EMBARGO: 8.30 p.m.

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# PRIME MINISTER

STANFORD RESEARCH INSTITUTE -SYDNEY
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I was delighted to be able to accept your invitation to address this distinguished gathering.

I welcome this opportunity to examine some of the basic problems we have to face in securing economic recovery, and to set out for you the approach, and the reasons for that approach, that we have adopted in Australia.

You will all be aware that by 1975 Australia was facing particularly severe problems of inflation, unemployment, high interest rates and a record government deficit.

Australia was not alone in confronting these problems, they were familiar throughout the OECD countries, but Australia suffered particularly and unnecessarily, for domestic reasons.

The core of the problem, in our assessment, was the role of Government in the economy in the years 1973 to 1975.

The experience of the last few years has forced a fundamental rethinking about economic processes, and the role and capacity of government in economic management.

We have just emerged from a period in which governments aroused excessive expectations about what government could do.

Moveover, over a long period governments also aroused excessive expectations about future incomes, and about the rights to future incomes divorced from the responsibility to work.

Governments have available four main arms of policy in guiding and encouraging economic activity. These ares are budgetary, monetary, external and wages policy.

Tonight I would like to examine how Government has used each of these arms of policy in recent years and how this government has sought to balance them in securing economic recovery.

To understand the way in which these four arms are being used in Australia at the present time, it is necessary to understand what has happened in Australia in the previous three years.

The emphasis as between the various arms of policy varies from time to time, but there must be a reasonable balance between these different arms of policy if serious inequities and distortions in the economy are not to occur.

When we review the experience of the last few years several outstanding facts become obvious.

One was the complete collapse, for a period, of a rational budgetary policy. Another was the adoption of wages and prices policies whose effect was disastrous for business profitability and hence for employment opportunities. A third was the pursuit of unsettling monetary and external policies.

On the budgetary side a large expansion of government spending occurred in 1973 when private demand pressures were already becoming excessive. As unemployment rose in 1974 an effort was made, on so-called inappropriate keynesian doctrine, to stimulate the economy further by even greater public spending. In one year there was a 46% increase in federal government spending. In one year federal budget outlays increased from 24% to 30% of GDP.

It is hardly necessary to recall now that this massive so-called "stimulation" exacerbated unemployment, which increased by some 180,000 in one year. A significant leap forward in inflation also took place.

On the wages side, the role of the government actually compounded the problem. For quite some time large wage increases were actually encouraged and supported by the Commonwealth Government before the Conciliation and Arbitration Commission. The share of GDP going to wages rose substantially while the share going to profits fell..

High unemployment combined with high inflation were inevitable consequences. It is an extraordinary fact that despite an increase in the number of people seeking employment between 1973 - 1975 of almost 400,000 there were no more people employed in the private sector than there had been three years earlier.

The total net increase in persons employed had occurred in the government sector.

On the monetary side the excessive growth in government spending fed into excessive liquidity. This in turn meant that unreasonable weight had to be placed on monetary policy, leading to a damaging squeeze on credit. Later still there was a resurgence of monetary growth, as a direct consequence of excessive government spending.

On the external side, there was an attempt to redress the inflationary pressures fed by domestic policy.

The 25% across-the-board tariff cut was in part an effort to curb inflationary pressures by subjecting Australian industry to a strong burst of international competition.

These policies contributed to domestic uncertainty and unemployment.

When it was elected to office in December 1975 the Government faced a situation in which 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 per cent below its peak level recorded two years earlier.
The Government seemed unconcerned about the desperate situation in the farm sector. The share of company profits in national income remained despressed at around three quarters of its long run norm.

Real business fixed investment had fallen in the December quarter to its lowest level for almost 3 years. And, last but not least, the consumer price index in the December quarter was 14 per cent above a year earlier and showed no real prospect of a sustained move down.

In these circumstances the Government was confronted by a situation where we had to restore a responsible balance between the major arms of policy, using each arm to the maximum extent possible in combatting inflation.

The principal task in fighting both inflation and unemployment was to establish a sustainable government role.

This was not merely a matter of taking appropriate action in relation to matters under the direct control of the Government.

It was also a matter of encouraging a realistic set of expectations in the community about what Government could achieve.

The community must accept that there are limits to what governments should do and what they can do. There are also limits to the rate of growth in living standards which any country can provide. This realisation has spread considerably in recent times in this country and in many others.

