council of Australia. It says:

Australia continues to run a significant current account deficit; exports outside of resources are performing poorly; infrastructure bottlenecks are limiting activity; we are failing to manage key resources such as water; and significant pockets of entrenched community disadvantage remain.

Add to these challenges the impact of an ageing population and slower productivity growth as the benefits of past reforms fade, and many conclude that slower growth in the future is inevitable for Australia.

What an indictment, but the Business Council of Australia is right. It has encapsulated in two paragraphs the very structural weaknesses to which I have been referring over the last few years. At the heart of those weaknesses is Australia’s appalling productivity performance during the early part of this century. When the government could no longer rely on the productivity boom of the 1990s, which was built on the reform program of the previous Labor government, when it was on its own and needing to implement its own productivity enhancing agenda it failed to do so. Again, the Business Council of Australia points to this problem where it says:

More worryingly, labour productivity growth has slowed sharply in Australia.

... ..

This deterioration in productivity performance is a very real concern.

The government should be embarrassed about this. The Business Council of Australia represents the largest multi-state companies in this country, and it has set out in the clearest possible terms the structural weaknesses in this country, the productivity slump that has occurred under the watch of this government and the sorts of economic and social consequences that flow from it. And good on the Business Council of Australia for pointing out that one consequence of this is that social disadvantage is being entrenched, because we have had the capacity in this country to deal with entrenched social disadvantage and yet we have an entire underclass of people who are heavily dependent on welfare or who are in work but are on very low incomes or in insecure jobs. We can do better, but in order to do better we must regain productivity growth and ensure that the benefits of that productivity growth in terms of tomorrow’s prosperity are fairly shared.

The Labor leader, Kevin Rudd, appointed me to the portfolio of shadow minister for the service economy, small business and independent contractors. Again, the Business Council of Australia makes some pertinent observations in relation to services, a long-neglected area of the Australian economy in policy terms,

contributing 80 per cent of the nation's gross domestic product and 85 per cent of all jobs. The BCA says:

While Australia's capacity to maintain competitiveness in manufacturing, agriculture and mining remains important, it is time to recognise that our economic success and prosperity are increasingly linked to the competitiveness of our services sector.

It goes on to say:

Recent trends in the productivity performance of key services industries domestically raise concerns about the quality, effectiveness and competitiveness of services now and into the future.

The reason that the Business Council of Australia is so concerned is, again, because of faltering productivity growth, as that adversely affects the competitiveness of our services sector. Those are the observations of the Business Council of Australia. I agree with them totally.

But let's delve a little more heavily into Australia's productivity story. From the 1950s, Australian labour productivity began a long slide and, because today's productivity growth is tomorrow's prosperity, that long slide in productivity growth had direct consequences for Australia's prosperity and our place in the world relative to other countries in terms of gross domestic product per person, which is one measure of living standards. Between 1950 and 1990, Australia's productivity fell from 180 per cent of the OECD average to a little more than 90 per cent. Australia's standard of living, as a consequence, slipped from fifth in the OECD to 17th. It was that problem that the incoming Labor government inherited and recognised and decided it would deal with through a productivity-raising reform agenda.

Let us have a look at some of the commentary on the economic reform program implemented by the previous Labor government—not commentary by fellow travellers, by people from the Labor side of politics, but by John Hyde, who had been a member of the Fraser party room—that is, a Liberal member for Western Australia during the period of Malcolm Fraser and the then Treasurer John Howard. John Hyde describes what Labor inherited in these terms:

Fraser's policies were a grab bag of popular measures including some that were inconsistent with the core undertakings to restore the economy to health, return the budget to responsible balance and reduce unemployment. He failed to cut stifling regulations, tariffs and licences that favoured the few at the expense of the many.

That was John Hyde, a leading economic dry, describing the economy that the incoming Labor government inherited. Then, when he gave the verdict on the Hawke government, he did so in these terms:

... the Hawke governments advanced the long-term national interest by deregulating the financial markets, floating the dollar, cutting import protection and privatising and deregulating inefficient state-run industries.

... ..

The Hawke administration's deregulated, reduced industry protection and privatised with a will that matched any government anywhere then, or at any time in Australian history. It cut wasteful expenditure and produced substantial budget surpluses.

You would never know from listening to the Treasurer that the Labor government produced substantial budget surpluses. Indeed, the surpluses now as a share of gross domestic product are lower than the surpluses that were recorded by the Hawke government in the late 1980s. So when the Treasurer says, as he did at the National Press Club, that Labor never produced a surplus, he is completely wrong. He knows he is wrong. Labor produced surpluses on many occasions,

including surpluses that were bigger as a share of the economy than the biggest surplus that this government has produced.

