UNDER EMBARGO UNTIL 1 PM

LIFTING WORKFORCE PARTICIPATION: EXTENDING THE REACH OF OPPORTUNITY

Hon. Simon Crean MP

Shadow Treasurer

Australian Business Economists

24 August 2004

Sydney

INTRODUCTION

Economic reform matters. Through it we can lift the economy onto a higher and more sustainable growth path.

But there is a reform malaise that has set in with the current Government.

Despite a 2 year old Intergenerational Report warning of looming economic pressures, there are some who suggest that the reform task is complete, or that all we need to do now is embrace a narrowly defined agenda on industrial relations and tell people they must work till they drop.

The Government has given up on responsible fiscal policy with its recent record pre-election spending spree; it's run out of ideas; it's constantly having to create diversions by either raising wedge issues or providing election bribes; it's time it just got out of the way.

Labor governments have always been reforming governments – the enablers of change in the economy. While governments don't have all the answers, Labor believes that they can make a difference.

The reforms undertaken by Labor in the 1980s and early 1990s to internationalise our economy, deregulate our labour markets, and expose our economy to competitive forces gave rise to a sustained lift in productivity, and underpin the prosperity we now experience.[1]

And our taming of inflation means that the benefits of growth are no longer dissipated through wage pressures.

I find it a bit ironic when I hear John Howard and Peter Costello claim credit for 8 years of economic growth, despite inheriting an economy in the upswing of the current 13 year growth cycle, at the same time condemning Labor for the 13 years that laid the foundations for economic prosperity.

Despite 13 years of economic growth, we are a society under pressure.

While the Government tells them that the economy's never been so good, more and more Australian families are saying: if the economy's doing so well, why am I and my family missing out?

While families are working harder, they are finding it harder than ever to make ends meet.

- They are being charged more for the services they rely on and which underpin a decent society.
- They face the highest taxing government on record that didn't believe that anyone earning less than $52,000 (that's 4 out of 5 taxpayers) deserved tax relief in its recent Budget.
- And they are feeling the pressure of record indebtedness – record housing debt fuelled by Peter Costello's housing bubble, and record credit card debt.

These are the financial stresses that the Government has put families under.

Yet, instead of a forward looking reform agenda from the Government, all we hear are the familiar strains of a fear campaign with warnings of Labor and 16-17 percent interest rates.

---

[1] See Henry, Ken (12 August 2004) *Australia China economic directions – long term trends in the Australian* Economy, delivered at the Australia China Free Trade Agreement Conference, Sydney. Also see Macfarlane, Ian (8 July 2003) *Notes for a talk to the Business Council of Australia Dinner*, Reserve Bank of Australia.

As some leading commentators[2] like Alan Wood and David Koch have already argued – this is nonsense. For one, inflation is structurally lower as a result of many Labor driven reforms. Barring any intervening exogenous shock, this will remain the case.

Second, Labor's commitment to fully costed and funded policies means fiscal policy will not put pressure on interest rates.

Further, in levelling these charges at Labor, Peter Costello misses a crucial point – it has been under his watch that record credit card and household debt burden has been transferred onto the backs of Australian families – putting them under record financial stress, and making them more vulnerable than ever.

When the Government talks about the threat of higher interest rates, the reality is that households have become more sensitive and vulnerable to changes in interest rates as a result of the record debt burden and record debt servicing burden[3] they now face.

Indeed, just this month, the latest Reserve Bank Statement of Monetary Policy reported that the rate of credit growth relative to the growth in household capacity to service that debt was unsustainable.[4]

With no forward agenda and just a scare campaign to prosecute, it is time more commentators took the Treasurer to task about his absurd claims.

A different approach – it's about the long term

Labor has an agenda to relieve the financial pressures facing families.

We will restore services and make them affordable – so that less is taken out of peoples' pockets. We will provide tax relief for those that missed out – putting more money into their pockets.

This will ease the financial pressures facing families, and more.

Our commitments – on services, tax, families and superannuation – are not just about benefits for the individual. They are fully costed and funded. They underpin a broader productivity and participation reform agenda. They are good for the economy too.

