

TRANSCRIPT OF THE HON. MALCOLM TURNBULL MP'S ADDRESS TO UNITED KINGDOM POLICY EXCHANGE, LONDON

Thank you very much Neil. The non-partisan work your think tank is really inspiring and I have to say, just having been up stairs going through some of your output, it is remarkable what you do across the spectrum on such a wide range of topics. So I think this is really an outstanding outfit that you're in charge of. I know the challenges you face, as indeed does Lucy my wife who is here, who is a Director of a similar organisation in Australia; the Centre for Independent Studies. And we share some talent; I see Peter Saunders has been writing for you, he used to be at the Centre for Independent Studies in Australia until recently.

Now today as Neil said both the Conservative Party of the United Kingdom and the Liberal Party of Australia are in Opposition – and neither of us plans to be there for much longer – but in terms of the political cycle the challenges we face are very different. Here in Britain the Conservatives are coming into an election, next year, against a weary and dispirited Labour Government that has ruled for 12 years. We Australian Liberals on the other hand face a government elected less than two years ago.

Eleven and a half years of very effective centre-right government came to an end in November 2007, when the Australian people elected a Labor Government led by a man who proclaimed himself to be “an economic conservative,” committed to surpluses and disciplined financial management and then along came the global financial crisis; and, very quickly, the political rhetoric changed.

Barely three months after the collapse of Lehman Brothers in September, Prime Minister Kevin Rudd had this to say, I quote: “The time has come off the back of the current crisis, to

proclaim that the great neo-liberal experiment of the past 30 years has failed. Ironically, it falls to social democracy to prevent liberal capitalism from cannibalising itself.” Strong words indeed.

But what we are seeing in Australia is an attempt by the left to rewrite the history of global economic development over these past 30 years. Given all we have come to know from 20th century history, it is surprising that we in contemporary Britain and Australia should need to revisit debates about the sensible limits of government power – but that is the ground on which our political opponents intend to fight. They are determined not to waste this crisis. They are already using it as a justification for higher taxes, higher borrowings, much more spending and much more intervention in the economy. Mr Rudd has said that government must now be “at the centre of the economy”. His words, not mine. Consider that – “government at the centre of the economy”.

This resurgence of democratic socialism – if that is to be the preferred label – raises a number of common challenges for the centre-right in Britain and Australia. For what we are witnessing is an attempt by proponents of the “government knows best” approach to use the current difficult global economic conditions as a pretext for expanding state power.

In my view, now more than ever, political leaders of the centre right must stand up for freedom. Today, more than ever, we need to safeguard the spirit of independence, self-reliance and enterprise so critical to the long-term prosperity and security of our peoples. We must stand up for a view of society which says government’s role is to enable each and every citizen to do their best, to realise their dreams, to start their businesses, to buy their homes, to choose where to send their children to school. That is the golden thread of freedom that defines what it is to live in a liberal democracy such as ours – the principle that, to the greatest extent possible, people should be able to rule their own lives.

Now in all of this, the best governments will be those that understand and accept the limits of their power; not those that seek to dictate from on high how business should be run, how society should be structured, which companies stand or fall, and how individuals should run their lives.

In my view, it is critical that parties of the centre-right not to be spooked or intimidated by the sense of crisis into a greater tolerance, let alone acceptance, of the notion of government intrusion into economic activity that is best left to the private sector or for heavy-handed and often counterproductive interference in the operation of markets. Throughout the 20th century, the strongest and most successful, most vibrant, most interesting societies were those infused with the principles of political, economic and religious freedom. The best-performing economies were those where citizens were given the maximum incentive, under the rule of law, to make the choices they considered best for themselves and their families. This is not a matter of ideology or faith. It is an unassailable fact of history. The Berlin Wall did not fall by accident. It fell because millions of people living in societies crippled by the failures of excessive government control yearned for the freedoms they saw in the West. The socialisation of the means of production and distribution had manifestly failed them, and they aspired to something better.

