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**PRIME MINISTER**

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ADDRESS TO THE SOUTH AUSTRALIAN INSTITUTE OF DIRECTORS

Tonight I want to talk about the Government's economic strategy. Since the election, we have followed a consistent plan to bring about economic recovery. We announced that strategy during the election campaign last year. It is the right strategy.

It is the only strategy which holds out a real prospect of a soundly based recovery and long term expansion of job opportunities. The over-riding objective of that strategy is the eradication of inflation. The longer inflation goes on, the more damage it will do. It is the principle enemy of all those people coming into the workforce seeking jobs. It continues to encourage the misallocation of resources and it is destroying our international competitiveness.

The return to prosperity in Australia demands that the fight against inflation has top priority. Our strategy is designed to beat inflation and restore a soundly-based expansion of job opportunities. The main essentials of that strategy are to bring Government spending under control; to provide specific assistance to private enterprise to encourage expansion; to encourage wage restraint through tax reforms, procedures of consultation and submissions to the Arbitration Commission; and encourage a national recognition of the common interests all Australians have in controlling inflation.

Our strategy aims not at an overnight recovery. It is going to be a long haul. There are going to be difficult moments. The economic indicators are inevitably going to be mixed in the early stages of recovery.

It is not going to be easy to repair the economy after the damage done to it by three years of incompetent Government.

It is worth looking at the problems Australia was facing by the time of the election last year. The private sector was employing no more people than it had been three years earlier, even though during that period the labor force had expanded by about 370,000. Unemployment had risen to a level not recorded in this country since the 1930's. Gross non-farm product in the December quarter of 1975 was still almost 5 percent below its peak level recorded two years earlier. The farm sector was in a state of collapse. The share of company profits in national income remained depressed at about three-quarters

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of its long run norm. Real business fixed investment had fallen in the December quarter to its lowest level for almost three years. The Consumer Price Index in the December quarter was 14 percent above a year earlier and showed no real prospect of a sustained move down.

The Australian economy was experiencing a malaise brought about by a Government that simply refused to understand the nature of the Australian economy. We are now on the road to recovery.

The strategy we have adopted is widely accepted in the western world. While Australia was one of the countries which suffered most from excessive increases in Government spending, most of the major western countries suffered from the same ailment in some degree.

There is now a remarkable degree of consensus and the general economic strategy to be pursued to bring about sustained economic expansion.

The communique of the OECD Ministerial Meeting in June this year stated:

"The basic premise on which this strategy rests, is that the steady growth needed to restore full employment and satisfy rising economic and social aspirations will not prove sustainable unless all member countries make further progress towards eradicating inflation."

In the light of this agreed approach, all OECD Governments have accepted that considerable care will have to be exercised to ensure that economic recovery proceeds gradually and steadily so as to avoid any resurgence of inflationary pressures. They have recognised that the problem of unemployment, while a cause for considerable concern, is not capable of a quick solution.

The OECD Ministerial Communique stated: 'Restoration of full employment and normal levels of capacity in the OECD area will be progressive and take a number of years.'

OECD countries generally have rejected broad stimulatory action as a means of reducing unemployment.

While inflation is the principal problem, restoring steady growth and reducing unemployment is achievable not by increasing Government expenditure but by reducing the rate of growth of such expenditure, and adopting policies - such as lightening the tax burden and more appropriate monetary policies - which such restraint makes possible.

What people have come to regard as the Keynesian approach is inappropriate in current circumstances.

The record in Australia shows the inappropriateness of the traditional "pump priming" approach in periods of rapid inflation. In 1974-75 budget expenditures increased by 46 percent and the deficit rose by almost \$2300 million. In 1975-76 there was a further increase in expenditure of 23 percent. It would have been much greater but for the direct and indirect measures the Government took over the latter part of the year. The deficit rose by a further \$1000 million to \$3585 million. Over this period there was an increase of more than 30 percent in prices. Yet over this same period there was negligible growth in real output and unemployment increased by about 200,000.

Virtually all major countries have now proposed reduction in the rate of growth of central Government spending between their last fiscal year and their present one. In the United Kingdom, from 28 to 17 percent; in Canada, from 19 to 13 percent; in Germany, from 19 to 4 percent; in New Zealand, from 29 to 5 percent; and of course, Australia, from 23 to 11 percent.

