



# PRIME MINISTER

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## ELECTORATE TALK

On Tuesday, the Treasurer, Mr Howard, will bring down the Government's Budget for the current financial year. I do not wish to and cannot refer in any detail to the measures he will be announcing. They are the result of intensive discussion within the Government over many weeks.

Some of the decisions made have been difficult ones, but they have been the right decisions.

The twin evils which face Australia today are the evils of inflation and unemployment. The only way to raise employment on a long-term sustainable basis is to beat inflation and restore economic health.

The measures which the Government has been taking over the past two and a half years to beat inflation have achieved results. In the year to June 1978, the Consumer Price Index rose 7.9 percent, which was a substantive improvement on the increase of 16.9 percent in the year to June 1975. As a consequence, interest rates are moving down. Economic confidence is reviving.

The success which the Government has been having has gained international acknowledgement from the Organisation for Economic Co-operation and Development.

The OECD in its review of the economies of member countries for July, pays tribute to Government incentives for their part in sustaining private investment in Australia.

It expects the growth in Australia's Gross Domestic Product during 1978 to be three and three quarter percent.

This is despite a generally gloomy view by the OECD, whose forecasts suggest no substantial improvement in world growth and little progress around the world in lowering inflation further.

Although the long-term average annual growth in world trade has been eight percent, the OECD expects this to be only five percent this year and into 1979. Australia's recovery is thus taking place against the background of a weak world trading situation.

It is particularly important to note that the OECD is now forecasting a rate of inflation in Australia during 1978 of under seven percent, based on the broad-based GDP deflator. This means that Australia, in two years, has quickly brought its inflation into line with that of the OECD average.

What we must now do, and what, above all, the Government's policies are designed to achieve, is to drive that inflation down further. We are determined, this financial year to have our inflation well below that of the OECD average.

This is the only realistic option we have, in the context of the world economic scene. This is the only way we will keep our products competitive, gain new markets for our exports, and attract overseas private capital to Australia.

This is the route we must take if we are to be properly ready to gain a growing share of the expansion of world trade, when it comes.

Some few economic critics in Australia have attacked the policies which have produced lower inflation, advocating instead expansionary fiscal and monetary policies. One well publicised set of such proposals would increase the Budget deficit to between \$4.5 billion to \$5 billion and finance it by expanding the national debt.

There would have to be substantial increases in interest rates even to attempt to finance deficits of this magnitude and the inevitable result would be failure.

A Government doing this would increase greatly the money supply. The effect on overseas investment in Australia would be serious. There would be a revival of inflationary expectations and a blow to confidence amongst consumers and investors. There would be an end to any hope of success in sustaining a policy of wage moderation which is crucial in the fight against unemployment and inflation.

Such an expansionary approach has been widely opposed in business and financial circles. I am also glad to see that Professor Corden has pointed out the fallacies in the argument of those calling for such a change in Government policies. In his words: "Wage moderation is and remains the key." When I was overseas I found no support for such action in any of the countries I visited.

The Government knows that the economic road we are on is a difficult one. But in all plainness, I must say that if we are to restore economic health and revive employment on a long-term sustainable basis, there is no alternative. We must adhere to those economic policies which over the past two years have cut inflation in half and begun the revival of business confidence.