



Speech by

Hon. J. FOURAS

MEMBER FOR ASHGROVE

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BUDGET SPEECH 2002

Hon. J. FOURAS (Ashgrove—ALP) (12.13 p.m.): I am pleased to take part in this budget debate. The member for Moggill, who is this parliament's most ardent pro-market advocate, and others decry the continuing decline in capital works expenditure. In fact, the member indicated that it had declined some \$485 million over three years. At the same time, the member criticised the broadening of the payroll tax base, a base which is by far the lowest in Australia, as well as urging the staged removal of land tax. What do we have? Spending on capital works going up and taxes going down. There will be only one outcome from the opposition's logic, that is, a complete disservice to liberty. One is entitled to ask members of the opposition where they would find the \$460 million and the lost land tax revenue. Which services would they cut? As a member of the Labor Party, I am proud to state that the true test of a democracy is the extent to which society minimises social disadvantage. The more it minimises social disadvantage, the more democratic it is; the less it does so, the less democratic it is. I am proud of Treasurer Mackenroth's budget in terms of how it looks after people in need. We must understand that, in respect of providing services and public goods, they are a great equalising force in our society. The user-pays principle may be all right for some people, but it does not allocate resources in an adequate way to people in need of social justice.

After years of spending less on services than other states, Queensland has now achieved parity with the national average in the areas of health, education and families—a proud achievement. A \$391 million windfall from stamp duty will fund a \$400 million four-year priority infrastructure package. That is just a wonderful use of that money. This will include \$50 million for health technology projects, \$40 million for police information systems and capital works, and \$1,500 million for school infrastructure. The Labor governments of both the Goss and Beattie years can be very proud of what they have done to maintain our schools. Under Goss we had the Building Better Schools program. All the primary schools in my electorate have developed so greatly. I remember when the electorate of Ashgrove was held by the Liberal Party in the days of National Party governments and how, when I became the member for Ashgrove, the schools were in shocking disrepair. Now we have the Beattie government's Secondary School Improvement program. There will be \$3.1 million for The Gap State High School, which will be absolutely wonderful. I think back to the petty politics of the past, but we are going to treat our schools equitably and on the basis of needs.

The second issue to which I refer is families. The fact that \$188 million over four years will be allocated in this area is the most wonderful budget news that I have heard since entering parliament. I can remember reading a report of the Director of Children's Services, Graham Zerk, that stated that we could not do what was needed because of gross underfunding. He referred to our obligation to protect children from neglect, abuse and exploitation; but we could not meet our responsibilities in that regard. What did the National Party government do to Mr Zerk? It sacked him. When I was involved with the homeless children inquiry, I can remember a submission from the state government that stated that most of the children who were homeless had at one stage been wards of the state. What a dreadful indictment on the system! We are there to protect these children. In fact, we are worse parents than the worst parents. That was really a dreadful indictment on us.

After the Labor Party lost government in 1996, I remember going to Townsville with Anna Bligh and Kenny McElligott and talking to people in disability services. They were absolutely appalled by the fact that the Labor government had done nothing for them during those years. It was not that we did

not provide programs, but they were more concerned that we did not even listen to them. We did not hear what they were saying. After we lost in 1996, Mr Lingard became the Family Services Minister and promised the world. I remember that he put out offers for funding for disability projects. The first round offer of funding applications amounted to \$36.7 million. Mr Lingard provided funds of less than \$2 million. What did he do the next year? He did not even put out an offer. At least as a result of Anna Bligh's committee, which I was on, we put forward a budget for 1998 that had \$40 million more for disability services, supported by Peter Beattie and this Labor Party. This is really indicative of the fact that this Beattie Labor government has a heart.

I am really very pleased to be here. I listened to the Minister for Families speak yesterday about the need for effective prevention and early intervention. I spent nine years as shadow minister in the area of families. I and others have been talking about this issue since time immemorial. We will increase the expenditure on intervention and prevention from 13 per cent to 25 per cent of the budget over the next five years. We must be careful about how we spend the money. We must identify the risk factors. We must reduce the likelihood of families falling into crisis. Of course, we must have a process to make sure that this is a cost-effective process in the long run. In the long run, that will reduce the burden on corrections, law enforcement and mental health. In the long term, prevention is really cheaper. I am glad that we have taken this philosophy. We have freed up money to spend in other areas.

The non-government sector is something in which I have been involved all my life. I can remember starting a community centre in East Brisbane. I, too, believe in community development, the concept of people in the community getting together to work hard and to fundraise. That is a concept of social justice. It is a concept of providing equity. It is a wonderful concept of social justice. We should value that partnership with the community and accept the social justice concept of the community development model in this budget, because it is imperative. We should provide leadership. At the moment, I am involved with the North West Accommodation Service, a housing service for young people. From talking to these people, I am aware that they do not rate their poverty just in terms of the lack of housing or of resources; it is a problem in terms of relationships. Community groups need to address this. For example, we have fundraised with some young people to buy them computers so that they can do grade 12. Some of them do extremely well. They just need a helping hand. We as a government have to help communities provide that helping hand.

