



PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
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John Bannon,
Neal Blewett,
Ladies and Gentlemen.

Back on 2 March 1983, in the final week of the life of the Fraser Government, the then-Treasurer John Howard issued one of his last press statements before the election.

In the light of the achievements of last Wednesday's Economic Statement, it is worth recalling today the words of that near-final ministerial utterance of Mr Howard.

Speaking of the Accord that had just been reached by the Labor Party and the Australian Council of Trade Unions, Mr Howard said that it was "abundantly clear" that Labor's prices and incomes policy was "in tatters".

So he offered this analysis: "It (the Accord) offers no hope for the unemployed. It does not form a viable basis for a realistic approach to wages".

It is hard to imagine any commentary more flawed than that, or any prediction more erroneous.

The truth is that, under the Accord, Australia has had an unparalleled period of wage restraint and unparalleled growth in employment.

From 1983 to December 1988 real unit labour costs have declined by 9.2%; during the same period 1.3 million new jobs have been created - a growth rate twice that of the OECD and four times the rate Mr Howard and his colleagues achieved when they were in office.

The Economic Statement that Paul Keating delivered on Wednesday provided further proof that the Accord is delivering achievements of lasting value for all Australians.

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It delivered a package of responsible wage increases, affordable tax cuts and equitable new family payments - a mix that will take Australia into the last decade of the century with a more prosperous economy and a more just society.

This is the Accord that Mr Howard dismissed as offering no hope for the unemployed and no basis for a realistic wages policy.

But I suppose we should at least acknowledge his consistency about the Accord.

Throughout the last six years, as all the evidence accumulated to disprove the validity of his assessment, he continued - with admirable consistency though little insight - to dismiss and disparage the Accord.

He does it still. Only last Thursday he castigated the Government for its so-called "ideological strait-jacket imposed by its roots in the Labor movement."

Let me make it perfectly plain that I am proud of Labor's links with the trade union movement - not for any ideological reason but because of what those links, as part of a broader consensus approach by the Government, have been able to achieve in the interests of all Australians.

So let's put John Howard's rhetoric to one side and look at the facts.

What is the evidence of the success of the Accord?

First, as I have said, it has yielded sustained wage restraint which has been directly responsible for record employment growth.

There are now about 1.3 million more Australians in employment than there were when the Accord was forged.

I point out that around 90 per cent of those 1.3 million jobs have been created by the private sector.

The unemployment rate has fallen by four percentage points.

Industrial disputation has fallen by 59 per cent.

And the private sector has lifted its investment to a 40 year high relative to GDP.

Second, the Accord has generated real improvements in our international competitiveness. Australia is now 7.6% more competitive than it was in 1984-85 when measured on a consumer price index basis.

At the same time, it curbed what would otherwise have been the inflationary consequences of import price increases caused by the 1985-86 decline in our overvalued dollar.

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In other words, the Accord allowed Australia to adjust to the collapse in our terms of trade in 1985-86 without recession.

Third, the Accord has seen a dramatic improvement in the quality of social justice in Australia.

We have seen - even before Wednesday's Statement - unprecedented improvement in family assistance, targeted to those members of the community who need it most.

We have seen - even before Wednesday's Statement - historic reforms of the taxation system: cuts in personal tax, the taxation of capital gains and the effective pursuit of tax avoidance and evasion.

Fourth, the Accord has allowed the nation to address the issue which as no other holds the key to long-term sustainable prosperity: productivity.

With our tripartite reforms of outdated work practices, with our program of reform of the schooling and job skilling of our students and workers, and with the fundamental reforms being achieved in the restructuring of the nation's antiquated awards system, we are seeing lasting improvements in the nation's human capital - our greatest resource, our people.

Jobs; adjustment; social justice; productivity improvements: that's what the Accord has delivered and it is delivering still.

To put these achievements another way, the Accord has provided the principal means of surviving the two great challenges to the nation's economic security that have arisen in the 1980s.