The Berlin Wall fell also because leaders like Ronald Reagan and Margaret Thatcher had the courage to hold to the conviction that the most successful and stable societies would always be those where the power relationship was defined by popular consent – where government served the people, rather than people being slaves to the dictates of government. In this belief, they were relying on one of the great intellectual inheritances of Western society, indeed one of the great intellectual inheritances of British society.

Sixty years before the First Fleet arrived on the shores of Sydney Cove, a Frenchman wandered these very streets, here in

London, marvelling at what he saw as the enormous liberating energy of an open, free and prosperous society. He saw a nation of small businessmen engaging vibrantly in their daily commerce, unencumbered by the dead hand of bureaucracy. He saw merchants of all colours, class and creed gathered in the bustle of the London Stock Exchange, trading earnestly and honestly among themselves, all but oblivious to any notion of chauvinism or servility. And he wrote: “There the Jew the Mahometan and the Christian deal with another as if they were of the same religion and reserve the name of infidel for those who go bankrupt. On leaving these peaceable and free assemblies,” he went on, “some go to the synagogue, others in search of a drink,” and he concludes after a long list of alternatives, “all are satisfied.”

Indeed Voltaire saw in England a tolerant and peaceful civil society. And he believed the cohesion, strength and vigour of that society was inextricably linked to the political, religious and economic freedoms unimagined at that time in his native France. His letters *Concerning the English Nation* would have a profound impact on the intellectual life of 18th Century Europe.

That starburst of dynamism we know today as the Enlightenment is part of the great intellectual tradition of societies such as our own and it is vital we pay heed to that inheritance as we confront the challenges of the current difficult global economic conditions.

I suspect Voltaire would have been mightily impressed with the transformative effect of the widespread adoption of the principles of economic liberalism in these past 30 years. There have been few periods in human history where we have witnessed, in the space of a single generation, such enormous economic advances across so much of the world.

Many hundreds of millions of people have been lifted out of poverty, as great and ancient societies such as India and even the world’s largest Communist state, the People’s Republic of

China, opened their economies to global trade, accepting that free market has a great deal to offer, the principles of the free market has a great deal to offer.

The freest societies have proved themselves prosperous, creative and dynamic, while societies which restrict freedom have been paralysed by social and economic failure – the most extreme contemporary example being North Korea – but history abounds with others.

The fruits of greater economic freedom have been spectacular – in the 20 years to 2004 the percentage of the world's poor living on \$1 a day or less halved. That is a quantum leap by any measure, on any conceivable index of human happiness. And it is a record of achievement, a measure of progress, not to be demeaned or dismissed in the scramble to find scapegoats for last year's collapse of confidence in global financial markets.

What has happened in this past year does not as Kevin Rudd has claimed demonstrate that the "neo-liberal experiment of the last thirty years has failed". Now I should note at the outset the absurdity of declaring a failure of capitalism because of a crisis in one industry sector alone and of course there will be libraries built to fill the books written on the global financial crisis and its causes. But we should note that it was a crisis in the banking sector which had its origins in the United States property market, where an asset bubble was fuelled by imprudent, sub-prime lending to people whom banks would not normally have rated as creditworthy.

In other words, loans were being made to people whose best, if not only, prospect of repaying the loan was out of the sale or refinancing of the house, which in turn depended on the value of the house rising materially. Far from being a product of unbridled "free market extremism," as Mr Rudd is fond to say, this irresponsible lending could not have occurred had it not been for the fact that the United States Government, in the shape of Fannie Mae and Freddie Mac, was actually underwriting two

thirds of the entire mortgage market.

Moreover, the United States financial sector is a welter of regulation, poorly co-ordinated and often counterproductive. Much of it was directed to encouraging if not mandating banks to lend money to lower income groups to buy homes.

Now if regulations allow large banks which benefit from explicit or implicit government guarantees to engage in highly risky, highly leveraged principal trading, that is hardly a failure of free market economics. Surely, that is more a failure of clumsy and ill-considered state intervention. A conservative government, a free market government determined to protect the taxpayer's dollar, would and now should say that if banks wish to benefit from deposit guarantees or other assurances of government support in the event of disaster, then those banks should be conservatively capitalised and managed. In other words: if you want your depositors and other creditors to believe that you are "too big to fail" – meaning the government will not let you go bust – then the government should demand that you manage your affairs in such a way as to ensure the chances of the government being called upon to pick up the tab are very remote indeed.

