BANKING LAW AND PRACTICE 1988

Official Opening
by

THE HONOURABLE MJ AHERN, MLA

Premier of Queensland

I am very pleased to welcome you all to Queensland and to the Gold Coast for the 5th Annual Conference of the Banking Law Association.

I am happy to welcome you to Jupiters Casino Hotel which is Australia's largest hotel with 622 rooms. It is running at 90 percent occupancy at the moment. It is the No.2 Hilton Hotel in the world, I am advised by the Hilton people. As far as we are concerned, one of the important issues as far as this facility is concerned is that it gives us $22,000,000 trouble free per year. So spend all you can in the casino.

It is pleasing to note the distinguished speakers who have come here to address you on the major issues of banking law in 1988. I note that this is the second time in three years that the Conference has been held in Queensland. I hope some of our interstate and our overseas speakers and delegates will take the opportunity whilst they are here to visit World Expo '88 which is a spectacular success at the present time.

In opening this Conference I wish to refer briefly to another conference which I attended for the first time in Canberra recently. I speak of the Premiers' Conference which at least should be one of the major forums for consideration of the economic affairs of Australia, particularly as they impact on the financial positions of the Commonwealth and the States of Australia.

The decision making process, ladies and gentlemen, at the Premiers' Conference was really grossly unsatisfactory and a very poor way, it seems to me, of determining the financial relationships which are fundamental to the way governments operate in our country. Over breakfast at 7 a.m. on the morning of the conference we were presented with a document which is euphemistically referred to as the "Commonwealth offer" and which was in theory intended to provide a basis for discussion and negotiation. More than twelve hours of negotiation ensued but this proved to be essentially an exercise in futility. In short the Commonwealth offer was more in the nature of a Commonwealth ultimatum than an offer.

Let me address some of the key points to emerge from that conference. In relation to the general purpose recurrent funding, payments to the States in 1988-1989 will be increased by 1 percent in nominal terms - representing an estimated reduction in real terms of 4.2 percent. The Commonwealth argued that such a reduction was necessary in the interests of fiscal restraint. All States supported the need for further restraint in the activities of the public sector. However any such restraint must be on an equitable basis and must take into account the needs of States to maintain an adequate provision for essential services, particularly in key shop front areas as education, health and police. Patently this has not been the case. In particular over a number years the Commonwealth has conspired to ensure that the States carry a disproportionate share of the burden of restraint, thereby significantly eroding the capacity of States to provide the basic services which people demand. The facts are as follows.

In the last five years Commonwealth own purpose spending has increased by 24 percent in real terms whilst Commonwealth payments to the States, which is about half of all States' revenues, have increased by only 4 percent. For 1988-1989 the same inequity will be repeated. Last night's Economic Statement [25 May 1988] reveals that the total Commonwealth payments to the States will be cut by 4.2 percent in real terms whilst the Commonwealth's own purpose spending will remain virtually unchanged in real terms. The Treasurer has again obviously taken the coward's way out.

Payments to the States are cut by 4.2 percent whereas the overall Commonwealth spending is to be cut by only 1.5 percent in real terms. In other words this implies that the Commonwealth own purpose spending will be virtually unchanged in real terms. That 1.5 percent cut includes the reduction in payments to the States so the Commonwealth's own purpose spending will be unchanged in real terms or 0.3 percent up. The Commonwealth has not been prepared to take the hard decisions itself which we suggested to them that they should. It has just simply shifted the burden of restraint onto the States and the political odium which goes with it. The States and the taxpayer are funding the budget surplus that the Commonwealth is so proud of by cuts to the States and by continued revenue growth through taxation bracket creeps. It is largely a cynical exercise.

It promises much but delivers little. All the delivery is timed for 1989-1990 to coincide with the next general election. Indeed it is not even clear that the tax cuts will ever materialise or what they will amount to. In the meantime taxpayers have to foot the bill for the nest egg which the Government is accumulating to enable some good old fashioned pork barrelling before the next election.