In 1983 it pulled Australia out of the worst recession we had endured in 50 years. We turned around that unique legacy of the Fraser/Howard years - double digit unemployment combined with double digit inflation - and we laid the basis for recovery and restored prosperity.

In 1985/86, the Accord allowed us to weather the collapse in our terms of trade which stripped some \$11 billion off our national income.

Ladies and gentlemen,

Now, as Wednesday's Statement proved, the cooperation between the Government and the trade union movement has offered us the means to survive the third great challenge of the 1980s: the excessive economic buoyancy that has followed the stock market collapse of October 1987.

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In the face of virtually unanimous expert predictions to the contrary, Australia, and most of the industrialised world, have seen since that collapse the emergence of boom economic conditions.

But in addition, and while we have flat consumption growth and flat public demand, we now have business investment at its highest level relative to GDP than at any time in the last 40 years.

Housing starts are running at their highest levels since the early 1970s.

Employment growth has been exceptionally strong.

A brief history lesson demonstrates that these current conditions pose a real challenge to economic management in Australia.

Over the 1970s and 1980s we have had three periods of significant boom conditions.

In 1973 overtime hours worked increased by 30% and a net balance of 27% of firms responding to the CAI/Westpac Survey of Industrial Capacity were operating at above normal capacity utilisation. We then saw wages increase by 72% in the next 3 years, prices grew by 55% and unemployment increase from 2 to 5%.

In the early 1980s, capacity utilisation again tightened and overtime hours worked increased by 22% in December 1981. In the two years to December 1982 wages increased by 27%, prices by 19% and the unemployment rate doubled in two years as the economy went into recession.

Today, capacity utilisation and hours of overtime worked are running at the highest levels since 1973/74. Yet wages growth is running at around 7% and we have just reached an historical agreement with the ACTU to have 6 1/2% wages growth next year.

In other words, where previous Governments failed to cope with growth, this time we will get it right.

Continued moderate wages growth through this boom period will prevent the spurt in inflation, the devastation of company profits and the unemployment that, to the cost of all Australians, accompanied the previous booms.

The increased incomes that will flow to Australian workers in 1989-90 as a result of the Economic Statement will come from tax cuts and family payments from the Government, paid for by past declines in the size of Government, and from moderate wage income delivered through award restructuring.

They will not come as past wage increases have, as direct costs to employers, and therefore as costs to jobs and investment.

That is the result of the Accord which the Opposition Leader disparaged in 1983 as "not form(ing) a viable basis for a realistic approach to wages".

Ladies and gentlemen,

The truth of short-term macro-economic management, whether it be in Australia or elsewhere, is that there are three and only three policy arms available for Government use: wages policy, fiscal policy and monetary policy.

Some have said there should be a different mix of policies.

Let's look at the facts.

Wages policy today, as I have illustrated, is as tight as possible. Wages growth of 6.5% in 1989-90 to accompany our investment surge is an unprecedented result.

Last Wednesday night's tax cuts have effectively lowered the corporate wages bill.

Anybody seriously entertaining the possibility of a lower wages outcome for 1989-90 is living in fairyland.

Then there is fiscal policy.

Our Budget surplus in 1987-88 was the first in 35 years. This year's surplus will be \$5.5 billion. Next year's, after paying for the tax cuts, will be at least as high.

Real Commonwealth Government outlays will, after next year, have declined for four years in a row.

The result of this restraint is that the entire Australian public sector will make no call on foreign savings this year, and no call next year.

The Liberals' policy is also for a zero Public Sector Borrowing Requirement, though in some 30 years of post-war Coalition rule they never came close to it.

When they left office in 1982-83, the Public Sector Borrowing Requirement was 5.9% of GDP. Now we have brought it down to zero.

If today the Opposition wants to suggest a tighter fiscal policy, they have the responsibility to tell the community where they would make the necessary cuts.

Mr Howard's policy, enunciated again in his reply to the Economic Statement on Thursday, is dishonest: he pretends cuts can be made without specifying where or how.

Last Thursday he did not nominate areas for spending cuts. He simply asserted Government can do what it does now, more cheaply.

