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AUSTRALIA

PRIME MINISTER

SPEECH BY THE PRIME MINISTER
INSTITUTE OF DIRECTORS - 15 MARCH 1984

Mr Chairman, Ladies and Gentlemen

It is with particular pleasure that I accepted your invitation to join you tonight.

At this time of the year the Government is gearing up to prepare its next Budget. It is therefore timely that we should review assumptions about the environment within which the crucial decisions must be framed and take stock of the achievements to date.

The record of the past twelve months, I am sure you would all agree, has been a very good one. The economy is now demonstrating strong economic growth. Subject to certain qualifications which I shall address later, the outlook for the medium and longer-term is encouraging and underpins the confidence now widely felt throughout the community in our national economic prospects.

Crucial to an appreciation of those prospects must be an assessment of the international economic outlook. In the same way as recovery of the United States' economy contributed to the turn-around in Australia's economic fortunes in 1983, continued strong American economic growth without a resurgence of higher inflation and an increase in the level of interest rates is important to the maintenance of Australia's own long-term growth performance.

It is therefore encouraging that the United States economy is moving into a second year of vigorous expansion. The U.S. economic indicators are unmistakable: Real GNP in the US expanded by over 6 per cent during the course of 1983 and is expected to grow in real terms by around $4\frac{1}{2}$ per cent in 1984. Capacity utilization in the United States also increased significantly in 1983, and American business investment has as well now started to pick up. Total civilian employment in the U.S. expanded by around 4 million jobs since the trough of the recession in November 1982.

With other countries, the same indicators were less clear-cut, but there are signs of improvement. Japanese growth is expected to be stronger this year, while remaining modest by older historical standards. The European economies have been sluggish, although I should note that the Treasurer recently returned from an OECD meeting to report that the major European economies can be expected to contribute more in the immediate future to world-wide economic growth than they have for some time.

Indeed while aggregate GNP in the OECD area is projected by the OECD to grow by only 3.5 per cent in 1984, this prospect is more encouraging than it has been for several years. World trade and activity in less industrialised areas is also picking up. The OECD estimates that by mid-1985 real GNP in North America and Japan may be 7 to 9 per cent higher than two years earlier and in Europe some 3 per cent higher.

The international stimulus to activity is therefore very real. Some Australian trade and commodity prices are already benefiting directly from this, although for several of our major export industries the benefits of international economic recovery are likely to appear more strongly over the next year or so than they have to date. The fact that international recovery is under way without any marked rise in world inflation is an added bonus.

There are, however, residual concerns in some quarters that the present international economic recovery might be short-lived. These doubts reflect concern that the recent pattern of economic expansion in the United States might not be sustainable.

In this view the recent spurt in American economic growth risks rekindling inflationary expectations and putting upward pressure on interest rates.

Recognition of the risks inherent in this situation underpinned the recent OECD Ministerial Conference's quite decisive reaffirmation of the need to reduce budget deficits, constrain public sector expenditure (especially transfer payments to people able to look after themselves, and industry subsidies), and to roll back all forms of protection and other impediments to economic flexibility and structural change.

Each element in this preferred OECD approach has found a reflection in the economic strategy of the Australian Labor Government.

The United States recovery has had some important influence on the recent upturn in Australia's economic performance. Of greater importance so far has been the remarkable surge in output and incomes in the farm sector.

The breaking of the drought has seen a major and much needed recovery in Australia's rural sector. This reflects for the most part record grain harvests. I should note, however, that livestock sector production is expected to decline in 1983-84, and that it will take a number of normal seasons for the sector to recover fully.

That said, farm product in 1983-84 is now expected to increase in real terms by about 30 per cent - compared with 20 per cent expected at Budget time. This 30 per cent growth will contribute 1.5 per cent to overall product growth - a substantial contribution to the overall recovery in the Australian economy.

Australia's economic recovery is not, however, based solely or even mainly on the upturn in the rural sector. A more general strengthering has occurred. The 1983 September quarter National Accounts Statistics show, for example, that non-farm product rose in real terms by 2.3 per cent in that quarter.

The pattern of the turnaround in the September quarter was much as expected, though the pace of the improvement was much stronger than economic forecasters - including the official ones - had first thought likely.

The stimulus to growth came from the rebuilding of stocks, public sector demand, private consumption and dwelling investment.

More recent indicators suggest that this pattern of growth has continued into the current half year. The stimulus given to the economy by the Government's budgetary policies including to the housing sector have been important factors.

The dull spot in the September quarter accounts was the continued weakness in business fixed investment. This was expected. As we indicated at Budget time, there would be little prospect of an improvement in business fixed investment until the recovery was firmly established. Indeed, at the time of the Budget we said that a decline in investment could be expected in 1983-84. The results of the most recent survey by the statistician of new fixed capital expenditure by private enterprises do imply, however, somewhat stronger levels of plant and equipment investment through the course of the year, with continuing weak investment in building and structures. On these trends it would appear that while overall investment may stabilize in the second half of 1983-84 we cannot be sure the required recovery in investment will materialise.