I refer to the issue of youth workers in high schools. I was co-author of the Burdekin report into homelessness. We saw and understood that the schoolyard was one of the best places to attack homelessness. We are doing something about that. We are providing \$40.3 million over three years, starting the year after this, so that youth workers can divert young people from homelessness, as recommended in the Burdekin report.

I want to conclude by talking about the issue that has most excited people about this budget, and that is the fact that we have a deficit. Of course, that came about because we received more than \$1 billion less on the return on our surplus \$13 billion of financial assets than our budget estimate. I want to talk about the danger that I see in the future as to the returns that shareholders are going to get on their investments. The concept of shareholder value, which dominated management processes in the USA during the 1990s, should be ringing alarm bells for people with equity in American shares. Unfortunately, that will also impact on people who have shares in Australia.

In that whole concept we have the interest of managers being aligned with that of shareholders through the use of stock options. Managers are given these stock options. The more those shares increase in value, the more they are cashed in. Within 18 months, they get more shares. In that process of building share value we have a focus on core business. So companies get rid of any business that is not core business. We have the use of financial engineering to reduce the corporate cost of capital and an emphasis on the business's ability to generate cash. That means that we have the engineering of debt.

In the 1990s corporate takeovers were invariably justified on the grounds that the shareholder value rose to an unprecedented peak. Most of those takeovers ended up destroying value, as evidenced by the hundreds of billions of dollars of goodwill that has been written off by acquiring companies over the past year or so. One-third of the largest international takeovers that were agreed at the height of the boom are now being unwound. That is how smart this policy was.

In the late 1990s the market was divided into the new economy and the maligned old economy. The message delivered by shareholder value to the old economy was simple: do not invest. Heeding that message, throughout the 1990s management in old economy firms reduced the amount spent on new plant and equipment. The money that was saved was spent on buying back their shares, which were already of a high value. Through this policy of reducing investment and repurchasing shares, old economy firms were putting themselves through the gradual process of liquidation.

One result of this course of action was seen in the energy industry where the lack of investment led to shortages causing energy prices to climb steeply throughout America in 2000. This prolonged

period of low investment damaged the competitiveness of other US industries. Big US paper companies operate with equipment that is about 17 years old, which is roughly twice the average age of European equipment. The plant and equipment of the giant US steel companies is substantially older than that of its main European rival. American companies are now wanting tariff protection so that they can compete with European firms because of this policy that we saw in the 1990s.

In practice, the generous compensation of top executives through stock options has created an overwhelming incentive to manipulate earnings. In many instances, it has allowed senior executives to cash in their options leaving the shareholders to suffer heavy losses. Companies have turned to financial engineering, replacing equity with debt to push up the share price. In 1995, for the first time in history the amount of money spent on buybacks exceeded outlays on dividends. They used more money to buy back shares than they did to give dividends to shareholders. Over the next five years, more than \$US1 trillion worth of buybacks was announced by US companies despite the fact that share prices were at a record level. Many companies burdened themselves with excessive debt to repurchase shares that were at prices far above the current level. They now find themselves having to issue new shares to solve their debt problems. Having bought high, they are now selling low. How ludicrous!

The share purchases are all too often made to pump up stock prices. By excluding the true cost of its stock options in 2000, Yahoo—and members would know that company—overstated its earnings more than 20-fold. In 2001, Dell Computer spent \$US2.7 billion on purchasing shares, but owing to its generous options grants, the number of its shares rose by two per cent. So it is out there, bidding up in the share market and giving more and more shares. It is ripping off the shareholders. In recent years, nearly half the money that has been spent on buybacks has been used to offset the new issue of shares for options schemes. The number of accounting scandals has risen sharply in recent years. The motive for boosting profit seems to have been the desire to increase the value of managers' options.

The average tenure of US chief executives has fallen to roughly four years. Stock options can usually be exercised after 18 months. Before his death in 1997, the chief executive of Coca-Cola had amassed more than \$US1 billion in bonuses. US business leaders now measure their success in how many units of \$US100 million they can acquire for themselves, not on whether they have built lasting businesses.

I think that the continuation of this flawed concept of shareholder value, which is unravelling before our eyes, should be ringing alarm bells not only for people who have investments in American equity but also for all of those in Australia who have investments. The members opposite extol the virtues of the free market and tell us how wonderful it is, this great train that we are on, and that there is no alternative to it. I say to members that there are a lot of crooks out there ripping off a lot of little people.