



# PRIME MINISTER

FOR MEDIA

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ADDRESS TO THE METAL TRADES INDUSTRY ASSOCIATION OF AUSTRALIA  
SYDNEY

I am pleased to be able to address this distinguished gathering of manufacturers. Economic debate at present is dominated by the Budget brought down last week. Today I will try to put that Budget in context, in terms both of the present economic outlook and of the Government's persistent anti-inflationary strategy.

But what needs to be said at the outset is that Australia is on the verge of what could be one of the most exciting eras of economic development in its history. As a result, we are facing prospects different both in kind and magnitude from anything experienced in recent years: prospects, on the one hand, of potential growth and increasing living standards for all Australians, and, on the other hand, of problems and difficulties in ensuring that potential is achieved. But then, as has been said, life wasn't meant to be easy.

On present prospects, the growth capacity of our economy for the 80s is going to be stretched increasingly to its limits. This will demand firm and forward looking policies from Government to make sure that inflationary pressures are contained and sustainable growth continues.

Australia suffered a series of major shocks during Labor's period in office, which fundamentally distorted the workings of the economy. As a nation, we have paid dearly for the wild and reckless policies of that period: in terms of a lower growth in national output and, hence, in our standard of living, as well as in much higher unemployment.

One of the reasons wages escalated under the previous Labor administration was that the then Government encouraged unions and tribunals to seek excessive wage increases. Indeed, the Commonwealth Public Service was used as a pacesetter in wage determination. And the A.L.P., with organic links to the union movement, was not in a position to withstand union pressure, even if it had been interested in doing so.

Over the last weeks, there has been some talk of a social contract. Of course, the unions reject it because such a contract would diminish their future freedom of action. The so-called "agreement" between the A.L.P. and the unions was not a contract at all. For the unions are still determined to get as much as they can from the Arbitration Commission, and as much as they can on top of that from employers.

But in addition, A.L.P. policy, which grants immunity to unions from penalties for strike action, would effectively place the union movement above the law. Such an approach would open the door to the kind of wage escalation that occurred in the mid-70s. And the consequences of that would be obvious to everyone here.

Mr. Hayden has demonstrated that he wants union peace at any price; but the price will inevitably be paid by all Australians. The A.L.P./union document merely creates expectations that the Labor Party will comply with union demands. It was such a policy on wages, agreed to by the last A.L.P. conference, and binding on all members of the Party, that Mr. Wran called "a hotch potch", and Mr. Hawke called "a gutless sell-out to the left". And as one of the major newspaper editorials reminds us this morning, Mr. Hawke let it be known "that he felt that he had been 'sold out' and that Mr. Hayden could not be trusted".

Bill Hayden says he has a "special relationship with the trade union movement". That is true, he has - like the special relationship that exists between a ventriloquist and his doll - a slight twist from the left wrist and Bill's head nods up and down.

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It has taken time to reduce the distortions created by Labor and begin to restore the conditions in which the private sector can expand with confidence. But five years of concentrated and persistent effort is now beginning to pay off. Let there be no mistake: even today, our inflation rate gives us no grounds for complacency, but it has improved in absolute terms, having been reduced from around 17 per cent in 1975 to just over 10 per cent last year. And, also importantly, in relative terms, from nearly 4 percentage points faster than the O.E.C.D. average in 1975, to 3 percentage points slower than that average during the past twelve months.

The benefit from this lowering of inflation is most obvious in the improvement in Australia's international competitive position, a subject with which everyone in this audience is familiar.

Last year, when most O.E.C.D. countries had higher external trade deficits, Australia's was sharply reduced. That external improvement has allowed the Government to bring the expanded official overseas borrowing programme to a successful conclusion. But, more importantly, to both this audience and the country as a whole, the improved international competitiveness of Australian industry is now permitting increased exports over a wide range. This is reflected in the figures.

