



Speech by

Dr DAVID WATSON

MEMBER FOR MOGGILL

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APPROPRIATION (PARLIAMENT) BILL
APPROPRIATION BILL

Dr WATSON (Moggill—LP) (Leader of the Liberal Party) (12.03 p.m.): It gives me pleasure to rise and speak to the Appropriation Bills. Mr Deputy Speaker, when the Leader of the Opposition was speaking about the Office of Cabinet, my thoughts turned to the member who preceded you in the chair as Deputy Speaker, the new member for Logan. I could not help but think about how nice it must be for him to move from being one of the guards to one of the inmates. We welcome him.

Mr Hamill: Speak for yourself; you may consider yourself an inmate.

Dr WATSON: No, I was thinking about those who are captured on the Government side. It is nice to see him in the Chamber and elected as a member in this House.

An honourable member: Is he the one who held his hand up?

Dr WATSON: Was he the one?

Mr DEPUTY SPEAKER (Mr D'Arcy): Order! I suggest that the honourable member get on with his speech.

Dr WATSON: As the Leader of the Opposition has indicated, this is a coalition Budget. It has been updated because of recent information in respect of revenues and outlays, but basically it is a coalition Budget. However, it is a coalition Budget without the coalition policies, without the coalition's private enterprise initiatives and without the coalition's management expertise to implement it. Of course, that is one of the aspects that the people of Queensland will notice over the next 12 or so months.

Today in this contribution to the debate on the Appropriation Bills I will discuss four different aspects of the Budget. Firstly, I will discuss global economic conditions. The changing global economic conditions have represented a crutch for the current Government, a mechanism whereby it can move away from the unemployment prediction that the Leader of the Opposition so skilfully explained a moment ago. Secondly, I will discuss the State economic conditions and show how they have changed since the May Budget that was brought down by the coalition. Thirdly, I would like to remind the House and particularly the new members of the legacy that the previous coalition Government was left when Labor left Government.

Mr Gibbs: Oh, here we go.

Dr WATSON: I realise that the Minister has a short-term memory. I will help him remember the legacy that we were left. Finally, I will analyse some of the issues raised by the State Budget.

The Premier and the Treasurer want to discuss the Asian crisis. I recall the statement made by the Premier that, on election day, as he visited the election booths, a message came over his pager that Japan had fallen into recession. Members of the House should have known and anyone who has read financial papers over the past couple of years would have realised that Japan, as well other large parts of Asia, would decline some time before 13 June. Japan reached its highest point in terms of gross domestic product growth in November 1995. From then on, the figure was falling. It went negative in November 1997.

Mr Hamill: That peaking growth in 1995 was a bit of an aberration.

Dr WATSON: No, it was not. The Treasurer should look at the graphs. It was going up for some time, it peaked and then came down very quickly over the next two years to go negative in November 1997. It was not a surprise. The financial problems associated with the banking crisis have been going on in Japan for about eight years. It was nothing new. It should not have been a surprise to anybody who followed financial affairs that Japan was becoming negative, was negative and was then in recession. That was true for most of Asia. The fact that the Government is now trying to use that as a new piece of information that provides an excuse to walk away from its commitments for unemployment is simply unreasonable.

A second negative that was relevant in 1997 was weakening retail sales. From 1996 through to 1997 when we were in Government, retail sales fell quite dramatically from a growth rate of nearly 4% per annum to virtually zero. In 1998, that growth rate is picking up. The kinds of issues that the Government might use as an excuse to walk away from commitments because it has been caught by surprise have been turned around. The same applies to the volatility of the share markets. Certainly the share markets and exchange rates have been volatile, but the effects have not been all negative. I will return to that point and particularly the exchange rate in a moment. The Government wants to use those factors as negatives, but there have been some significant positives also.

Finally, we hear about declining tourism numbers and how that is affecting the Queensland tourism industry, and how the weakening of the international economy is leading to slower export growth. I am going to address both of those issues in a moment and refer to some of the items in the Treasurer's Budget papers which, far from being negative compared to where we were in May 1998, are positive. Let us look at some of the positives that are occurring in the world. There is continuing strong growth in the United States and Europe. On a trade weighted basis, that has led to a positive position for Queensland exports, and that is recognised in the Budget papers. In fact, on a trade weighted basis, the growth in exports is somewhere around 2%. When we look at the Treasury documentation, we find that most of Asia is expected to be positive, Europe is expected to be positive and North America is expected to be positive. The only slight negative is Japan.

Mr Hamill: What about the rest of Asia?

