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PRIME MINISTER

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**SPEECH BY THE PRIME MINISTER
ADDRESS TO THE COMMITTEE FOR ECONOMIC DEVELOPMENT OF
AUSTRALIA
BRISBANE - 15 MARCH 1991**

Ladies and gentlemen

Three days ago I delivered to Parliament a major Statement about the economic challenges facing this nation.

I spoke with three principal purposes:

First, in the immediate circumstances of the recession, I saw it as my responsibility, as Prime Minister, to offer the Australian people assurance and explanation: assurance that our policies are bringing the recession to an end; and explanation of how the transitory pain will yield identifiable and enduring gain for the future.

Second, I wanted to announce a package of substantial new measures directed to the fundamental task facing the nation.

The tariff cuts, the reduced wholesale sales taxes for business, the business savings achieved through simpler depreciation, the retraining assistance, the new support for apprentices and the further initiatives in education and research - all these new measures I announced share one overriding objective.

That objective I expressed in the title of my Statement: Building a Competitive Australia.

As such, these new measures continue and intensify the reforms my Government has carried out in the past eight years.

They show once more our determination and capacity to take tough decisions in the interests of the nation - with a steady commitment to our principles and values, and a steady refusal to return to the old attitudes designed to set Australian against Australian.

The third purpose of my Statement was to reaffirm for the Australian people the longer term economic goals to which we aspire and to identify for all Australians their role in achieving those goals.

Because it is vital in this process to understand that all of us - workers, employers and Government - have essential, and complementary, roles to play.

In the final analysis, the challenges ahead demand the involvement of all Australians.

In content, the Statement presents new challenges for Australian industry as it enters the final stages of the winding down of protectionism - particularly the TCF and car industries.

One of the most pleasing aspects of the Statement is the way in which, despite those tough implications, the message of competitiveness is getting through.

There have been few tears shed for Australia's protectionist past.

Instead, there has been a general sense of preparedness for the challenge ahead.

Broadly, Australians accept the message that protectionism has made Australia a poorer nation than it would otherwise have been; that tariffs have forced up the prices that consumers and businesses have to pay for essential goods and services; and that insulation from the challenges of the world marketplace is no way to build world-competitive industry, or to acquire the world's best technology, or to adopt international best standards in our places of work.

To date, the main focus of reaction to the tariff cuts has been on their implications for the import-competing sector.

Today, I want to shift the focus to include Australia's exporters, and to discuss how they are advantaged by these and other changes in the 12 March Statement.

Let me start by presenting you - I hope, not burdening you, with some figures about Australia export performance.

Australia's mining sector has consistently been a strong export performer for many years. But an interesting story is told by the export figures for our agricultural and manufacturing sectors.

In the second half of the 1970s, the volume of agricultural exports grew by nearly 9% a year. But since then agricultural exports have marked time. Despite consistent large productivity gains, our farmers exported the same volume of goods in 1989-90 as they did ten years earlier.

Over the same periods, our manufacturing exports grew consistently and, indeed, exponentially - by 1.4% a year in the second half of the 1970s, by 4.5% a year in the first half of the 1980s and by nearly 13% a year in the second half of the 1980s.

What explains this extraordinary divergence between agriculture, our traditional strong suit, and manufacturing?

First, it is not due to complacency or lack of efficiency by our farmers. They have been and remain among the most efficient in the world.

The problem lies elsewhere: in the increasing corruption, over these years, of world agricultural trade - largely by the European Community and to a lesser extent by the United States and Japan.

The combined farm subsidies of these three economies have recently averaged more than \$300 billion a year. And this for a sector which produces only about 3% of their GDP.

I have had the pleasure of addressing CEDA audiences on this issue before, and so I know you agree with me in recognising the importance of the Uruguay Round trade negotiations in rectifying these distortions.

A successful outcome to the Uruguay Round - by which I mean, an agreement by the Europeans to substantial cuts in their farm protection - is essential for the continued health of the world trading system and, therefore, the world economy.

It will ensure that efficient farmers, like our own, are rewarded, not penalised, in the world marketplace.

While GATT has been completely ineffectual so far in breaking down trade distortions in agriculture, it has been very successful in substantially reducing manufacturing protection.

Over the last forty years, tariffs on manufactured goods have declined consistently - and the volume of world trade in manufacturing has dramatically grown.

So these international factors explain part of the divergent export performance of our farms and our factories.

There are critically important domestic factors at work too.

Just as agricultural production is now corrupted by the pernicious subsidies that cosset the farms of Europe, so, within Australia, manufacturing production was distorted by the tariff walls that grew up around this country in the 1950s and 1960s.