I have to say that whilst we have not had an opportunity to study the issues in detail, there does appear to be very considerable sleight of hand involved in the whole exercise as announced last night. Whilst the reduction in the company tax rate is to be applauded, there does not appear to be any overall reduction in the tax burden for companies. The taxing of employers' contributions to the superannuation funds brings forward the tax burden and is therefore selling off the future. It is not at all clear that the tax credits imputation system will be sufficient to neutralise the effects of the 15 percent tax on superannuation funds as the credits are only applicable to equity investments. Therefore there must be considerable doubt as to whether superannuation benefits can be preserved.

Tariff reductions are welcomed but again there is a cynical overtone as far as this whole exercise is concerned. The way I heard it, the passenger motor vehicle industry and textiles, clothing and footwear industries, which just happen to be in the labour party electorates in Victoria and South Australia will be largely insulated from the changes. On the other hand rural industries such as sugar, tobacco, butter and fruit, are to be offered up as the sacrificial lambs with price support schemes to be removed.

The Commonwealth has promoted the view that our State of Queensland was treated more favourably than the other States in regard to general purpose recurrent funding at the Premiers' Conference. I would like to address that issue. It is true that the decline in funding for Queensland will be 2.5 percent in real terms compared with 4.2 percent for all the other States of Australia but this does not allow for the growth that is occurring within our community. However to suggest that this comparison was the result of any generosity on behalf of the Commonwealth Government is nothing more than arrant nonsense. What this represents is a redistribution of funds recommended by the Commonwealth Grants Commission - an independent and impartial body of experts, which decided to put an end to the five years of discrimination in respect of Medicare payments which has cost Queensland over $400,000,000 over the last five years. Even then the extra $40,000,000 recommended by the Commission, which is only a small part of our total losses, was cut back to $23,000,000 simply at the whim of the Commonwealth. This hardly amounts to generosity.

In regard to global borrowing limits the situation is even worse. Whilst other States were asked to accept a 5.5 percent reduction in their borrowing limits, the Commonwealth sought to impose a 32 percent reduction in Queensland's case. This reduction included a $300,000,000 cut which was targetted at Queensland alone. At the same time the Commonwealth determined that its own borrowing limits should be increased by 1.5 billion dollars or 122 percent, to enable the re-equipment of Qantas and Australian Airlines. It seems that the Commonwealth is placing greater priority on aircraft than on schools, hospitals and police stations, which are the responsibility of the States. That is, where the Commonwealth has an economic need, it can borrow. But if the States have an economic need they cannot. In the case of Queensland, regardless of its economic need, it should reduce its borrowing by a further $300,000,000. It therefore seems that there is one rule for the Commonwealth, one rule for all the other States of Australia and yet another rule for Queensland.

Well we would not wear it. The Commonwealth has attempted to justify its action on the basis of a spurious argument that Queensland has not fully utilised its borrowing entitlements in 1987-1988. In this regard they are sadly misinformed. Either that, or they are indulging in the ultimate sophistry. Queensland's global borrowing limit in 1987-1988 is 1.16 billion dollars which represents about 49 percent of our estimated capital expenditure of 2.346 billion. That situation is similar to the other States of Australia where global borrowing entitlements in 1987-1988 represent about 47 percent of expected capital expenditure. So it is no different here to the other States of Australia really.

As many of you are aware the arrangements in respect of semi-government borrowing have been regulated under a voluntary agreement between the States and the Commonwealth. This was previously called the "gentlemen's agreement". It is obviously a misnomer and it is now referred to as the "global approach". Under previous agreements and indeed in the future, Queensland remains committed to the exercise of restraint in its public sector expenditure and its demands on the public savings through its borrowings. The continued exercise of such restraint does not however, include the acceptance of victimisation of Queensland by the Commonwealth.

Accordingly, Queensland has exercised its right not to participate in the voluntary agreements required under the global approach. This does not mean that Queensland will cease to exercise restraint, rather it means that we will manage our affairs such that the burden of adjustment is shared equitably between Commonwealth and amongst the States.