In addition, we are bringing to the table a savings and investment framework to transform the way Canberra develops policy, makes decisions, and meets our intergenerational challenges.

We must manage the Budget for not only today but, more importantly, for the greater challenges which lie beyond our 3-year political cycle.

Labor's approach is to assess policy decisions not only through the short-term benefits and relief they provide, but also through the long-term and dynamic effects they bring to the economy.

This is how and why we have put issues like early childhood development and preventative health on the national agenda

[2] See Koch, D (15 August, 2004) *Political scare tactics don't make sense*, in The Sunday Age, page 4. Also see Wood, A (17 August, 2004) *Monetary policies cast from same mould: There is no prospect of interest rates of 17,18 or 20 per cent - here's why*, in The Australian, page 11.

[3] RBA (9 August 2004), *Statement on Monetary Policy*, page 24.

[4] RBA (9 August 2004), *Statement on Monetary Policy*, page 48.

RESPONSIBLE BUDGET MANAGEMENT

For Labor, good economic policy starts with responsible Budget management.

It is why all of our spending commitments are fully costed and funded – ensuring that our Budget priorities do not place upward pressure on interest rates.

To date, Labor's announcements of just over $9 billion in key areas such as education, health, and families have been paid for by savings of the same order.

Our savings have been generated by redirecting Government programs into Labor's better priorities and by cracking down on government waste and mismanagement.

We are **not** about spending more money. We are about spending it more wisely.

After one tough Budget in 1996-97, this is a discipline that the Government cannot claim.

The latest Budget in May, for example, contained a record pre-election spending spree with a Budget impact of $52 billion.

Every cent of it ran down future Budget surpluses.

And since the Budget, whenever they've been in trouble in the polls, they've spent more - more money for energy, for transport, vaccines, childhood obesity, for extending the private health insurance rebate, for national security and regional airports – around $1.7 billion since the Budget and rising.

There was around $1.2 billion spent in the space of a week in the period following the Budget and we've just seen another $500m spent in the last 48 hours. Just watch this space for more pre-election spending from the Government.

And as usual, none of it funded with offsetting savings. Where is this money coming from? All of it from future surpluses.

We are not talking about Labor promises here – this is the Government in action.

Labor is committed to responsible Budget management. It does matter. This is why we have set ourselves hard and fast tests – our Budget Pledge.

Over the next Parliament, this commits us to:

- delivering budget surpluses in each year and reducing net debt;
- reducing tax as a proportion of GDP; and
- reducing spending as a proportion of GDP.

These are tests for good economic governance at this stage of the cycle and we will meet them.

They are tests that John Howard and Peter Costello refuse to match.

But fiscal responsibility only lays the foundation of good economic policy. It takes reform to lift the economy onto a higher growth path, and this is where the real challenge lies.

In previous speeches, I've described how Labor is developing a broader saving and investment framework to meet the nation's long-term economic challenges and our focus on investing in the drivers of productivity and growth.

Today, I want to elaborate on one distinct part of this agenda - to increase labour supply and lift its quality – an agenda based on participation and skills.

PRESSURES ON THE HORIZON

Over the next 40 years, the proportion of the population over 65 years of age is expected to almost double to around 25 per cent.[5]

At the same time, growth in the number of people of workforce age is expected to fall from around 1.2 per cent per annum over the last decade to almost zero in forty years' time. New entrants to the labour market will dry up.

This analysis points to a squeeze on the working-age population. In 2002, there were more than five people of working age to support every person aged over 65. By 2042, there will only be 2.5.

And according to Treasury's 'no policy change' projection, this will leave us with an annual 'fiscal gap' equivalent to 5% of GDP by 2042.

This is not a scenario that we should aspire to. It is not the legacy we want to leave for the future.

And yet it is the scenario before us if we refuse to front up to the real reform challenge.

The message is simple: the intergenerational challenge may be about the long-run, but it starts today.

The Treasury has furnished the nation with a report highlighting the challenge. What the Government lacks is a strategy to meet it.

Labor is no stranger to the intergenerational agenda. After all, we introduced the nation's biggest ever intergenerational policy, compulsory superannuation.