It was to remedy those distortions, and the complacent attitudes to which they gave rise, that this Government set about with determination to dismantle the tariff walls and to expose Australian industry to the challenges of the world.

The results have been dramatic.

Manufacturers no longer have to tolerate the extra costs imposed on their production process by the burden of tariffs.

Contrary to the expressed fears of the pro-tariff lobby groups, the Australian manufacturing sector now employs more, produces more, and exports more than it did before - and in each case, the rate of growth has been faster here over the past five years than the average of the OECD countries.

If I may burden you with a few more figures, let me provide a measure of those increases.

Using 1985 as a base measure of 100, manufacturing employment in the OECD economies rose, from 1985 to 1989, to 101.

In Australia, using the same base, manufacturing employment rose to 109.

In manufacturing production, Australia increased to 121, just ahead of the OECD, at 120.

In manufacturing exports, the OECD went from 100 to 131; Australian manufacturing exports went to 179.

So the lesson is surely this.

Against a background of falling tariffs world-wide and in Australia, Australian manufacturers are becoming more competitive. We are becoming more successful in winning world markets.

This is one important reason why my Government took the decision to cut tariffs further.

Taking into account these latest cuts, my Government will, by the end of this decade, have slashed assistance to the manufacturing sector by more than three-quarters - the nominal rate will fall from 13 per cent to 3 per cent, and the effective rate from 22 per cent to 5 per cent.

And because we are increasingly practising what we are preaching, this decision will add further credibility to our international campaign to win lower agricultural subsidies. We can argue with greater force that our trading partners should abandon their own counter-productive distortions of international trade .

No matter how much our trading partners might flout international trading rules, lower Australian tariffs mean reduced input costs for our own businesses and thus a better Australian export performance.

So ultimately, lower tariffs advance our own self-interest.

To give one example, the food processing industry - an industry in which we have an obvious competitive advantage to add value - will become more competitive as a result of our decision to cut substantially the tariff on sugar.

A further example is the duty reductions on minerals processing equipment not made in Australia, which will reduce the cost of that equipment to the minerals processing industry - thereby enhancing its competitiveness.

In the same way, the taxation changes I announced - simpler depreciation and lower wholesale sales taxes - will also lower business input costs.

This is not the place to make extended partisan comment, but it is absolutely relevant to note that in the more than four decades since 1949, it has only been conservative Governments that have built tariff walls and enlarged them and it has only been Labor Governments that have dismantled them.

Ladies and gentlemen,

Australia's relatively high inflation for much of the past two decades has been a major factor undermining the competitiveness of our exporters and potential exporters

High inflation has brought higher interest rates and a higher cost of capital. It is no coincidence that the most successful countries in the post-war era - Japan and Germany - are noted for their low inflation

Australia now stands on the verge of a breakthrough to low inflation. Inflation is currently running at 6.9%, lower than the OECD average of 7.2%, and will fall substantially over the course of this year.

We have the opportunity to put Australia on a low inflation path.

The combined effects of the tariff cuts and taxation changes will help us bring inflation, and hence interest rates, down.

In his response yesterday to my Statement, the Opposition Leader threw down what he called two challenges. We do not know much in detail about the Opposition's prescriptions for building a competitive Australia, but we do know, with complete certainty, that these two challenges would spell disaster for Australia.

He proposes the twin, and related, follies of a wages free-for-all and a consumption tax.

The primary effect of a consumption tax would be to boost inflation.

To the extent that a consumption tax would have any offsetting advantages in terms of reduced indirect taxes on business inputs, our decision to widen exemptions for wholesale sales tax has substantially met that need.

At the same time, our route is not just non-inflationary, it is positively deflationary - that is, it delivers second round benefits in terms of lower inflation and a lower cost of capital.

By contrast, the consumption tax would cut taxes on business inputs but raise the cost of capital through higher interest rates at the same time, with the possibility that business would be worse off.

This possibility is made a probability by the Opposition's proposal simultaneously to deregulate the labour market.

That could only make inflation very much more difficult to control - and for evidence we need look no further than the experience of the United Kingdom over recent years, where poor discipline over wages in a deregulated labour market boosted wages growth and inflation into double figures.

Ladies and gentlemen,

I am sure you are familiar with the report which I commissioned from Professor Ross Garnaut, Australia and the Northeast Asia Ascendancy. That report highlighted the enormous opportunities that await a more competitive Australia through closer trading links with the north east Asian economies - the best performers in the dynamic Asia-Pacific region.