The Commonwealth has indicated that it will exercise sanctions against Queensland if it exceeds the Commonwealth's arbitrary proposed borrowing limits. The use of such sanctions to achieve participation in a voluntary agreement raises many interesting legal questions which I am sure all those here would appreciate. Such action by the Commonwealth, however, seems heavy handed as Queensland remains open to agree on borrowing limits which reflect an equitable sharing of restraint rather than the arbitrary proposal put by the Commonwealth which singles out Queensland for a $300,000,000 cut.

Ladies and gentlemen, in Queensland we are very proud of our State's fiscal record. Our State budgets have for years, been balanced. The debts against the consolidated revenue account for social infrastructure represents 4.8 percent only of expenditure in terms of interest and redemption. That is the lowest in the Commonwealth by a country mile. The rest of our borrowings are pitched against economic infrastructure accounts which are covered by tariffs and contracts. They are not a debt generally against every taxpayer in Queensland. It is economic infrastructure, not social infrastructure as such; and there is a difference.

Our superannuation scheme here in Queensland is fully prudentially planned and actuarily sound. It is completely covered by investments. If all of our public servants retired tomorrow we could have an asset sale in the fund and pay out all due entitlements. This is the only scheme in Australia that is funded in such a way. The third party motor vehicle insurance scheme in this State is fully funded. I note in New South Wales Mr Greiner's audit team has found a $4,000,000,000 gap in their funding. The worker's compensation fund in this State is fully funded and enjoys the lowest premiums, in most categories, in the country.

Our overall planning exercise has been very carefully done. Our offshore borrowings are carefully managed and ensure that our statutory authorities have a 5 percent interest benefit in their offshore borrowings compared with what they could in respect of onshore. We are in the midst of an overall replanning exercise to manage our funds better and to manage our borrowings better in terms of a new Queensland Treasury Corporation which we believe will give us a better yield on our superannuation funds and still leave the whole program fully actuarily sound. This whole exercise is something which is obviously jealously regarded by the other States of Australia and the Commonwealth. We are not going to put this overall planning exercise at any risk at all in terms of our administration by Commonwealth fear, which is what they tried to do at our Premiers' Conference this time.

The overall State taxing in this State is 16 percent less than it is in the other States of Australia. If the average rate of tax in the other States of Australia was implemented here our taxpayers would be paying an extra $254,000,000. This overall exercise is an appropriate one for a conservative government and one which we believe will bring the necessary investment which is required in our State. If you have a chance to have a look around our State whilst you are here you will see an investment climate which is very obviously working exceptionally well.

The industrial infrastructure of Queensland is well provided for today and we are on the brink of major announcements by the day, in terms of extra manufacturing activity throughout our State. The big investments in electricity undertakings, together with careful management and better relationships between employer and employee than exist in other States of Australia, have led to a tariff position which, within two years, will mean Queenslanders have the cheapest per unit cost of electricity in Australia and we have no Snowy Mountains Scheme here. It is just simply because the new power stations which are being provided with all the state of the art technology that is available provide the electricity at one-tenth of the cost of the power stations they replace. This is why our borrowing programs are important and why it is economic infrastructure which is vital in a private enterprise community.

I thought today it might be useful to explain to you the events surrounding the Loan Council Conference and to let the Conference reflect the evolution and the growing complexity of financial markets in Australia from our perspective. And it is against this background that the legal fraternity will no doubt face increasing challenges in implementing the requirements of your clients.

From reading your agenda you are obviously about to spend two challenging and thought provoking days in debating major issues of the day. I am sure you will do this in a whole-hearted fashion and I trust you will use the occasion to renew or make new friendships and to sample the hospitality that this State and in particular our Gold Coast can very well provide.

In conclusion I wish the Conference every success and look forward to seeing you again in Queensland in the future and perhaps making it a permanent feature of your agenda. I now declare your Conference officially open.