When we did, the conservatives opposed us. While it was opposition to intergenerational policy back then, today the conservatives preside over inaction.

Labor is building an economic framework to answer the challenges we face by lifting productivity, by working smarter not just harder, boosting participation, and by reforming the supply side of the labour market.

When productive workplaces depend, more than ever, on the interplay between labour and capital, Labor's focus will remain on the enterprise; on greater co-operation in workplace relations; greater flexibility in the way we work through better work and family policies; and on a greater emphasis on skills and innovation.

This is the true aspirational agenda; for workplace flexibility; for greater productivity and competitiveness; and for sustained economic growth.

WORKING SMARTER

It is Labor's view that there is nothing more important to the productivity of the nation than the productivity of our people. This is why education, training and skills underpin our economic agenda.

Mark Latham often says that a good education is a passport from poverty. It is also a pathway to productivity. Education is one of those public goods that builds both a stronger economy and a stronger society.

When we lift the skills of our workforce, we not only support social inclusion but lay the basis for higher productivity and higher participation.

---

[5] See *Australia's Demographic Challenges*, Commonwealth Treasury, 25 February, 2004.

There are four strings to Labor's education and skills agenda.

First, the new class of micro reforms in education must begin with early childhood development.

- ♦ As I have already argued elsewhere, the evidence tells us that when we stimulate the mind early, the benefits last a lifetime. When we invest early[6], we save on expensive remedial programs later[7].

Second, it must extend to making better school outcomes a policy priority and arrest the emerging pattern of locational disadvantage[8] – where the rising correlation between postcode and poor educational outcomes is becoming evident.

- ♦ That is why Labor will provide the resources necessary to lift the schools that need it most – both in the public and private sector.
- ♦ Indeed, ANU growth economist Steve Dowrick[9] argues that if we can increase the average years of schooling by 0.8, to make us comparable with the US and Scandinavian countries, we can lift economic growth by 0.3 percentage points per annum. This not only supports social inclusion, it lifts productivity and growth too.

Third, it must ensure that TAFE and University are accessible and affordable.

- ♦ It's why Labor has invested so heavily in policies that will see the Commonwealth pay the TAFE fees of secondary students, create 20,000 new TAFE places, and create 20,000 new university places.

And fourth, policies that improve our skills base through formal education and training need to be complemented by specific initiatives to boost participation of those groups that need it most and through a commitment to lifelong learning. This is why Labor has developed active policies to:

- ➢ connect our at-risk youth to the new opportunities in study or work;
- ➢ tackle the reality that retrenchment means retirement for too many older workers; and
- ➢ help people balance work and family responsibilities, and support the participation of women in the workforce.

These are active policies that support productivity, and enable participation of the groups that are currently under-represented in the workforce. They will help better match labour supply with labour demand and lift what economists refer to as 'effective labour supply'.

They are policies that extend the reach of opportunity.

---

6 See Heckman, James (2000) *Policies to Foster Human Capital*. Also see Young, Mary Emming, *Early Child Development: Investing in the Future*, The World Bank.

7 See Karoly, Lynn A. Peter W. Greenwood, Susan S. Everingham, Jill Houbé, M. Rebecca Kilburn, C. Peter Rydell, Matthew Sanders, James Chiesa (1988) *Investing in Our Children: What We Know and Don't Know About the Costs and Benefits of Early Childhood Interventions*, RAND publications

8 For example, see OECD Policy Brief, Education and Equity, February 2004.

9 Dowrick, Steve (April 2002), *Investing in the Knowledge Economy: implications for Australian economic growth*, Australian National University.

GETTING WORK INCENTIVES RIGHT

While we are becoming more aware of the basis of the participation challenge – with an ageing population – the scale of the challenge is not well understood.

Indeed, a recent Treasury paper[10] suggests that if we can increase the participation of under-represented groups to that of the top one-fifth of OECD nations, we will go a long way towards meeting our intergenerational needs and the associated fiscal gap.

Meanwhile under the current Government, the harsh reality is that there has been a 17% increase in the number of people on welfare since 1996. This is a disastrous social policy outcome.

Aside from being a waste of human potential, and a dead weight loss for the economy as economists might describe it, joblessness is the single biggest driver of poverty and social exclusion.

