



PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
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This is the third year in which I have had the pleasure to address the Financial Review's Post-Budget dinner.

The pleasure is twofold. First, of course, is the opportunity which it presents to renew acquaintances with so many friends.

But just as important is the fact that on each occasion I have had the privilege to report steady progress in achieving the Government's policy aims, due in no small part to a consistently applied budgetary strategy to promote a more prosperous, fairer Australia.

The Budget which Paul Keating presented last night on behalf of the Government continues in that proud tradition.

Like our first two Budgets, it is a Budget for jobs and growth - jobs for today and jobs for the long term.

It is a Budget with a clear direction, consistent with our overall economic strategy.

This is a Budget of reform - in particular, but not exclusively, reform of our programs for young people so as to address the major economic and social issue of our time - youth unemployment and disillusionment.

And the Budget achieves this result while fulfilling handsomely the stringent trilogy of fiscal commitments made in the last election campaign.

Commitments which no other Government has ever had the confidence to make; commitments which the sceptics said could not be fulfilled.

In pledging that we would not increase tax revenue, and would reduce spending and the deficit, in proportion to GDP, we set ourselves conditions which have only been met twice before in the past quarter century - but we met them.

In adding to these commitments the further undertaking to reduce the deficit in money terms for 1985-86, we set ourselves conditions which had not been met for sixteen years - but we met them.

It is worth recalling the rationale for that unprecedented set of commitments and the economic policy context in which they are set. Cast your mind back at the early months on 1983.

Australia had endured seven long years of Government based on confrontation and division which reaped a whirlwind of industrial dislocation and a debilitating wage-price spiral, culminating in a combination of double-digit inflation and double-digit unemployment unprecedented in Australian history.

Real unit labour costs rose sharply and drove the profit share, in the second half of 1982, down to a record low of less than 12 per cent.

Over the 7 years before the Labor Government took office, non-farm GDP averaged growth of only 2.4 per cent per annum. Employment crept up at an average rate well below the growth in the labour force. As a result, unemployment rose inexorably. In early 1983, most commentators thought that there was little prospect of achieving sustained growth at a pace fast enough to stop the rise of unemployment, let alone to reduce the dole queues.

We promised in 1983 to seek reconciliation and consensus - to get Australians working together again.

We set ourselves several inter-related goals : to create half a million jobs in our first three years; to reduce unemployment and inflation simultaneously; permanently to improve our long-term growth performance by correcting structural weaknesses; and progressively to achieve a more just, more equitable society.

Our approach - and in particular the emphasis which we placed on the Prices and Incomes Accord - was framed in recognition of the environment within which any Australian Government would have to work.

And I believe that Australians can be proud of the fact that, together, we have made so much progress towards achieving these goals.

Australia has experienced one of the strongest recoveries of all the OECD countries - already 10 per cent growth in two years.

And we are looking to a further five per cent real non-farm growth in 1985-86 - five per cent growth in Australia while the OECD is only expecting about 3 per cent for the world's major industrial countries.

Over three years we will have achieved more real growth than our conservative predecessors achieved over their full seven years in office.

The strong growth has been the key to the 410,000 new jobs that have been created in Australia since the National Economic Summit in April, 1983.

We have created 70,000 more jobs in 27 months since the Summit than our predecessors managed in 88 months. Our three year target of 500,000 is now comfortably within reach.

And the unemployment rate, which has already fallen by 2 percentage points, is expected to fall further this year to 7-1/2 or, at worst, 8 per cent.

We recognise that, while fiscal pump priming was appropriate while economic activity in the private sector was weak, it is no longer necessary or appropriate for the public sector to shoulder so much responsibility.

Consistent with our fiscal trilogy we have, in this Budget, reduced the share of Commonwealth outlays in GDP by a full percentage point. As the May measures amply demonstrate, this is the result of rigorous expenditure pruning and firm control over new programs.

There has been no lower growth in nominal outlays this side of 1968-69. In this Budget we have reduced the growth of real outlays to 1.3 per cent, the lowest in 6 years.

On this same occasion a year ago - at the Financial Review Budget Dinner, last year in Melbourne, I foreshadowed changes in our procedures for formulating the annual budget, to allow more effective control of expenditure within Government priorities. I said then:

"Following the experience of two Budgets, I am firmly of the view that we must review our traditional procedures of Budget formation with a view to utilising fully the opportunities for financing new and expanded programs while continuing substantially to reduce the Budget deficit.

When Budget decisions are taken on the eve of or even after the commencement of a new financial year, a Government's options for securing major savings without disruption and waste are severely truncated. In future Budgets, we must seek to extend the lead times in preparation of the expenditure side of the Budget, and in implementing expenditure decisions, and to improve on the traditional practice which we have inherited."

Following those comments a year ago, the Government brought forward the timetable for consideration of the 1985-86 Budget, culminating in this year's May Statement and the results that were unveiled last night.