Dr WATSON: If the Treasurer looked at his documents, he would see that, in terms of growth, he has Asia as a positive. So, again, the rhetoric that the Treasurer used is simply not backed up by the facts in his own documentation.

Of course, as the Australian dollar has weakened vis-a-vis the European and United States currencies, we have started to have a shift in our export and tourism markets. The fall in tourism numbers from Asia has been compensated for by rising tourism numbers from the United States and the European countries. The interesting thing about that is that visitors from those countries tend to spend a longer time here rather than a shorter time, which is the tendency with visitors from Asian countries.

Over the past few years not only has the tourism industry benefited in that sense but also our exports have become far more diverse. When it comes to trade with North America and Europe, the weakening dollar has made our exports more competitive. Added to that is the very aggressive attitude that was adopted by the coalition when it was in Government in terms of expanding and diversifying our exports.

Mr Gibbs interjected.

Dr WATSON: I remember the disparaging remarks that were made by the Minister who just interjected and other Ministers about the number of trips that the former Minister for Economic Development and Trade made to develop significantly our ties with China, which is continuing to be a significant contributor to world growth and to Queensland's economic position, and to the Middle East. The then Premier, the current Leader of the Opposition, re-established the Queensland trade office in Los Angeles to ensure that Queenslanders had access to the North American market. That office was closed by the previous Labor Government as it retreated from North America and put all of its faith in Asia. If the Borbidge Government had not been doing the things that it was doing, we would be suffering a lot more. The Borbidge Government beefed up the trade office in London. The former Labor Government wanted to close it down.

Mr Borbidge: Ran them down.

Dr WATSON: There is no question about that. The former Labor Government ran them down, and during the term of the Borbidge Government they were beefed up.

Mr Borbidge: We opened Shanghai, Jakarta and Semarang as well.

Dr WATSON: As the Leader of the Opposition says, we opened up a series of offices in Shanghai, Jakarta and Semarang as well. That was all part of the diversification strategy, and as we come into a period of economic uncertainty that strategy is paying off.

In addition, there has been significant growth in Australia's internal economy. Building construction continues to be high, motor vehicle sales are continuing to increase and we have had increases in household expenditure, which has been substantiated by a growth in the employment rate of 2% and growth in real wages of 1% and 2%. Of course, that has come about because the Federal coalition has helped to control inflation in Australia and its economic policies have brought interest rates down significantly—to their lowest level for 20 years or 30 years. Those things have all added to people's disposable income and they are strong positives that continue to help the Queensland economy and the Australian economy. So what is happening in Asia is far from negative; there are a lot of positives, and they are some of the factors that would allow a good Government to reach appropriate employment targets. One should not be as pessimistic as the Government wants to be.

This morning, in his address to the House Banking Committee, Alan Greenspan was fairly upbeat about the US economy. He did not rule out coordinated efforts across the world in terms of lowering interest rates. He did not walk away from the responsibility of the United States to make sure that the rest of the world did not fall into recession. However, there was no urgency in his evidence before the House Banking Committee, because he understood that the United States economy was continuing to be robust, was continuing to develop, was continuing to be a mainstay in the world economy and that there was not any necessity right at this moment to move. When one considers the leading indices in the United States, Alan Greenspan's evidence before the House Banking Committee earlier today reinforces the view that the United States economy continues to be strong and will continue to be strong in the foreseeable future.

So there are some strong elements in the world economy, and that gives us a fair degree of optimism that the Queensland economy, properly managed, and the Australian economy, properly managed, will be able to sustain a reasonable growth rate in the future. However, I must admit that when I looked at some of the things in the Budget that was brought down by the Treasurer, I saw that, compared to many of the assumptions that were made in the coalition's Budget, particularly in the areas of private investment, total investment, public final demand and gross State expenditure, this Government tended to be less optimistic—predicted lower growth. The one area that I thought stood out as being significantly different was the area of net exports. Back in May, the coalition forecast that net exports were expected to reduce the growth in the Queensland economy by some 1%. However, three months or four months down the track, I see that Treasury is now predicting that net exports will add to our economy rather than detract—a turnaround from minus 1% to 0.5%.

Mr Hamill: So you think our growth forecasts are too modest.

Dr WATSON: I will get to that in a moment. Let me just say to the Treasurer that that is a significant turnaround and gives the lie to the rhetoric that his Government has perpetrated that it is the export area, it is the international crisis, that is going to drive Queensland down and allow the Government to walk away from its election commitments. The Government's own Treasury statements indicate that net exports are going to be a contributor to the growth of the Queensland economy rather than one that will contract the Queensland economy.