It cuts across our notion of a fair society, and its effects cut across generations. Unless we want a massive number of young Australians to inherit welfare dependence, poverty and underachievement, we need to address it- and address it now.

With labour and skill shortages looming, and in contrast with the Government, Labor sees participation[11] and skills[12] as priority areas for <u>economic</u> reform.

But even with the best policies to boost the skills of our population – to give people a start in life and equip them with the tools to manage change - these will have limited impact if we fail to address the way our tax and welfare interface stands in the way of those who wish to work.

There is nothing more inimical to the notion of 'an aspirational society' than a system whereby people work hard, only to find the tax and transfers system working against them.

And there is nothing more inimical to the notion of a 'fair go' than a system where people want to choose work over welfare, but lose out by doing so.

The incentives inherent in our current tax and transfers system punish rather than reward work.

This is a situation that needs to be turned on its head. We need to encourage work rather than deter it, and we need to reward effort. We need to make work pay.

Leading into the May Budget, the Treasurer said he wanted to address these work disincentives – having previously said that it was one of his priorities.

But the Budget turned out to be another wasted opportunity.

In the end, it was a Budget that wiped $52 billion off the bottom line, but reinforced the barriers to workforce participation – an astonishing achievement for any Treasurer.

---

[10] Gruen, David & Matthew Garbutt (April 2004), *The fiscal implications of raising labour force participation or productivity growth*, Commonwealth Treasury

[11] Indeed, Gruen and Garbutt (2004) underscore the importance of this agenda in meeting the intergenerational challenge. They model three alternative scenarios to lift growth and productivity (and close the 'fiscal gap') and conclude that ".. the largest fiscal improvement relative to the IGR occurs for the high participation projection." (p 22)

[12] Also see Eslake, Saul (September 2003), *Education and the Economy*, Address to the Association of School Bursars and Administrators 2003 Annual Conference.

With a spend of this order - $35 billion on tax and family payments - you'd think he could get it right.

The Melbourne Institute of Applied Economic and Social Research, in looking at the effects of the Government's Budget[13], concluded that while the increases in the top two tax thresholds had a positive impact on participation, these benefits were wiped out by the negative effects of the government's family payment changes.

It was estimated that the Government's changes to family benefits would encourage some 20,000 people to leave the labour market altogether. They are like putting up a massive barrier in front of those - women in particular - who want to enter or re-enter the workforce.

Subject to the resources available, providing financial relief to Australian families – particularly those earning less than $52,000 - is not difficult.

Our real challenge is to use the opportunity to drive economic reform – to encourage greater workforce participation; to reward hard work; to lift productivity and enhance greater economic flexibility.

It is an agenda for reform that stands in contrast to the current Government's pursuit of simply enhancing middle class welfare.

This lies at the heart of labour market reform and workforce participation. It is what Labor will be addressing when we announce our tax and family policy.

For Labor, it is not just about addressing the quantum of dollars in the pocket, but about driving reform to boost participation and unleash its dynamic benefits through the economy.

Labor's agenda – based on reforming the supply side of the labour market – highlights the difference between a Labor Party that wants to drive the next wave of economic reform, and a government that hankers for the status quo.

Conclusion

Labor is committed to an agenda that is based on the productivity and participation of our people.

While the Government has given up on reform, it has reverted to form – playing the politics of fear. In contrast, I'll keep working hard with my colleagues to bring a longer-term perspective to public policy, to impose and meet a new standard of Budget responsibility, and to develop a tax policy that provides both relief for the individual and dynamic benefits for the economy.

Labor has always been the party of reform in this country. We have been behind the big changes that have taken our economy and our society forward. We will continue the job.

Higher productivity and higher participation can lift the economy onto a higher growth path, but it won't happen without reform. And it won't happen without a change of government.

This is what a Latham Labor government means when we talk about building prosperity with a purpose.

Thank you.

---

[13] Buddelmeyer, Hielke; Peter Dawkins, & Guyonne Kalb (May 2004) *The Melbourne Institute Report on the 2004 Federal Budget*, The Melbourne Institute of Applied Economic and Social Research.