The value of our exports last year rose by 33 per cent, and the value of rural exports rose by over 40 per cent. But the increase in Australia's international competitiveness has also greatly assisted other key exports.

Over the last two years, exports of manufactures are estimated to have increased in real terms by no less than 23 per cent, showing quite clearly that Australian manufacturing industry can compete successfully against international competition.

This expansion has not been confined to the processing of our natural resources, important though that is. The value of exports of machinery and transport equipment, for example, rose by over 50 per cent in the last two years. In short, the most effective export incentive provided by the Government has been the improvement in international competitiveness which our policies have brought about. That improvement is also contributing importantly to the upsurge in investment in Australian industry, including investment from overseas.

Last year, identified foreign investment in Australian enterprises was over \$2,500 million, more than \$500 million higher than for the same period a year before, and almost double the level of two years ago. But the benefits of reducing inflation are not limited to improvement in international competitiveness. A lower rate of inflation, and particularly inflation of wage costs, is central to improving profitability.

There is a need for such improvement, and the estimated 16 per cent increase in companies' operating surplus in 1979-80 is welcome. It is no coincidence that improved profitability has gone hand in hand with both higher employment and an upsurge in expected investment.

Those who deride higher profits would do well to remember that without profits there can, in the end, be no jobs. In July this year, on figures released at noon today, 212,000 more people were in employment than was the case a year ago. And this is a record increase over a twelve month period. And prospects are good for a further rise in employment this year.

That will come partly from investment in the major resource-based projects now in train, including their call upon other Australian industries for supplies of materials and equipment and not least the industries chiefly represented here today. But the prospective investment surge is not confined to resource development projects.

The statistician's recent survey of expectations of business fixed investment in 1980-81 suggests strong growth, in real terms, more or less across the board, with nearly every section of manufacturing and tertiary industry expecting a strong investment rise as, of course, does the mining industry. This is consistent with the very strong outlook for investment reflected in other surveys of investment intentions that are less specific as to timing, but which in a more diffused way indicate that the expected strong increase in investment in 1980-81 is likely to be only the beginning of what we must now call the decade of development.

But we must not jeopardise our chances. We must not fritter away our opportunities through the illusion of 'quick-fixes' offered by irresponsible policies. The realisation of our potential as a nation is dependent upon continuing firm fiscal and monetary policies. And without appropriate resistance to growing pressures for excessive increases in hourly wages, this potential could be squandered. For it is not additions to money wages, but increases in the nation's productive capacity that allow us to raise living standards in any continuing sense.

So far as the immediate outlook is concerned, it is not merely investment that is on the rise. Looking at the economy as a whole, there is a major contrast with last year, when, particularly in the first half, external trade contributed most to the improved level of activity.

This year, domestic demand is set to provide most of our growth, which the Treasury predicts, will be somewhat faster than in 1979-80, making it the third year in a row when growth in real non-farm output has improved. All this is coming at a time of little or no growth in the O.E.C.D. area as a whole, and when two of the major industrialised economies of the world, the U.S.A. and Britain, are in the grip of recession and when most other Western economies are seriously flagging.

Why is it that, in these difficult times, with the exception of the motor vehicle industry, the Australian economy is experiencing a strengthening in business activity, more or less across the board? I put it to you that Government policies provide much of the answer.

The consistent application of responsible policies has reduced the uncertainty attached to private decision-making and improved significantly the underlying conditions in which the private sector operates. We recognised the need for such policies five years ago. This is now beginning to be recognised world wide.

The economic survey of Australia, published by the O.E.C.D. last month, pointed out that,

"The management of the Australian economy has remained broadly unchanged since late 1975, when the authorities embarked on a steady policy approach which, through relatively restrictive fiscal and monetary policies, aimed at removing the imbalances impeding a return to sustained non-inflationary growth over the medium term".

The O.E.C.D. went on to say that the,

"Level of competitiveness is now much higher and real unit labour costs slightly lower than in 1975, and these conditions seem to be reflected in the recent strengthening of manufacturing output, investment and employment over the last 18 months or so".