With no increase in tax revenues as a proportion of GDP we have, in this Budget, reduced the deficit to \$4.9 billion - a cut of \$1.8 billion. If the Government's position on wages is accepted by the Arbitration Commission, the deficit could be \$350 million higher.

With the lower deficit, the gross bond sales to the private sector this year are expected to amount to only \$5 billion, compared to \$7.6 billion last year. And that \$5 billion includes \$3 billion of refinancing of maturing securities.

In conjunction with the cutback in State Authorities' borrowing programs negotiated with the Premiers in May, this Budget will permit a sharp reduction in the public sector borrowing requirement in 1985-86.

Such a reduction will help to reduce pressures on real interest rates from this source and help to bring monetary and fiscal policy into better balance.

This reduction will help to underpin domestic investment and credit-sensitive consumption expenditures, within the context of monetary policy firmly directed to supporting strong growth but not any resurgence of inflation. (I said more about our firm monetary policy in a speech to the New South Wales Economic Society on 30 July).

Let me expand upon the strength of recovery in the last year, and the factors which will shape our growth prospects through this year and beyond.

A pleasing feature of the economic outcome in 1984-85 was the consistent growth in private sector activity achieved through the course of the year.

Real private consumption expenditure grew at an annual rate of 5.5 per cent in the second half of 1984-5, up from 3.7 per cent in the first half. Business investment grew steadily at an annual rate of 4 per cent.

Most pleasing of all was the huge private sector contribution to employment growth.

Some 90 per cent of the growth in employment which occurred in the year to the March quarter (the latest for which the disaggregated data are available) was private sector employment.

1985-86 is forecast to be another buoyant year for the private sector, underpinned by solid growth in private consumption and faster growth in business investment.

Partly reflecting the strength of sales, the official forecasts assume that business inventories do not make much contribution to growth in 1985-86. But stocks are now very low relative to sales, in historical terms, and there is a chance that we will do better than the forecasts on this point.

A significant factor in the outlook for 1985-86 and beyond is the recent depreciation of the Australian dollar. We, as a community, have a real chance to make a decisive break with the consequences of past poor competitiveness.

Our manufacturing industries now have a real chance substantially to increase their shares of domestic demand.

And our manufacturing, rural, mining and service industries now are well placed to do much better on export markets.

I have suggested before that we could create 100,000 new jobs for Australians if we retain and utilise our newly strengthened competitiveness.

But the same increases in the prices of imported goods which have already strengthened the competitiveness of domestic producers are raising consumer prices. If these increases flow right through to all our costs we will have lost our advantage.

For this and related reasons, the Government will be arguing for discounting of the CPI for the price effects of depreciation at the next two national wage hearings.

We will be meeting employers and unions before the next case to discuss the Government's approach. As the Treasurer indicated last night, we will be exploring with the ACTU, within the framework of the Accord, means by which any temporary loss in real income can be fully restored, over time, without damaging the economy.

As a further indication of the scale of benefits which can be achieved if only the real depreciation can be preserved, the OECD has estimated that net exports could contribute 1.4 percentage points to growth in 1985-86. The Budget forecasts incorporate a slightly more conservative estimate of one and a quarter points.

And while circumstances may vary, across industries, much of Australian manufacturing certainly has the capacity to respond to the business opportunities which are emerging.

But whether those opportunities will be present in 1986-87 and beyond depends very much on how successful we are at containing inflationary pressures in the aftermath of depreciation.

In addition to strengthening the foundations of economic growth, our third Budget, like its two predecessors, is a Budget of reform in an even wider sense.

We have focused strongly on the major economic and social concern of our time - the position of young people.

As I said in my address on Sunday night, we must nurture the talents of young Australians. Their enthusiasm, their brains, their vision can lift this country to the front line of the world's industrial powers.

But so often when we have spoken to young people we have detected a sense of frustration and anger because a disturbing number feel that they have not been given a chance.

In this Budget my Government has given effect to a co-ordinated strategy to give young people that chance. Especially young people from financially poor or otherwise disadvantaged backgrounds.

A better trained and motivated workforce means a workforce which is more flexible and better able to respond to the challenges which lie ahead of us.

With this in mind we have revitalised arrangements for youth income support and put in place an imaginative new approach to youth training programs - an approach modelled closely on the recommendations of the Kirby Report, involving a mix of both on and off-the-job structured training and education.

We will be devoting substantial additional budgetary resources to this task. Resources to provide an adequate level of income support; to provide 20,500 additional tertiary places over the current triennium; to sponsor training places in the public sector; and to ensure the success of traineeships in the private sector.

The consultations which we have had while formulating our proposals were both fruitful and encouraging. They show considerable goodwill to improve the prospects of our young people, especially those who - for whatever reason leave school earlier than year 12. These people are frequently from financially poor backgrounds and frequently are condemned to prolonged unemployment, or locked in forever to low skill jobs.