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The truth is that further large cuts will cut services. This would either transfer the bill from Government to individuals, as would happen if health outlays were cut, or it would just mean fewer community services: fewer university places, less defence equipment or lower unemployment benefits.

Let's not have policy discussions that assume that cuts can be made in Government outlays without cost.

It would be easy if they could.

But, I repeat, they cannot.

By any measurement, we have the tightest fiscal policy in 35 years. It is nonsense to suggest that our policy mix sees us lax in the fiscal area, or that billions of dollars in savings can be easily found.

The real problem prompting the debate about policy mix is Australia's current high interest rates.

Australia's monetary policy is tight as it plays its appropriate balancing role in the economy. The economy is growing too fast and needs to slow.

Monetary policy has the quickest effect.

But while fiscal and wages policy are at unprecedented levels of tightness, the same is not true of monetary policy. Today 90 day bill rates stand at around 17.5%: in April 1982 they hit 22%.

Our current monetary stance will stay tight until the economy comes off the boil: it will not be released until then, but it will not be held a notch tighter than it needs to be.

So reviewing these three arms of policy - wages, fiscal and monetary - the truth is that no policy mix other than the present would suffice to take Australia securely into the 1990s.

The Liberals have no wages policy.

Their fiscal policy is at best a copy of ours.

Their resultant monetary policy - such as it can be determined from the contradictory statements that emerge from their three economic spokesmen Howard, Peacock and Hewson - would in the current climate send rates through the roof.

There is no comfort for Australian families there.

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Ladies and gentlemen,

If there is one single characteristic of the Hawke Government that has been evident throughout our entire period in office it is our proven capacity simultaneously to achieve economic reform and social justice.

And if there is a single characteristic that distinguishes Labor from the conservatives it is the complete incapacity of our opponents to grasp either of those fundamentals.

Let me illustrate what I mean.

The central task of this Government has been to achieve the reconstruction of the Australian economy - to reduce our vulnerability to the fluctuations of world commodity markets by diversifying our export regime; to build on our strengths as a commodity producer by developing the capacity to produce and export manufactured and service goods.

In the short-term, that has required the exercise of discipline.

It has meant, for the public sector, real reductions in spending and, for the wage earner, real wage restraint.

What has to be understood is that under Labor since 1983, these disciplines have been achieved in tandem with a new attention to social justice issues.

The Accord Mark 1 balanced the requirement for real wage restraint with the provision of increases in the social wage; the exercise of real wage restraint by employed members of the workforce created the conditions whereby the unemployed found jobs in unprecedented numbers.

The exercise of budgetary restraint has created the conditions for increased expenditure on social justice programs, especially those targeted to the less-well off.

Indeed, we have achieved a massive reorientation in spending priorities of the Commonwealth.

Spending on social justice programs as a proportion of the Commonwealth's total spending has risen from about 50 per cent to about 58 per cent since we came to office.

It is in this context that the latest reforms have to be seen for what they are - a coherent package, in which the essential momentum of economic reform is maintained, through the continued exercise of fiscal and wage restraint, while at the same time achieving major reforms for the less well-off.

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Among those reforms are increases in Family Allowance of \$9 per week for each of the first three children, and \$12 a week for each subsequent child. A two child family will receive an additional non-taxable \$5.25 a week, a 41% increase, from family assistance alone.

The Government has met its commitment to eliminate the need for children to live in poverty. It has met the family assistance benchmarks six months ahead of the envisaged timetable.

For the first time, we have indexed family allowances, the Dependent Spouse Rebate and other family-based payments.

And we have brought forward by 12 weeks the time taken to index age pensions, and we have ensured that age pensioners who receive income within the pension income test free area pay no tax at all.

Let me make this final point about the achievements of the Economic Statement.

John Howard has claimed the benefits of this package will be eroded by inflation or higher interest rates.

He is wrong.

Since there will be no wages explosion, there is no reason to expect increased inflation.

There is also no reason why interest rates should increase as a result of this package.