A key element in our policies has been the restraint on public sector spending, and on public sector calls on financial markets, exercised through the Commonwealth Budget.

Between 1975-76 and last year, Commonwealth Budget outlays were reduced from about 30 per cent of G.D.P. to about 28 per cent and the Budget deficit from nearly 5 per cent of G.D.P. to under 2 per cent. The Budget presented last Tuesday is framed around a further significant reduction in the total budget deficit to a little over 1 per cent of G.D.P., and to a point where the deficit on domestic transactions will be eliminated in the current financial year.

This confirms the ability of the Government to back its economic prescriptions with action. We are paying our way again. This represents a significant achievement in fiscal responsibility. Lower budget deficits are a goal which is embraced almost uniformly by the governments of industrialised countries. But few countries have achieved as much in this respect as Australia.

Of course, central to achieving this is the exercise of restraint in public spending. Last year, public sector outlays as a whole contributed directly less than one-quarter of 1 per cent to the growth of over 3 per cent in non-farm product, demonstrating clearly - to those who still need any such demonstration - that the economy is quite capable of gaining strength without a so-called 'stimulus' from the public sector.

Of course, our political opponents still pursue the discredited line of arguing for rapid expansion of the public sector. Up until last week, they were committed to \$2,000 million in five areas of expenditure alone, and this figure does not take into account more than 250 other uncostered expenditure programmes.

But then Mr. Hayden went on the ABC programme, 'A.M.', and made a further commitment to raise pensions to 25 per cent of average weekly earnings. Even though pensions, as a proportion of average weekly earnings are now almost the highest they have ever been, the commitment by Mr. Hayden to lift them to 25 per cent of average weekly earnings would cost as much as \$500 million. And the further commitment, which he gave, to raise them in the long-term to 30 per cent of average weekly earnings; would represent a further cost of more than \$1,400 million. This is merely a recycling of past Labor failures.

Labor spending proposals could only be funded through massive increases in taxation, and Labor have already threatened us with that; or a massive increase in the size of the deficit. And we can only judge them by their record. In the year to March 1975, award wages for males rose by almost 35% and for females by over 40% - increases that would normally take many years to earn through increased productivity. In one year, under Labor, Commonwealth Budget outlays rose by 46%; an increase which exceeds the total increase in Commonwealth Budget outlays of the first four Liberal Budgets.

It takes a long time to pay off debts, but we have managed to balance the Budget on the domestic side. In today's conditions, reducing the demands made by the public sector is essential to the growth of the economy as a whole. It is because of this growth that the Government has been able to increase its assistance to business, and meet its commitment to those in the community who, through no fault of their own, need our help.

The challenges of the 80s will call for new responses from the business community. That is why this Budget provides for: a 20% loading to existing depreciation rates, an increase of 20% in the funds for the export expansion and market development programmes, an increase of 55% in funds available for industrial research and development; which includes an increase of over 50% in commencement grants which will encourage small and medium-sized firms to develop a research capability.

A major initiative, designed not just to assist small business but for the benefit of all self-employed, is the new tax concession for superannuation. It applies to the self-employed, and to any employee who is not covered by a superannuation scheme funded by an employer. And contributions up to a limit of \$1200 will be deductible from assessable income.

New initiatives in last week's Budget reflect the concern of the Government for the paradox of high youth unemployment co-existing with the growing shortage of skilled labour. Because of this, we announced in December 1979 a five year, \$250 million school-to-work transition programme, in conjunction with the States. The Budget provides a 22% increase in funds for apprenticeship and employment training programmes, and we have also introduced a tapered income test for unemployment benefits in order to provide more incentive for unemployed people to part-time work.

The Budget's initiatives under the Commonwealth Manpower, Training and Youth Support Programmes mean that by the end of this financial year, about 800,000 people will have been assisted, since we came to office, through the range of Government schemes.