The element of the Budget that is perhaps the most disappointing for the community—and the Leader of the Opposition has referred to this matter and I am going to refer to it in a fair bit of detail—is the prediction for average unemployment.

Mr Hamill: What about the growth forecast?

Dr WATSON: I will get back to the growth forecast; the member should not worry about that. The Government's growth forecast is 3.5% and I will talk about in a bit. At the moment, I am more interested in talking about the unemployment figure.

With all the rhetoric that we heard during the election campaign and with all the things that the Treasurer has been saying before he delivered the Budget, one would have expected that the Government's average unemployment rate in this particular financial year would have been lower than what the coalition predicted. What is it?

Mr Hamill: The trend is important.

Dr WATSON: Whenever he gets into trouble, the member tries to change the terms that he is using. Let us be quite frank: the important point is that the average unemployment rate that the Government expects for this year is precisely the same as the rate that the coalition predicted, which is 8.75%. In other words, on average, the Government is not going to reduce the unemployment level one iota. Not only that, the Government expects a reduction in employment growth from 2.5%, which was a prediction of the coalition Government, to 2.25%. With all the rhetoric and with all the obsession—the Premier keeps saying, "I am obsessed with jobs, jobs, jobs"—and with all the things that the Treasurer says will supposedly have an impact on employment levels in this State, when it comes to the key elements of the Budget, average unemployment has stayed the same at 8.75% and employment growth has fallen from 2.5% to 2.25%. Of course, the Treasurer says that unemployment growth is going down, gross State product growth is going down—

Mr Hamill: You're not saying that, are you?

Dr WATSON: I will get to what I am saying when I get to it. I presume that the participation rate is going to go up, again because the Treasurer's rhetoric states that he is trying to bring disillusioned people back into the work force yet, on average, unemployment stays at 8.75%.

Mr Hamill: The participation rate is already high.

Dr WATSON: Is it going to go higher?

Mr Hamill: I don't think so.

Dr WATSON: I believe that at the breakfast yesterday the Treasurer said that he expected the participation rate to go higher.

Mr Hamill: I did not say that. If you paid your money, you would have heard what I said.

Dr WATSON: I do not have to. I get reports back. You were saying that all of your policies were directed towards increasing the participation rate.

Mr DEPUTY SPEAKER (Mr D'Arcy): We have a rule in the House that members have to address other members by their correct titles. I refer to both sides of the House.

Mr Hamill: The honourable member for Moggill should not take advice from the former Treasurer's advisers.

Dr WATSON: The honourable member's rhetoric indicated that his policies were going to allow increases in the participation rate and that that was what he was trying to do to get people back into the work force.

Mr Hamill: I didn't say that.

Dr WATSON: The member can correct me at a later time.

As I have said, I will refer to some of the conditions that we were left with when we came into Government. It is worth repeating some of those things because one cannot consider where our Budget was in May of this year without considering the way in which we got to that position.

When the coalition came to Government in 1996, the first thing we did was to commission an audit of the Queensland financial position. That audit was carried out by a committee of very distinguished people, including Dr Vince FitzGerald who was the chairman. The committee made a couple of very pertinent points. First of all, the committee indicated that, if one continued with the policies of the previous Government with respect to expenditure, over time we would run into a significant operating deficit on an accrual basis and that policy changes had to be made in order to ensure that that did not occur. In a cash sense, under the previous Labor Government recurrent expenditure as a proportion of total expenditure was continuing to rise. One cannot go on doing that *ad infinitum*.

The second point, which had been made by people such as Marc Robinson, is that infrastructure in Queensland was running down because the previous Labor Government had failed to invest sufficiently in economic and social infrastructure in this State during the time that it was in power. While that does not have an immediate impact, over time it has an increasingly serious and negative impact upon the ability to increase standards of living and wages, both in the State and country.

The third thing that the coalition Government was faced with upon coming to Government—and this is one of the reasons that the previous Labor Government was thrown out of office, despite its massive majorities in earlier elections and, of course, it is one of the things that the current Treasurer helped to oversee—was the massive slashing and burning of the bush. As part of our Budget strategies, we governed all of Queensland and not just particular parts of it. During that period we had to implement a major program to re-establish infrastructure in the bush.

Mr Gibbs: They didn't believe you.

Dr WATSON: They did not vote for you, either.

Mr Hamill: The trouble is, you think that Moggill is the bush.

Dr WATSON: It has more bush in it than Ipswich, but that is irrelevant. The coalition had to address those three issues.

The last Budget that the coalition Government brought down was a continuation of our first two budgets, each of which addressed those issues. First of all, we reversed Labor's trend of running the State dangerously close to a deficit on a recurrent basis and certainly on an operating basis in an accrual accounting sense. We reversed that trend in our first Budget and it had significant impacts in our second and third Budgets.