What we have seen however in the United States, and to an extent here in Britain, is a formula quite alien to economic liberalism. This is the "heads you win, tails the taxpayers lose" theorem of banking practice.

I don't recall that ever making it into the 'Wealth of Nations.' And I remind you that Prime Minister Rudd has said that part of the answer to this crisis is to put "the government at the centre of the economy".

Well, the government was at the centre of the residential property market in the United States and we are all just starting to get over the consequences.

Now let's look at another case study; in Australia, we had no such crisis. Sub-prime loans were less than one per cent of the total (versus close to 15 per cent in the United States). Our central bank, thanks to the reforms of the Howard Government, was independent. The current prudential regulatory arrangements of our financial sector was established by Treasurer Peter Costello in the Howard Liberal Government in 1997.

Banks were not prodded to lend to low income groups. There was no equivalent of Fannie or Freddie. Indeed, you could say the banking sector and the mortgage market in Australia were a model of free enterprise – the government's role was simply to ensure the regulated financial institutions had appropriate levels of capital to ensure they could meet their obligations.

We have not had a slump in property prices in Australia, comparable to that in other countries, and we have certainly not had a banking crisis. As of today, our four major banks are among only nine AA or better rated banks in the world and of course the strength of the Australian banks reflects in large measure the strength of the Australian economy and our economic position remains remarkably strong, relative to other developed countries. We have avoided a recession, at least in technical terms, with only one quarter of negative growth. In contrast, the United Kingdom has recorded five consecutive quarters of negative growth. Australian unemployment, while it has risen to 5.8 per cent, is well below that of other developed countries where in most cases it is at or very close to double figures. And whereas Britain went into this downturn with already high levels of government debt, the Liberal Party had, in its term, paid off all the previous Labor Government's debt and left Australia with negative net debt – in other words cash at the bank. When we were in office we established a Future Fund to provide for the previously unfunded obligations to public sector pensions. In other words we reached out across the generations and lifted heavy financial burdens off the shoulders of Australians yet unborn – what a contrast with our Labor

successors who now are busy piling billions of dollars of debt onto those future generations. Labor expects net debt will rise to well over \$200 billion by 2014. Two years ago as I noted we had negative net debt, cash at the bank, \$45 billion.

Now as I previously mentioned, we reformed the financial and prudential regulation of our banking system in 1997 and established a thoroughly independent central bank. We also reformed our labour market laws so that our workplaces became more flexible than before and as a consequence during this down turn businesses and workers have been able to shed hours rather than jobs. Our tax system was substantially reformed by our party in Government with the introduction of a Goods and Services Tax (a VAT) and other associated reforms.

So, on any view, Mr Rudd inherited an efficient, modern economy with a government that had no debt, and as I noted, cash in the bank, \$45 billion. Not to speak of the fact that thanks to continuing strong demand for our commodities from China, the volume of Australia's exports in the year to June 2009 barely declined. In the case of the UK, US and Canada the decline was around 15 per cent; for Japan, around 30 per cent – a heavy dependence on manufactures.

Now I fear prime minister David Cameron, if he wins the election as we expect him too, will inherit a very different set of circumstances when he takes office – which draws me towards my concluding remarks here today.

Just as it is important for us tell the truth about the origins of the crisis, so it is important to ensure that our responses to it are proportionate, and prudent. In January this year the Nobel laureate Robert Barro wrote, with some prescience, and I quote: “The financial crisis and possible depression do not invalidate everything we have learned about macroeconomics since 1936. Much of our focus should be on incentives for people and businesses to invest, produce and work. On the tax side, we should avoid programs that throw money at people and

emphasise instead reductions in marginal income tax rates. On the spending side, the main point is that we should not be considering massive public works programs that do not pass muster from the perspective of cost-benefit analysis.” Now let us examine this sound advice from the good professor from the Australian perspective. When the financial crisis struck in its full intensity a year ago, our central bank, the Reserve Bank, moved quickly to reduce interest rates, slashing them by over four per cent in six months. The new Labor Government for its part, notwithstanding the relative strength of the economy, proceeded to undertake the third highest level of fiscal stimulus in the OECD – over the three years 2008-2010 our fiscal stimulus will be 5.8 percent of GDP, much higher than in any European country.