Over the last four decades, the Asia-Pacific region has experienced one of the most remarkable periods of sustained economic growth in human history.

And the major factor underpinning that growth has been the region's openness in trade.

In January 1989, I launched the initiative for the creation of a new forum for Asia Pacific Economic Cooperation. APEC has become a valuable means for regional economies to achieve closer policy harmonisation.

It has also become a significant voice in the global debate about the Uruguay Round. An APEC ministerial-level meeting last July issued a strong declaration in favour of a substantial and timely outcome to the Uruguay Round.

Australia has already taken many steps along the road to closer enmeshment with these economies, and our tariff cuts will take us further.

My Statement also announced that Austrade's activities would be refocussed towards Asian markets. In addition, we will create a new program of fellowships so that Australian business men and women and recent graduates can get direct working experience in the Asia Pacific region.

Let me quote the concluding paragraphs of Professor Garnaut's article in The Age of Wednesday last.

"We have watched the emergence of internationally-oriented industrialisation in many countries in east Asia over the past two decades. Looking at that experience, the success that has been emerging recently in Australia, the favourable development in the macro-economic environment, and the commitments in this Statement, the transformation [of the Australian economy towards export-oriented manufacturing] is likely to proceed at a pace that surprises most Australians.

"It will take most of this decade in the best of circumstances. We could yet make big mistakes, including omission of efficiency raising reforms. But the odds now favour the emergence of an internationally oriented, productive Australian economy within a short enough time for most of us to enjoy it."

I can only add: my Government is determined to ensure that this increasingly short-priced favourite romps home.

In saying that, I want specifically to acknowledge the qualification Professor Garnaut inserted in his prediction: the mistake of omitting efficiency raising reforms.

None of you will have missed the fact that much of the commentary since my Statement has centred on the pace of micro-economic reform within Australia.

Let me tackle that issue head on.

This Government has an unshakeable commitment to a continued rapid pace of micro-reform.

We reject the notion of an explicit "nexus" between cutting tariffs and reforming the micro-economy. The tariff cuts I announced were entirely appropriate and should not have been delayed by any suggestion about the pace of micro-reform.

At the same time, micro-reform is already proceeding at a rapid pace, according to schedules that have been set and stringently applied.

As I said on Wednesday at the National Press Club, we put micro-economic reform on the political agenda of this country and we have stayed ahead of the game ever since. We were the first to identify the bottlenecks and start to clear them. We have won the cooperation of those involved in making the reforms work, and we have set tight timetables to achieve them.

As a result, we have seen more reform in the last eight years than had been seen in the previous eighty.

And in 1991 alone we are pursuing an agenda of reform covering the waterfront, shipping, telecommunications, domestic aviation, rail freight, roads, business regulation, pro-competitive legislation, and workplace reform - all without significant industrial disruption or a wages free-for-all.

With all this reform underway, it would have been foolish to have held back from further tariff reductions.

However, this needs to be clearly understood.

We do recognise that the new round of tariff cuts will continue to expose Australian business to international pressures, when they come into effect from 1992-93.

I can assure business that as this takes place, we will continue to do our part to meet that challenge through continued micro-reform.

The current reform targets will be met, on time, and we will initiate further reforms, further timetables, to ensure that we meet the challenges of an Australia emerged from behind the tariff walls.

Our commitment will continue into and beyond 1992-93, parallel to our commitment to continue reducing tariffs.

It is true that 1991 sets a high-water mark for micro-reform.

We can expect that high water mark will be matched and surpassed in the future.

This is entirely consistent with the sentiment underlying the 12 March Statement, in which I said, "We need the habit of adaptation - because the lessons of international competitiveness must be constantly learned and re-learned."

Ladies and gentlemen,

I said at the outset that the challenges facing Australia were challenges for all Australians.

Of course, government has the responsibility to lead by setting the right framework. And we will do that.

But the framework alone will not be enough.

The decision to lower tariffs will not, by itself, lead to a stronger export performance. The opportunities it presents will not automatically be taken up.

What will be required is a preparedness by individual Australians - managers, investors, employees, consumers - to take up those challenges.

As I have said, we are not only about achieving reform of long-standing institutions of our economic landscape but just as importantly - and perhaps much harder - the deep seated attitudes that have accompanied them and given them meaning.

May I conclude by saying most sincerely to you - that in talking to the members of CEDA I could not be talking to an organisation more attuned to the realities of which I speak or more committed to ensuring that it will play its part in meeting these great challenges and realising the vast potential of this nation.

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