The tax cuts are already paid for by smaller Government. Commonwealth outlays as a percentage of GDP have fallen from 31% in prospect for 1983-84 to 25.5% in 1988-89. The Government will be making no new borrowing this year to finance the cuts. The PSBR will be zero this year. And, even after paying for tax cuts which more than offset the loss accumulated through bracket creep, it will be zero next year.

Ladies and gentlemen,

I have concentrated today largely on domestic issues.

But I would be doing a disservice if I cast this report purely in domestic terms, as significant as all these recent initiatives are.

I want to close by turning your attention abroad.

Because it is in the international economy that the success of Australia's domestic reforms will ultimately be tested.

Behind everything we have done since our first day in office has been the need to create an economy not only more prosperous and more equitable in domestic terms but also more able to compete on world markets.

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For it is only through successfully taking on the world, and winning, that we will be able to secure our domestic prosperity.

In particular, it is only by the greater enmeshment in Asia of a diversified, productive, efficient, competitive Australia that the prosperity of individual Australians will be best protected and enhanced.

It has been a truism of political debate in this country for many years - at least since Britain's entry into the European Common Market - that our future lies in Asia.

But it is only since 1983 that we have taken the necessary steps to act on that truth - to prepare ourselves to exploit the unique opportunities presented to us by our location within the world's most economically dynamic region, the Pacific Rim economies.

That is why, since coming to office, we floated the dollar, deregulated the financial markets, liberalised foreign investment, achieved unprecedented cuts in tariffs, terminated the two airline agreement, deregulated crude oil marketing, allowed effective competition in the provision of telecommunications services, and lowered company tax rates.

It is why, in May, we will address problems in coastal shipping and on the waterfront - as part of a comprehensive range of announcements aimed at achieving further reform of our micro-economy.

A principal focus of our diplomatic activity - including the visits abroad that I make as Prime Minister - is increasingly to protect and enhance our trading interests, especially through upholding the multilateral trading system GATT.

In August 1986 Australia convened the Cairns Group of Fair Trading Nations in order to ensure that the current Uruguay Round of GATT negotiations effectively liberalises the rules governing world trade - especially governing trade in agricultural commodities.

We would all be the losers if GATT were to fail and if the principles of free trade were to be lost in a scramble for protectionism.

After the Montreal Mid-term Review stalled last December, it seemed as if we were indeed facing, if not the end of GATT, then certainly the beginning of the end.

It was a sobering prospect. Fortunately, thanks in very large part to the activities of the Cairns Group, a major breakthrough was reached recently.

On agriculture, the GATT parties have essentially accepted the thrust of the major Cairns Group proposals that I tabled in Geneva on behalf of the Cairns Group in 1987.

The result of that agreement is that Australian farmers can look forward to improved returns. The prospects for Australian rural exports are infinitely brighter in a world where the likelihood of an agricultural subsidies war between the EEC and the US is removed, and where the unfair trade barriers restricting Australian exports to those economies and elsewhere are steadily removed.

While we will need to monitor the implementation of the principles reached in this negotiation, I believe we can be optimistic for the future of efficient agricultural producers such as Australian farmers.

Ladies and gentlemen,

The proof continues to accumulate.

For six years the Federal Opposition has neglected the real issues and fudged the questions that need answering.

Luxuriating in the comfort of not having actually to do anything, they continue to offer suggestions that, if implemented, would devastate the Australian economy - and Australian families.

On the other hand, the Federal Labor Government, steadily and responsibly, is creating the conditions for sustained economic prosperity.

Wednesday's Economic Statement presented a package of measures that fulfilled a key promise to the Australian people.

We said that those who have suffered the heaviest burden of restructuring - those families that have made the sacrifices - will see real improvements in their disposable incomes this year.

That relief is not extended as a give-away that will jeopardise future economic recovery.

It is provided in a way that will preserve the gains we have already made and that will ensure, as we enter the next decade, that we will build on those gains and we will continue to create a more prosperous and a fairer Australia.