When my Government came to office the inflation rate in Australia was 11.5 per cent. Since then the trend in the inflation rate has clearly been downward. Over the year to the December quarter, the inflation rate was 8.6 per cent, the lowest since the March quarter 1979.

Looking ahead, the introduction of Medicare will have a significant downward effect on the CPI in the March and June quarters of 1984. Little change in the CPI is actually expected in the March quarter and only a modest increase is anticipated in the June quarter.

In these circumstances we can, therefore, expect that through the rest of this financial year the inflation rate will drop still further. It needs to - Australia's underlying inflation rate is still well above that of our major trading partners.

Continuation of the downward trend in inflation will depend critically upon the course of cost pressures and, in particular, labour costs. To date these have been very favourable. The 4.3 per cent national wage increase handed down on 23 September 1983 has now been implemented and is reflected in the 7.2 per cent growth in average weekly earnings, over the year to the December quarter. Importantly, apart from the growth in award wages, the increase in earnings mainly reflects compositional and other influences other than over-award payments.

I am confident adherence to the Prices and Incomes Accord will contain unit labour costs into the forseeable future. I say this in full awareness that corporate profits are returning to more satisfactory levels.

There has also been substantial improvement in the labour market since the Labor Government took office. In seasonally adjusted terms, the number of new jobs expanded by 140,800 (or 2½ per cent) between the low point in April 1983 and February 1984. The unemployment rate fell in the same period from 10.3 per cent to 9.4 per cent.

Indeed the outlook for the economy over the rest of 1983-84 is distinctly encouraging.

The signs are that Budget time forecasts for growth in domestic production and employment will each be significantly exceeded. Employment has already grown by more than the Budget time forecast for the whole financial year. Recent partial indicators of demand all point to a firmer tone in the last half of 1983 and early 1984. Motor vehicle registrations, retail sales and building approvals have all shown strong growth in recent months.

For 1983-84 as a whole, growth looks like being particularly strong in dwelling construction, public expenditures and exports. The turnaround in the stock cycle should also contribute significantly to growth.

Non-farm product also now looks as if it will be 4 per cent higher this financial year than last, as a result of growth of around 8 per cent through the financial year. Total output seems set to grow by over 10 per cent through the year so that it is $5\frac{1}{2}$ per cent higher in 1983-84 than in the previous financial year.

A particular task in the months ahead is to reduce the size of our 1984-85 deficit from the level that was appropriate for the first year of recovery. Certainly the Government intends reducing its own borrowing demands in the next Budget.

Obviously, it is a question of degree. We here in Australia clearly will have to balance what we think are the needs of the private sector for borrowed funds to sustain and build on recovery, and the desirability of not cutting back on net public spending to such an extent that the recovery peters out.

Equally, we should be aware that the path of continuing large, fiscal deficits may lead through high interests rates to a rather higher exchange rate than might otherwise have been the case.

The exchange rate is now determined by the market and not by official fiat. The mix of Government policies and expectations about the Australian economy will still influence the exchange rate. But if the Government is to avoid placing upward pressure on interest rates and the exchange rate it must continue its efforts to reduce the budget deficit as private sector investment strengthens.

I think it also should be recognised that we have within our own region - within the Asia-Pacific region - the circumstances that will help to sustain strong Australian economic growth. The economic dynamism of many countries within the region, coupled with the massive human and material resource base many of them enjoy, provides an ideal outlet for Australian trading and economic interests. To the extent we are successful at "locking into" regional economic growth patterns, the more we as a nation stand to gain.

The interest that Premier Zhao demonstrated during my recent visti to China in the integration of the iron and steel industries of Australia and China - through programs of mutual investment, technical assistance and the supply of Australian raw materials and semi-processed products to China's mills - is indicative of the scale of possibilities which exist. Seeking out and developing such possibilities is critically important to Australia's long-term economic well-being.

It is important also that Australia do what it can to contribute to securing a freer, more open international trade regime. Conditions conducive to sustained global trade expansion must be established. They do not exist at the moment. This recognition lay behind my Bangkok trade initiative.

The approach that initiative suggests is a practical, workmanlike one suitable both to our purpose and to a realistic appreciation of how we might most effectively make progress in this difficult area.

More specifically, through a process of close consultation, particularly with the countries in our own region, we aim to get a statement of regional countries' priority interests in market access onto the table. With such a statement, and in the context of a new multilateral trade round, regional countries should be able to secure attention to their pressing contemporary concerns and revive consideration of areas previously put aside as exceptions to the general trading rules. Subsidies and non-tariff barriers to trade are examples of such exceptions which Australia, for its part, would want to see more seriously considered.