The second issue that we addressed, and it was an important issue, was infrastructure. We established a \$1.6 billion infrastructure development program. Basically, we allocated an extra \$200m in the first Budget, \$600m in the second Budget and about \$800m in the last Budget that we brought

down. That was funded by the significant changes that we made to Suncorp and QIDC, which was beneficial to the State because we started to capture all of the value that was in those entities. We were able to responsibly transfer some of that value to developing infrastructure throughout the State, including hospitals, roads, police stations and so on.

The third thing that we did and which topped our last Budget was that, as the Leader of the Opposition said, we ensured that all of Queensland was taken care of. We were starting to replace infrastructure such as the courthouses and police stations. The former Attorney-General was very strong in that area throughout the State. We started to replace basic infrastructure. Some 58% of the funds in our last Budget was spent outside the Brisbane statistical district, although not because that was our only emphasis. Importantly, there was an equal emphasis across the State to try to redress some of the things that had been neglected by the previous Labor Government.

Mr Beanland interjected.

Dr WATSON: They closed courthouses and, of course, railways and such things that they had no interest in.

Mr Borbidge: I think that at least 30 courthouses alone were closed.

Dr WATSON: My colleagues interject with some of the more relevant statistics.

The point was that that had been slashed and burned over the previous six years of the Labor Government. It was one of the issues that we started to address in Government and it was reflected in the last Budget. It has been changed in this Budget, and I will get to that in a moment.

Mr Hamill: Get back to your economic growth forecasts.

Dr WATSON: I will get to those.

When we look at the details in the Labor Budget, we see some disturbing trends that indicate that we are heading back to where we were before. For example, Table 5.4 in Budget Paper No. 2, Consolidated Fund—Forward Estimates by Policy Area, indicates that in major policy areas such as law, order and public safety and education and health recurrent expenditure as a proportion of total expenditure has risen by about half a per cent. The only large department where it has fallen is Transport. The Leader of the Opposition mentioned the growth in general public services. However, I notice that Table 5.4 is different from Table 4.3 in our previous Budget, because the Government has included the reinvestment of earnings from investments relating to superannuation. I would have thought that that was not an appropriate place to include it, because it biases the way in which those statistics are interpreted. Table 4.3 in our Budget paper explicitly excluded the reinvestment of earnings from investments related to superannuation. That is missing. I suspect that explains the substantial increase in funding for general public services.

Typically, when the Government wants to try to hide something it changes the accounting mechanisms to do so. I would have thought that that was a somewhat inappropriate mechanism. The general point—and I assume it relates only to general public services and not other areas; it may apply to some economic services—is that three of the four major departments have had an increase in recurrent expenditure. That is something at which individual shadow Ministers will have to look in the Estimates committees. That is a portent for another dangerous trend. As I said earlier, the Commission of Audit was very concerned that, under the previous Labor Government, we were going to get into trouble in those areas.

We find a second issue when we look at the Budget figures in detail. I will not go through the Budget in detail now; I realise that is the responsibility of Estimates committees. The current Government placed a lot of emphasis on its Capital Works Program and its headline spending of about \$5.1 billion. However, as we see in Budget Paper No. 3, there is an anticipated carryover of \$300m in the capital works budget. The expected expenditure of \$4.8 billion is \$25m less than that proposed by the coalition in its May Budget. This illustrates the difference between our approach and that of the Government. When we put together our capital works budget, we fully intended to spend the amount that we put forward. The mere fact that we may not have spent all of our capital works budget in the past—

Mr Hamill: Only about \$450m.

Mr Borbidge: We spent more as a proportion.

Dr WATSON: We had record expenditure in capital works. But at least when we put our documentation forward we were actually pushing the departments to spend it. The Government has a \$5.1 billion Capital Works Program, and it admits up front that it is not going to spend \$300m of it. I will be amazed if it ends up spending the other \$4.8 billion.

Table 5.5, Consolidated Fund—Forward Estimates by Department, is intriguing. As indicated in the Forward Estimates for Treasury, this year the Government is carrying over \$34.3m in capital. In 1999-2000 it will carry over \$189.5m. Footnote (v) to that table states—

"The negative capital figures in 1998-99 and 1999-2000 are due to the inclusion of a whole-of-Government capital contingency reserve provision which recognises that whilst individual agencies may budget to fully expend their capital works allocations, on an aggregate basis, there is likely to be underspending, resulting in a carryover of capital allocations."