There is, I believe, a growing recognition that increasing public sector demand on resources, excessive monetary expansion, and generally growing government involvement and interference in the economic process, have been building up unsustainable pressures that can no longer be tolerated if we are to retain a free society.

It is now clear that the feasible and appropriate role of government isto provide the framework, or environment, for stable, non-inflationary, growth through the pursuit of responsible economic policies.

The managing director of the international monetary fund, Mr. Witteveen, whom I found to be stimulating, frank and open in economic discussion, put it thus: "An important lesson of recent experience is that nothing could be gained by combatting unemployment through expansionary policies that would intensify inflationary expectations...restoration of a reasonable degree of price stability will be necessary to establish a durable basis for better economic performance."

As the Secretary-General of the OECD, Mr. Van Lennep, has said: "Except in the very short run, lower unemployment cannot be bought at the cost of ever higher rates of inflation...what is required is relatively cautious demand management policy, aimed at achieving a moderate but sustained expansion".

Unrealistic expectations, built up over a long period, are not easily or quickly changed.

Even with growing community understanding we cannot expect quickly to restore growth and rising unemployment opportunities. There now appears to be a general acceptance among countries that the restoration of full employment and normal levels of capacity utilisation will take a considerable period.

There are still those who find this prospect "unacceptable", who think we should move more rapidly, particularly in alleviating the problem of unemployment. On that I would like to turn to Mr. Witteveen again, because I think he summed up the position accurately when he recently said: "There is a danger that the sense of repugnance we all feel for the social injustice of unemployment might engender political pressures that will work for a more rapid absorption of spare capacity than can be achieved without producing a renewed acceleration of price increases".

Those who really want to help the unemployed might reflect on that.

The most positive policies to resolve the problem of unemployment are those we have adopted. These are policies designed to reassert a responsible balance between budgetary, monetary, external and wages policy.

On the budgetary side, we have reduced the rate of growth in government spending from 23% to 11% in this year's budget and intend to see that that reduction is realised in practice.

Significant personal and company tax reforms have been introduced and a range of specific encouragements offered private investment. The deficit has been significantly reduced and equally, if not more important, the structure of the deficit has been altered.

It is now a deficit which reflects the adoption of specific measures designed to help individuals and businesses not one produced by a government determined to devour even more of the nation's resources. Indeed, without specific personal tax reforms and business incentives introduced by the Government this year, the deficit would have been $1.4 billion.

We will be pressing ahead on the budgetary side in the coming year.

No one has suggested that we should be pursuing a harder budgetary line.

There are, however, those who, refusing to learn from the past, urge us to once again further expand government spending to stimulate the economy

The Leader of the Opposition recently urged measures which would have the effect of increasing the budget deficit by another $1 billion. These proposals are simply the re-emergence in another guise of the policies rejected by the country at the last election.

Any relaxation of the budgetary arm would mean a higher deficit, with the consequent problems of financing that deficit.

It would put greater pressure on the other arms of policy. We have seen the consequences of that.

Neither printing money nor excessively high interest rates are attractive alternatives where the top priority is the eradication of inflation.

Those who ask for an increased deficit would do well to look at the other side of the ledger.

On the wages side, the Commonwealth Government has strongly argued throughout this year before the Arbitration Commission that there must be restraint in wage increases.

We are currently arguing before the Commission that economic conditions do not justify any further increase in award wages and salaries at the present time or at most very small increase.

Clearly a balance must be struck between what is economically desirable and what is industrially possible.

The Government intends to continue to take a strong stand against wage and salary increases which cannot be justified by economic conditions. We place great weight on the commonsense of the Australian people in these matters. We do not believe their views are in any way reflected in the statement of a few extreme militant union leaders.

We will continue to emphasise the responsibility of the trade union movement, along with other sections of the community, for assisting in the reduction of costs and in the expansion of job opportunities.

With widespread support in the community, we have already achieved some success in this area and we do not intend to let up.

In monetary policy the recent measures underscore our determination to persist with our announced strategy of achieving an appropriate rate of growth in the money supply.

These measures are in no sense whatever a squeeze on credit. They constitute a technical adjustment whose significance has been grossly overplayed.

They will not reduce money for worthwhile projects but will assist the Government to take up some of the slack created by the seasonal deficit early in the year related to tax collections.

They will assist in avoiding an undue tightness later in the year when company tax payments fall due.