Governments cannot spend their way out of recession when inflation is running as it has been. To attempt to do so would lead, perhaps after a short burst in activity, to a deepening of the recession and a worsening of unemployment.

The International Monetary Fund has emphasised this in a recent statement on the policies of the major industrial countries.

It has warned that:

"Recent experience indicates that, unless the currently high rate of price inflation is brought down and inflationary expectations are greatly reduced, the effects of policies aimed at stimulating growth and employment are likely to be short lived. Pursuit of policies that seriously aggravated the problem of inflation could lead to a disorderly situation requiring sharp reversals of course ... the approach is very likely to be --- and should be --- a gradual one. But it would need to be adhered to firmly."

Without the substantial restraint we have achieved in Government spending a number of the major measures we have taken this year to assist recovery would not have been possible. These include full personal income tax indexation and some of the most important measures to assist business.

Let me mention briefly the principal specific measures to assist business expansion that we have introduced since the election. A 40 percent tax allowance for investment in plant and equipment, that is available for investment expenditure by all sectors of the economy; relaxation of conditions attaching to convertible notes; suspension of quarterly collection of company tax payments; exemption of new oil discoveries from the levy on crude oil; phasing out, over a period of three years, of the levy on coal exports; a greatly reduced write-off period for mining development expenditure that will assist with cash flows of new projects, as well as deductions for expenditure on developing port facilities; an increase from 50 to 60 percent in the rate of retention allowance for private companies;

a new system of trading stock valuation adjustment that applies at not less than 50 percent for 1976-77 taxable incomes.

The tax reforms already introduced for both individuals and companies - along with other measures I have mentioned - have been made possible by the restraint we have imposed on Government spending. Such reforms are not only important to recovery.

This Government believes that people know best how to meet their own needs and that they should have the independent capacity to do so. In a system based on high personal taxation, such as the Labor Party supports, people become less and less able to meet their own requirements out of their own resources, and so become increasingly dependent on what a few men in government choose to provide.

At present, we have a personal tax system in which levels are too high, which undermines incentive, and contains many inequities.

Our objective is a personal tax system which enables individuals to retain a larger proportion of their earnings, which rewards initiative, and contains incentives to responsible independent action.

Further tax reform is therefore an important priority of this Government.

We are confident that the measures we have taken have paved the way to recovery.

Although in the early stages of recovery the indicators are inevitably mixed, there are clear signs that the economy is recovering. The estimates of national income and expenditure provide the most comprehensive and widely quoted estimates of overall activity in the economy.

In the first half of 1976, gross domestic product seasonally adjusted and at constant prices rose by 3.4 percent after a fall of 1.4 percent in the December half year; latest estimates suggest that the savings ratio is falling. The proportion of household disposable income devoted to consumption is estimated to have increased from 83.8 percent in the first half of 1975 to 85.9 percent in the first half of 1976; after showing little change for three quarters finally consumption expenditure increased strongly in the June quarter; new capital raisings have increased greatly. In seasonally adjusted terms new raisings for listed companies increased in the June quarter to a record \$576 million compared with quarterly average raisings of \$296 million in the five quarters to March 1976. New money raised by listed and unlisted mining companies in the June quarter was the largest amount in the two and a half year history of this series and almost as much as was raised in the whole of 1975. Company reports for the last half of 1975-76 in most cases show greater profits are being earned. The movement in the Stock Exchange indexes reflects a steady return of investor confidence.

An essential element in securing this recovery will be a continuation of wage restraint.

In our submissions to the Conciliation and Arbitration Commission we have emphasised the very great importance of wage and salary restraint in beating inflation and restoring employment opportunities.

In recent judgements, the Arbitration Commission has accepted that full indexation is prejudicial to economic recovery.

I believe there is a very widespread understanding of this fact around Australia. Indeed, I think it is very well understood by a great many trade union leaders and rank and file members. It is sometimes said that the Government wishes to reduce real wages. This statement, without explanation, seriously misrepresents the situation.

Let me make two points. In a realistic sense there is no conflict whatever between the desire of everyone that real wages should increase and the government's present strategy. In fact, the strategy we are pursuing is the only one which offers assurance that real wages will begin to rise again.