That tells me that not only does the Government intend to underspend its headline capital works budget in 1998-99; it intends to underspend even more further out. It is building into the budgetary process a planned underspending, which will increase quite substantially next financial year by at least \$150m. What about beyond that? The Government does not even rule out underspending beyond that. The footnote continues—

"For 2000-01 and 2001-02, such a provision is considered to be unnecessary at this time, as full provision has yet to be made in Departmental budgets for new capital projects to replace projects which will be completed over this period."

The Government is not even saying that this is a short-run phenomenon. It is completely subverting the budgetary process to build in ever-increasing carryovers. To say the least, that is a phenomenon in the accounting and budgetary process. For the benefit of the honourable member for Indooroopilly—and I guess also for those members who have not bothered to read the Budget papers yet—I point out that I am referring to Table 5.5 on page 144 of Budget Paper No. 2.

The problem in the bush that I mentioned has already been covered by the Leader of the Opposition. He also pointed out the reduction in this Budget—and again it is only a small reduction, but it is concerning that we are seeing the emergence of this trend—in the amount being spent outside Brisbane, which has gone from 58% to 56%. That is not a significant amount, but it would be of concern if this represents the beginning of another attempt to disadvantage the bush—rural and regional Queensland. We hope that we do not see a continuation of this trend in future; otherwise, when we get back into Government, we will have to try to fix it up yet again.

Mr Borbidge: The remote areas electricity trial got the axe under Mr McGrady, too, out at Boulia.

Mr McGrady: We were still the only Government to do anything at all about power.

Mr Borbidge: You axed it.

Mr Beanland: You gave it the chop—chop, chop.

Dr WATSON: The Minister axed it.

I turn now to another issue arising from the Budget papers that reflects the difference in philosophy between the coalition and the Labor Party in relation to the Budget process. In last Saturday's Courier-Mail there was a letter from a Bob Brinsmead of Duranbah, New South Wales. Bob wrote—

"Those who don't know how jobs are made are sillier than those who don't know how babies are made. To make a job for someone, I have to start an industry—a farm, a processing plant, tourism venture, service industry. If no one starts an industry, no one gets a job. Simple."

I could not have said it any better. I think there is a fundamental difference between the Labor Party and the coalition when it comes to the philosophy of job creation. We believe that the best way to create jobs is to give incentives to job makers, yet Labor believes that the best way is to create them through making the Public Service or other sectors associated with that bigger. That is the essential difference between the employment initiatives of the coalition and the employment initiatives of Labor.

If we look at the employment initiatives of the coalition, we see \$63m going to revenue concessions, land tax and reductions in stamp duty—things which were important to business, which lowered the costs of doing business and therefore allowed business to expand and hire more people. We had about \$52m going to improved economic development, again to assist small business, to the promotion of mineral and petroleum exploration and to the development of information technology and communications. We also had some money going towards new apprenticeships programs.

What do we see under Labor? We see money being directed towards additional public sector apprenticeships. We see these make-believe jobs—9,000 job placements of three to six months on community and environmental projects. This does not provide real jobs for a real future. They are short-term jobs in order to try to meet the election commitment of the Treasurer and the Premier.

It is interesting to note that the current Labor Government predicted an extra 1,000 jobs from \$25m less in capital works projects. How will it do that? I think the answer can be found in the Budget Highlights and elsewhere throughout the Budget documentation. The coalition attempted to provide long-term jobs in the private sector. Labor has cut down the expected number of long-term jobs coming out of its Capital Works Program and is replacing those jobs with a larger number of part-time or three-

to six-month jobs. I think that is a cruel hoax on people. It does not provide the basis for development and a long-term future. It provides a short-term fix for purely political purposes.

The Budget will be looked at in some detail in the Estimates committee process. We will be examining in greater detail some of the inconsistencies I have already pointed out, along with some of the implications of those things. We maintain our commitment to Queensland to provide the proper economic and fiscal environment in which to develop long-term, creative jobs in our economy, rather than short-term fixes.

I think the most disappointing aspect for all Queenslanders, despite the fact that the macro elements of the Budget are the same as the Budget brought down by the coalition in May, is the failure to address the issues which Labor made a central part of its election commitments, that is, the issues of unemployment and of trying to ensure that we have sustainable jobs.

Mr Hamill: Let's get back to the economic growth forecasts.

Dr WATSON: My prediction is that economic growth will be closer to the 3.75% that we predicted.

Mr Hamill: So you reckon unemployment will come down further?

Dr WATSON: We are talking about predictions. I said that it will be closer to the 3.75% that we predicted than to the 3.5% that the Treasurer predicted.