The support we have received for the approach I have proposed has been most encouraging. A meeting of senior officials will soon be held in an Asean country to carry the exercise forward.

The inevitable corollary to any bid for a more open, freer international trade regime - the benefits of which none would dispute - must be some measure of adjustment in our domestic economic structure.

It is indisputable that past policies of Government, and past failures of entrepreneurship, have caused Australia to miss opportunities and have locked some Australia resources into relatively unproductive uses.

Sustained long-term economic growth and meeting the economic and social aspirations of the community require that Australia's resources be applied to their most productive uses. Importantly for Australia, this means accepting gradual structural change and a community willingness to share its costs equitably.

The Government does not have any monopoly of wisdom in this area - indeed if change of the kind implied is to be handled successfully it must be based on widespread community understanding and acceptance of the need for change, especially in the industries most affected.

The consultatiave procedures my Government has proposed both at the national and industry level are aimed at securing such understanding. EPAC's endorsement and development of this approach earlier this week was an important step forward. We can, I believe be confident that Australia's endowments of well educated people, large stocks of capital from home and abroad, and natural resources, will position Australia well for strong expansion of industries based on these endowments.

But as I have repeatedly said before it is not for the Government to pick "winners and losers". A program of structural change will and should have as its aim the creation of opportunities for expansion of our most productive industries. The detailed structure of Australian industry will in future be determined by the individual decisions and performance of Australian enterprises and their workers. It is for the private sector at this point in time to move deliberately, in its investment and rationalisation decisions, to meet the future.

I am sure that, with the process of renewed and sustained economic growth, the face of Australia industry will change. Ten years from now we should have more specialised, more skilled and more internationally competitive industries producing more goods, employing more people and facing the future with considerably more confidence than has been apparent in recent years.

This is our long-term challenge. It is an integral part of what the Government hopes to achieve through its medium and long-term economic growth strategies. It is what we look to Australian industry to achieve.

The main challenge in the immediate future, however, is to keep the Australian economy moving in the right direction. This will not be easy, and I have touched on some of the difficulties.

Importantly it will involve maintaining continued progress in the positive trends in the principal economic indicators - that is, employment and unemployment, economic growth, inflation, and interest rates. While the international economic situation does carry some real uncertainties, I am on balance confident of a continuing, strong Australian economic performance.

But as I have said in several recent speeches and as Paul Keating emphasised at Monday's EPAC meeting the private sector, and more specifically your companies, have a major role to play in securing this result. Many of the decision my Government has taken to date have aimed not only at providing an immediate stimulus to a depressed economy but also to secure conditions for healthy growth in the private sector in the longer term. This we regard as crucial to long-term, sustained economic growth.

We believe that the strong recovery of 1983-84 can be followed by sustained growth in 1984-85 and beyond, at rates well above the inadequate performance of the past decade.

As the Treasurer said to EPAC on ~~Tuesday~~ Monday, this will require strong recovery in private investment to replace the impact of such one-off factors as the ending of the drought. We believe this result is possible - indeed that it is a logical response by business to the general improvement in economic conditions that are now apparent, and which can be expected to continue for some time.

Already it is clear that the policies the Australian Labor Government is promoting are contributing to substantially higher share of profits in total income, lower inflation, lower unit labour costs, lower interest rates and greater confidence in the continuity of economic policy. Our industrial relations policies have produced the lowest level of disputation for 15 years. I would simply ask when business has known a better environment within which to commit its own resources to a renewed round of investment? Indeed by doing so it will itself be contributing to the maintenance and enhancement of the very conditions it so greatly values.

This is not to say the Government wants to retreat from its responsibilities.

It is determined to do its part. If it is possible to do so within the limits of the overall budgetary situation, we will lend the Government's full support to the Prices and Incomes Accord at a time when nominal wage increases are small, by providing for taxation relief to low and middle income earners. Above all, we are determined that public sector demands on financial markets will be reduced as private investment increases, as we believe it should in the improved economic conditions of next financial year.

With the co-operation of all Australians, whether individually or collectively, whether in Government or in business or as workers in the private sector, I am confident the coming year will see a further building on the improvements made this year.

The Government for its part will continue working to ensure an economic climate conducive to expansion by containing inflation and pressures on capital and labour markets.

As you in business appreciate, sustainable long-term recovery requires substantial investment outlays by the private sector. If we are to tackle inflation and unemployment together - if we are to ensure conditions of long-term economic growth - it is vital that business play its role by raising investment, just as it is vital that the labour movement play its role by restraining wage claims as required by the Accord. In this regard we all have responsibilities. It is in the community's interest, indeed in Australia's interest, as well as in each of your own interests, Australians should shoulder these responsibilities together.

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