A more profitable business sector and rising real wages go hand in hand. A soundly based economic recovery is the only condition under which consistent increases in real wages can be achieved.

It is utterly short sighted to emphasise the short term consequences of policy without regard to the longer term potential.

Our policy is one aimed to create conditions in which steady increases in real wages will be possible. In present circumstances, it is the only policy which can achieve this.

The second point in this regard, is that our policies as a whole, when our major reforms are taken into account aim to create a situation in which there will be an increase in average real disposable income during 1976-77.

Inflation will not be beaten unless there is cooperation between all sections of the community.

If wage increases outside indexation do not remain small, then our objectives for inflation would be more difficult to achieve and increases in real disposable income less likely.

I do not need to emphasise here that good industrial relations are very important to recovery. And the issue of industrial relations extends well beyond the question of wage and salary demands.

The Government has had many discussions with the trade unions.

I doubt if there has been a Government in Australia which has consulted more with the trade union movement.

The Government has responsibilities in this area. So does business.

An increasing number of businesses are making special efforts to inform employees about the company's performance and prospects, and to involve employees in discussions.

This is an area where the example of the best could be followed by all to the great advantage of everyone.

The greater the extent to which employees have an understanding of the over-riding common interests they share with employers in a profitable and efficient enterprise, the more difficult it will be for pointless or politically motivated stoppages to occur.

There are growing signs that trade union members are becoming more intolerant of political strikes caused by militant leaders trying to undermine recovery and create unemployment for ideological reasons.

A potentially powerful weapon has been placed in the hands of union members dissatisfied with the performance of extremist officials by the new secret ballots legislation. During the election campaign last year we committed ourselves to legislate for secret postal ballots in all union elections. That legislation is now operating.

The climate of industrial relations will obviously influence how rapidly unemployment is brought down.

To ease the problems of finding work in the short term the Government is taking a number of measures. We are looking at terms of reference for a far reaching inquiry into the Commonwealth Employment Service. The Government believes it is now time for the operation and procedures of the C.E.S. to be completely reviewed. The Government has received many reports of firms being unable to fill vacancies in areas of high unemployment. Clearly, the C.E.S. must be geared to help solve these problems in the best possible way. To assist those who cannot find suitable work where they live and who wish to move to where work is available we have announced a major scheme of relocation assistance.

This is one of the most enlightened measures of unemployment assistance introduced anywhere. It is entirely voluntary. It is wider than the scheme we foreshadowed in our election programme last year. The Government will be monitoring it closely to see how the scheme is working.

The Government has particular concern for the school leavers who will be looking for jobs in the coming months. Of the 230,000 young persons who left school last year the great majority have now found jobs. But 12,700 were still unemployed at the end of August.

On Wednesday, the Government announced the introduction of a scheme whereby employers who take on school leavers who have been registered with the C.E.S. for not less than six months this year, will receive a subsidy. The subsidy will be paid for a six month period.

We will review the operation of the scheme at the end of January. We have also announced changes to the N.E.A.T. training scheme, increasing certain allowances.

The difficulty a number of young people have found in getting jobs has greatly concerned the Government. Last week I announced that we were establishing a Committee of Inquiry into Education and Training. This Inquiry will consider a very broad range of matters relating to education. Among these it will undertake the first major inquiry of its kind into the relationship between education and the labour market. In the course of its inquiry, the Committee will examine both secondary and post secondary education. This, of course, looks to the medium and longer term.

But overall, our economic strategy is designed to achieve a reduction in unemployment by mid-1977, and it offers the best hope for a soundly based expansion of job opportunities.

In working towards recovery we are facing an enormous challenge as a nation. The damage wrought on the economy in the last three years has seriously set back the chance of building a decent life for Australians. For three disastrous years myth was more important than reality, words took the place of action, posturing for the hard slogging work of providing effective Government. Instead of helping Australians to achieve their objectives in life government was a positive hindrance. Enterprise was hamstrung and Government became a rapacious consumer of the nation's resources.

Expectations were inflated far beyond the nation's capacity to provide. Now recovery is underway.

Australia now has a Government which believes in the encouragement of enterprise, which is prepared to set priorities and to implement the strategy essential for recovery.

We are governing in the interests of all Australians and not just a narrow section of the community. Consolidating the recovery is going to take hard work and determination. I am confident that we will succeed.