I want to examine the impact of the reform program that John Hyde so eloquently described. During the 1990s average annual productivity growth leapt to 2.3 per cent, which was sharply up on the 1.1 per cent of the 1980s. So the reform program worked. There was a huge increase in productivity growth. During the productivity boom of the 1990s Australia's standard of living recovered from being 17th in the OECD in 1990—to which it had plummeted as a result of the sloth and policy neglect of previous coalition governments—to ninth highest in 1999. So it was all working very well. All that was needed was foresight and commitment on the part of the Prime Minister and the Treasurer to sustain that productivity growth and, therefore, to sustain prosperity in this country. But it did not happen. Compare the growth in productivity during the 1990s of 2.3 per cent to what happened subsequently. Between 2000 and 2006 Australian productivity growth slumped from that boom rate of 2.3 per cent per annum during the 1990s to just 1.5 per cent per annum. And it is getting worse.

Work Choices came into effect in March of this year. What was the government's great claim for Work Choices? This was its one item agenda for boosting productivity growth. It is worth having a look at what happened to productivity growth following the introduction of Work Choices.

[Mr Crean](#)—It didn't go up; it fell.

[Dr EMERSON](#)—It didn't go up. You would think it would be disappointing if it remained flat, but it was negative. In the June quarter—that is, in the three months after Work Choices came into effect—productivity fell by 0.2 per cent. That is bad enough, but in the three months to September it fell by 1½ per cent. If productivity fell by 1½ per cent in a year, people would be very worried, but productivity fell by 1½ per cent in three months. So this should be deeply worrying. Yet we had the Treasurer on 1 November saying—this is hard to believe, but he said it; I have doubled checked it—in the parliament:

So the good news is that labour productivity was revised upwards. It shows that it is in line with, or marginally in front of, the last productivity cycle.

So, at a time when productivity was declining by 1½ per cent, the Treasurer was in the chamber saying, 'Isn't it terrific—it is going faster than the productivity boom of the 1990s.' He is the only person in Australia who thinks it is good news when productivity growth turns sharply negative. No wonder there has been no investment program for the future. No wonder this government is reform lazy, because it does not care about productivity growth. It brought in Work Choices because it is an ideological commitment of the coalition government. That is why it did that. It did not do it to increase productivity growth. I do not assert that as a consequence of Work Choices productivity growth fell; what I assert is that Work Choices did not do the trick, it did not lift it, and Work Choices substituted for a genuine comprehensive reform program, because this government is reform lazy and has no time for such a program.

A number of excuses have been made. We heard the Prime Minister yesterday in the parliament say, 'It is the mining sector', because productivity growth is negative in the mining sector and it is dragging everyone down. I ask: what percentage of the economy does mining comprise? Less than five per cent. How can it be that productivity in one of the most capital intensive industries in Australia, which contributes five per cent of gross domestic product, could so pervert productivity growth in the rest of the economy? How could that five per cent tail wag the 95 per cent dog? It just does not make sense, but the government will clutch at anything. It will blame SARS, bird flu, a slowdown in

economic growth when growth is going at about five per cent per annum and international terrorism. It will blame anything and everyone it possibly can. It is never the government's fault.

Another argument is being used as to why productivity growth is so sharply negative—that is, we are very close to full employment and the extra workers that are coming in are not very productive because they have been long-term unemployed. On the face of it you think, 'Maybe that has a bit of force.' But there are 10 million people already working and there might be 50,000 or 100,000 extra workers that have come in during a quarter. How could the low productivity on the part of those workers so affect the overall result when they number perhaps a couple of hundred thousand compared with the 10 million who are already there? The government must be arguing that most of the 10 million have become less productive. If that is their argument, they should say so. They should say that the Australian workers are less productive these days. They are always looking for an excuse.

But there are no excuses. The government has run out of excuses. The OECD and the IMF and the governor of the Reserve Bank have all warned that this is a big problem. In its most recent survey, the OECD warns:

Following a surge in the second half of the 1990s, productivity growth has reverted to its long-run average.

The IMF notes:

Productivity growth slowed in the first half of this decade.

There are similar observations by the governor of the Reserve Bank. The Reserve Bank is now saying that we are going to have to get used to an economic growth rate with a '2' in front of it. That is all because of the sloth of this government. It is only through the election of a Rudd Labor government that we will see the resumption of a reform program and the resumption of productivity growth in this country, locking in the gains that have been achieved and securing Australia's long-term prosperity.

**The DEPUTY SPEAKER (Hon. BK Bishop)**—Before I call the honourable member for Hotham, I would remind the committee that this is a cognate debate covering Appropriation Bill (No. 3) 2006-2007 and Appropriation Bill (No. 4) 2006-2007. The original question was that this bill be now read a second time. To this the honourable member for Melbourne has moved as an amendment that all words after 'That' be omitted with a view to substituting other words. The question now is that the words proposed to be omitted stand part of the question. I call the honourable member for Hotham.