The measures stress the seriousness with which we intend to persist in our anti-inflation strategy.

On the fourth arm of policy, external policy, our whole approach has been, and remains, to create an environment where businesses can plan ahead confident there will be no sudden large changes in tariffs, Australian industry will be protected. We have a rational approach to foreign investment.

There has been a great deal of unnecessary focus in recent months on movements in our international reserves. Our reserves are there for a purpose to meet fluctuations in our external payments position. They are Australia's "cash in the till". If reserves cannot be used without causing concern then reserves are of little use.

Our credit is good and government borrowing while other policies are working should be taken as a sign of strength.
We have given great importance to following consistent and known policies in the attack on inflation.

There is good evidence that those policies are succeeding. The consumer price index increased by 2.2 percent in the September quarter, the lowest quarterly increase, with the exception of the medibank quarter, since the March quarter 1973.

There will be an apparent break in this improving trend in the December quarter, when the Medibank changes will again affect the C.P.I. We should not let one index obscure the clearly continuing trend towards lower rates of inflation.

Success in the fight against inflation will in turn make possible a significant decline in unemployment.

Indeed, our concern with unemployment is a major reason why we are pressing the attack on inflation so strongly.

In giving priority to inflation we are giving priority to unemployment. The attack on one is an attack on the other. Short-term palliatives will not, cannot, work. They will not be pursued.

Unfortunately it is just not possible to put everything right at once. An economy must be steered gently - not subject to sudden reversals and shifts. Problems which have developed have to be worked out of the sytem. They cannot be abolished by Government fiat or magic wand.

The Government is very conscious that many groups in the community have been unjustly penalised by the failure to maintain a balance in policies in the last few years.

Unless all arms of policy, budgetary, monetary, external and wages policy are pursued in a balanced and appropriate way, grave inequities will occur between the major sectors of the economy.

Gross increases in government spending and wages produced inflation and unemployment, and created appalling inequities between different groups in the community.

Businesses found profits destroyed and as a consequence investment was curtailed and many thrown out of work or unable to find jobs. Rising costs damaged farmers and exporters.

In overcoming inflation there are also costs to be borne. These costs are exaggerated for certain groups when some sections of the community are largely insulated from inflation.

Wage earners have had significant protection through indexation, Personions have pensions indexed to the C.P.I. Public servants have had secure employment.

By contrast, the poor, the unemployed, the retired drawing on their own savings, superannuants, young people wanting to buy homes, those whose incomes have not been indexed, have all suffered severely from inflation.

Because of the problems in the economy it has only been possible to move in graduated steps towards the achievement of our objectives.

In giving top priority to the eradication of inflation the Government cannot turn away from any effort to assist those who have suffered most.

As far as possible consistent with our principal objective we have sought to mitigate the inequities caused by inflation.

The family allowances scheme was a major step forward in assisting families in poverty. For similar reasons we have indexed pensions to the C.P.I.

We intend to act further, for example, in the area of taxation when circumstances permit. The Hayden reforms of last year left many inequities. These reforms in effect abolished concessional deductions for many people, and consequently incentives to undertake certain worthwhile expenditures.

We did not touch these in the last budget because we considered that priority should be given to the introduction of personal income tax indexation. We intend to undertake further reforms in this area when circumstances permit.

We have also taken action to lighten the burdens on those who want to develop Australia's natural resources. In the budget we announced significant taxation concessions for petroleum and mineral exploration.

We eliminated the crude oil levy on new discoveries and began the phasing out of the coal export duty.

We have also removed uncertainty from foreign investors through new foreign investment guidelines. Some 700 applications have already been approved this year.

We have taken the view that responsible action to treat the economy as a whole need not be inconsistent with action to assist those particularly disadvantaged by inflation.

This said, of course, it must be emphasised that, getting back to a fully satisfactory basis of economic policy won't be possible until inflation is beaten.

Compared to other countries in the OECD Australia made a late start in over-coming inflation.

The process is now well under way and already there are signs of success.

We intend to be unrelenting in our anti-inflation policy.
The progress by which governments have fueled unrealistic expectations and squeezed out enterprise and opportunity must end.

We have to achieve a balance between expectations and what Government can perform.

There must be a new recognition that it is through enterprise, imagination and work, that the standard of life of every person can be increased.

That is, and will continue to be, our guiding perspective in restoring prosperity to Australia.

15th November, 1976