The major initial focus will be on training in the finance, retail and hospitality industries: industries well represented at this gathering. I ask, on behalf of the young, that all concerned with industry bear their social responsibilities in mind in applying the traineeships proposal to their organisations.

From the first days of this Government, we have worked to remove structural impediments to improvement of Australia's long-term growth performance, alongside macro-economic policies for recovery and reforms to promote equity. We have seen policies in these three areas as being mutually reinforcing. The youth policies, with their focus on education and training, are important both to long-term growth and to social justice.

But the Budget makes provision for substantial reform in other areas as well: the increased deductions for research and development expenditure in Australia; expanded support for research and development within the motor vehicle plan; and restructuring of our international trade promotion and marketing efforts.

There are substantial initiatives to reduce farm costs in ways that promote economic efficiency. These include the complete removal of the excise on fuel for eligible primary producers and the replacement of the tariff on grain harvesters by bounties on local production.

In relation to social security, we have built upon the substantial real improvements in benefits provided in previous Budgets to provide more adequately for our most needy fellow Australians.

In our first two budgets we introduced Medicare, the highly successful Community Employment Program, and the widely acclaimed first home owners' scheme.

We renegotiated the Commonwealth State Housing Agreement and provided over 60 per cent more funding.

We reordered welfare programs as necessary to target substantial real improvements in pensions and benefits for those most in need of assistance.

This year, we have introduced a supplementary payment of \$10 per week for long term unemployment beneficiaries who rent privately, and we have further increased the additional benefits paid to certain low income families with children.

As it is necessary for all of our social and economic objectives, this is above all a Budget to underwrite a third year of strong growth -

- . A third year of growth which further defies and, I trust, shall defeat the pessimism about growth that descended upon Australia in the mid-seventies.

- . A third year of growth for Australians to learn again the huge rewards for all Australians, to be won by community co-operation within a well-crafted strategy for national recovery and reconstruction.

In his speech last night Paul Keating described this Budget as "Historic" - and he was certainly entitled to do so.

Specifically, he drew attention to the Budget's central achievement - the honouring in full of the commitment I made on behalf of the Government at the last elections - the trilogy of budgetary commitments.

No previous Prime Minister and no previous Australian Government had ever given so clear and firm a commitment on budgetary policy.

There were, as usual, the sceptics and the knockers.

I even seem to remember some comments by a former Secretary to the Treasury who compared the feasibility of the trilogy to the likelihood of what he called "airborne pigs".

Yet the requirements of the trilogy - this historic commitment - have been met; and more than met; and, as Mr Keating said last night, have been met by achieving a budgetary discipline unmatched in any budget for at least the last sixteen years.

The fulfilment of the trilogy would of itself justify the description of the Budget as "Historic".

But there is much more to it than that.

I profoundly believe that if the Australian people - and in particular, Australian business and Australian trade unions - respond to the opportunities this budget offers, then the 1985-86 budget can be a watershed in our history.

And I say that for this reason:

For too long, the budget-making process in Australia lacked consistency, purpose, and direction. Until 1983, Budget after Budget failed to provide any coherent framework within which business could plan or in which the trade union movement could fulfil its responsibilities or in which the Australian community as a whole could see with confidence the future directions of Australian economic and social policy.

This Budget, even more than its two immediate predecessors, and certainly in a way never attempted in the Budgets of the sixties and seventies, does establish that framework - a framework of confidence and consistency, of direction and purpose - that will serve and strengthen the Australian economy and the Australian society not merely this financial year, but for many years to come.

And let me conclude in this way. I mentioned before the scepticism from certain quarters about the feasibility of our Government's commitment to the trilogy.

But the economic debate in Australia since the mid - seventies has been marked by a wider scepticism.

For example, scepticism about the workability of a policy designed to attack unemployment and inflation simultaneously... scepticism about the achievement of a workable Prices and Incomes Accord... about the capacity of the trade union movement to exercise restraint and responsibility... about the ability of a Labor Government to achieve co-operation from the business community... and scepticism about Australia's capacity to achieve sustained economic growth without its benefits being aborted by a new bout of high inflation.

Yet all these things have in fact been achieved.

But underlying much of that scepticism was not just doubt about the ability of the Government - the Labor Government - to achieve these results.

In a deeper sense, the scepticism expressed a kind of doubt about Australia's own capacity, as a community, as a society, as a nation, as a people.

I would be very unwilling that this Budget, this document, should be made to bear more than it properly can.

But may I say at least this much: this Budget, I believe, does give us the opportunity - an opportunity given by the combined efforts of Government and people - to break the chain of scepticism about our capacity - not just of this or any other Australian Government but of the Australian nation - to succeed, to grow, to maintain Australia's historic commitment to a fairer and better society - and to succeed in a way and to an extent unexcelled by any nation on earth.