Now our position as an Opposition was to support the concept of providing fiscal stimulus at that time but to argue it should be smaller and better targeted. We argued that, instead of mailing out \$900 cheques to almost every taxpayer earlier this year, the Government should spend less by bringing forward already legislated tax cuts which would have the advantage of providing an ongoing economic incentive that a one off hand out could not – and we paid a heavy price for that politically – it’s always very difficult to argue that the Government shouldn’t be sending out cheques to everybody.

Yet it was critical at this time to draw a line in the sand. As Margaret Thatcher said so famously, it is an obligation on all of us to have a prudent eye to the future, she said: “We should not and do not believe in living at the expense of the future. The essence of a good government is they are prepared to take difficult decisions to achieve long-term prosperity.” And the Future Fund I mentioned earlier is a classic example of that. Likewise, we argued that a \$16 billion programme to build school halls and libraries in primary schools should be smaller and better targeted; infrastructure, we contended, should reflect what school communities really needed and wanted – and we counted with a \$3 billion program to be spent over three years.

Since then our concerns about what has become known, in deference to our Deputy Prime Minister and Minister for Education, as the Julia Gillard Memorial Assembly Hall initiative, has seen many classic examples of Labor mismanagement. One school, Abbotsford Primary in Sydney, some of you may be familiar with it, received \$2.4 million to knock down four classrooms – perfectly serviceable classrooms – so that four equally serviceable classrooms could be built in their place.

Now, modern Labor is very adroit at media management; they are masters of spin, there's no doubt about that. And Mr Rudd is doing his very best to assert that Australia's good fortune is entirely his own doing. But just as it is important for me, and my colleagues, to stand up for the achievements of the Liberal Party in government, so it is important for all of us to make sure that the truth is told about the cause, the response to, and the lessons of the global financial crisis.

The truth is that the strength of the Australian economy today owes more to the sound economic management of the 11 and a half years of the Coalition Government than it does to Mr Rudd. Our resilience in the face of this crisis has been largely due to the economic strength with which we entered it. Now deep in their DNA, our opponents in the Labor Party believe government always knows best; they want to direct the future for us, to pick winners, to determine for themselves the best way to spend taxpayers' money, and on whom.

In contrast, we on the centre right look at millions of our fellow citizens, and marvel at their infinite ingenuity and enterprise. We look for ways to enable them to do their best. The values we defend, of freedom and of enterprise, are timeless.

As the Founder of the Liberal Party of Australia, Sir Robert Menzies, said in the year of my birth: "We believe in the individual, in his freedom, in his ambition, in his dignity. If he becomes submerged in the mass, and loses his personal

significance, we have tyranny and because of this we believe in free enterprise; not enterprise free of social obligation, but free enterprise in the sense that it embraces free choice, reward for effort and skill, encouragement to grow and to be self-reliant and strong.”

Now the global financial crisis has been interpreted by some as a godsend to the left. But, notwithstanding my tussle with Margaret Thatcher over the Spycatcher, which Neil referred to, I have always respected her commonsense retort to those who believe government knows best. “The problem with socialists,” Mrs Thatcher said, “is that eventually they run out of other people’s money.”

So as this crisis sends our opponents fleeing back to their socialist roots, clamouring for bigger and bigger government, we must stand firm for more freedom and for more choice. We do so not simply because we know that freedom walks hand in hand with prosperity but because we know it is the right thing to do. Those small business values of enterprise and self-reliance, of the men and women Menzies described as the “Forgotten People”, of what we must seek to enable and empower. They are the values of proud, resourceful and independent peoples. They are the values of strong and successful societies.

If we on the centre-right are true to those values, we will not wait long to return to government – so that we can and will deliver to our great nations the prosperity, the freedom and the future they deserve.