Regrettably, many of the young people for whom these programmes exist are products of an education system which, for too long, has placed too much emphasis on academic qualities. It has ignored the needs of those whose talents lie in different vocational directions, especially those requiring trade training and manual skills. It is essentially the responsibility of Australian schools to develop the qualities and talents of all Australian students; to find something that each student can do well, with enthusiasm.

I doubt very much whether many of our schools are meeting that standard now. To the extent that they are not, I regard the school system as failing many thousands of young Australians. I think we would get a better result from our school system if, instead of saying, 'these young people have failed in school', we put it correctly that school has failed these young Australians because it has not found something that each can do well - something to give each of them a satisfying and rewarding life when they leave school.

The Government is dedicated to minimising the difficulties faced by young people in seeking employment. And, in this and other areas, the Budget provides significant reforms to assist those in need.

These include, an increase in the handicapped child's allowance, which will provide improved assistance to 27,000 handicapped children; a national employment strategy for the handicapped. In our first Budget, we introduced triennial funding to eligible organisations to provide more certain and effective help for handicapped persons. In the last three years, the funds that we have made available through this programme have increased by almost 80%, in real terms, over the levels that operated in the three Labor years.

Other initiatives in this Budget provide for an increase in the allowance for dependent children of pensioners and beneficiaries, which will assist 560,000 children, the removal of the six month waiting period for supporting parent's benefit, an increase in the mother's/guardian's allowance which will benefit about 190,000 single parent families, and the extension of the right to pensioner health benefits to eligible sickness beneficiaries.

These initiatives demonstrate that the hard decisions required, in the last four years, to secure sustainable economic growth have not compromised our commitment to the disadvantaged. But this commitment can only be maintained in an economic environment in which the private sector is encouraged to expand. That is why the Government is concerned to see that this expansion is not frustrated by inappropriate wage structures. This is especially so because the wage tribunals have continued to hand down decisions inconsistent with the needs of the economy, as well as harmful to the needs of those who are seeking jobs.

Through the wage indexation process, and the continued spread of so-called "work value" determinations, wage tribunals have brought us to the point where accelerating wage inflation begins to constitute a major threat to the economy. In resisting these wage inflation pressures, the Government is playing its part, and will continue to do so. But employers also have an important responsibility to resist such pressures.

I therefore wholeheartedly endorse the M.T.I.A's campaign against the Metal Industries Unions' destructive claim for a 35-hour week. The metal industries have already suffered sharply increased labour costs as a result of the "work value" round and two sizeable national wage increases in January and July this year; decisions which have added more than 14 per cent to the award rates of pay in these industries in the space of just nine months.

A reduction in the standard working week to 35 hours would add to hourly rates of pay and raise labour costs still further. Even Mr. Hayden earlier in the year opposed the proposal for a 35-hour week. But Caucus soon reversed this spark of responsibility, and Mr. Hayden supported the proposal in Parliament.

The proponents of the shorter working week are dishonestly parading it as an unemployment relief scheme. It is palpable nonsense to say that a measure which would raise labour costs would reduce unemployment. On the contrary, by undermining the profitability and international competitiveness of industry, it would put more people out of work, and I am tempted to assert that this is indeed an objective of some of its more prominent advocates, who are much more interested in fostering disruption in our economy and our society than in working for the good of those they purport to represent.

Australia has entered a decade which has a potential for economic development unparalleled in our history. The development that is in prospect demonstrates the faith the private sector has in the future of the Australian economy. That faith depends, to a large degree, on the belief that we will continue to implement our economic strategy. And beating inflation is still the key to that strategy.

The Government will not allow a small and disaffected minority to destroy our prospects. The 1980-81 Budget, in association with an appropriate monetary policy, and with the co-operation of the vast majority of Australians, employers and employees, is directed to ensuring that those prospects are realised. Against that background, I commend it to you.