

TRANSCRIPT

PRIME MINISTER'S ADDRESS TO THE NATION
(NATIONWIDE RADIO AND TELEVISION)

THE ECONOMY

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You have all read much lately on the problems of inflation.... the problem of present rises in costs and prices and the prospects for the future. In some ways the matter has been a little overdramatised perhaps, but there is nevertheless a very real problem for discussion.

The discussion itself has resulted from two developments. First, the rise of 1.9% in the Consumer Price Index during the last three months of 1970 - the largest rise for some fourteen years. And secondly the likely effects on the economy of the Arbitration Commission's award of a 6% increase in wages and salaries - a much greater increase than anyone had thought possible.

Cabinet has met this week to discuss the problem and I want to tell you briefly how we see the present situation, and the approaches which we believe should be made to attack the root causes of inflation. But first let me refer to the rise in the Consumer Price Index.

We believe that too much has been made of this single quarter's figures. Much of the rise was due to the once-and-for-all inclusion of cost increases due to indirect taxes imposed by the Budget on such items as cigarettes, wine, petrol and so on. Without them the Index rise would have been about 1.1% or a little more. So the real rate of increase was not nearly as great as the figures suggested.

But, having made allowance for that, the rate of increase was uncomfortably high and reflected a too rapid underlying rate of price increase. Now, in that situation, of a too rapid underlying rate of price increase - in that situation we are faced with a 6% wage and salary rise which will add perhaps \$900 million a year to wages and salaries and therefore purchasing power in a full year.

We will not, at the present rate of production, produce sufficient additional goods and services to be exchanged for that additional money at constant prices. It would be fine to give buyers an extra \$900 million a year if we were going to produce \$900 million worth of extra goods to sell. But we are not. Therefore, unless some action is taken, there will be a boost to inflation. And growing inflation is one of the worst ills from which a nation can suffer.

In considering what action should be taken Cabinet sought first to discover the areas in which demand seemed to be growing most strongly. It appeared that consumer spending was not growing strongly. A high rate of growth in demand has not, at any rate as yet, shown up in this field.

The areas in which demand is growing strongly are in the public sector - that is spending by Governments - in private investment in new plant and machinery - and in non-dwelling building construction - that is on such things as the new blocks of offices now growing up in such profusion in the cities of Australia.

We therefore believe our first line of attack should be to ensure not only a restraint on Government expenditure but a reduction in Government expenditure this financial year.

Before I went to Singapore I issued instructions to all Departments and to the Public Service Board that action must be taken to restrain the growth in the number of public servants.

We are now working out reductions in the Government's budgeted expenditure in other directions. Implementing these reductions will be uncomfortable. Australians will not get as much as they had hoped to get in the way of new public amenities of various kinds. But the reductions are necessary.

By reducing the demand of Governments, more is made available to meet the demand of private persons.

Secondly we believe that the rate of growth of new private investment in plant and equipment and machinery should be reduced.

And thirdly the rate of growth, and the demand pressures of new non-dwelling building construction must also be reduced.

A considerable proportion of this latter demand is said to be due to the inflow of overseas capital for the specific purpose of building such buildings. The Government wishes it to be known that it would prefer overseas investors who are considering financing non-dwelling construction of this kind not to do so until they have first discussed their plans and the dates on which they propose to begin construction with the Treasury.

We have considered taking monetary and fiscal measures at this time. That is restricting credit or raising interest rates still further or increasing taxation.

We do not believe that the present situation requires a lift in interest rates, already high, and we would prefer to look forward to a future time - necessarily indefinite - when other measures we take might permit a reduction of such rates.

Nor do we think that the present situation calls for a rise in taxation.

I have already said that the rate of growth in consumer spending is not growing significantly as yet.

To increase indirect taxes at this time would therefore be to further increase prices in an effort to reduce demand in an area where demand is not excessive, and by adding to the Consumer Price Index it would quite possibly stimulate an inflationary psychology.

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To increase income taxes at this time would, again, be to tackle demand in an area where demand is not now excessive. It would not strike at the root of the trouble, and its financial effects over a quarter of a year would be minimal.

We do not reject these economic weapons and say we will not use them at some future time if it is necessary. If it is necessary, and useful in tackling the problem, we will use them however unpopular that may be. But we do not believe that to use them now would be of help. And we do not believe indeed that at any time the use of these classic weapons against inflation would of itself and alone solve our problems.

Having said this, and having indicated some of the actions the Government will be taking to reduce demand in the sectors which are growing too rapidly, I come to what constitutes the major threat of inflation:

No matter what action a Government takes - no matter how severely it taxes or how ruthlessly it cuts Government spending - no matter how it seeks to redirect resources if that is what it wishes to do - it will not be able to beat inflation if wages and salaries rise more quickly than production. Demands for over-award payments, for extra holidays, for additional holiday pay, for shorter hours can only be met in one of two ways. Either the amount of goods and services produced is increased sufficiently to enable these requests to be met without inflation - or the requests are met at the cost of inflation which ultimately destroys the benefits sought and leaves us all worse off.

Price control, imposed by Governments, is no answer to this problem. It is superficially appealing, but in fact all our advice is, and our beliefs are, that it is not an answer to the problem. There is a limit to the extra costs which employers can absorb before passing on cost increases by increasing prices. The inexorable fact is that if we try to pay higher wages without providing an equivalent increase in production we will have inflation. And yet this course is the one that Australia has been following and this approach is the real inflationary threat to Australia.

Given our present Arbitration system and State Wages Tribunals, control of this situation is not now entirely in the hands of Governments. Yet Governments can do something to combat the over-award payments now being negotiated by employers. At present, employers are able to buy industrial peace by concessions, the cost of which they know they can pass on to the consumer. It can be made more difficult to pass on extra costs.

Increased internal competition would help. And internal competition can be increased if the High Court upholds the validity of the present Trade Practices Act, both interstate and intrastate. If it does uphold the validity, the Act can be strengthened and lead to more internal competition. If the Court holds the Act in part invalid, then we will have to consider approaching the Australian people and asking them to give us more power to make the Act wholly valid.

Further, external competition with industries in Australia when internal prices rise unduly in those industries because of costs, due to over-award payments and other concessions negotiated by employers in those industries, will have to be considered.

And now I sum up. There has been a tendency to over-dramatize the present inflationary situation. But there is a real threat of inflation inherent in the underlying demand and in the recent Arbitration Commission Award, in State Wages Tribunals Awards, and in increased over-award payments which might be expected to flow on from that.

We propose to take action against demand inflation by reducing Government spending, by encouraging postponement of private investment in plant, by discouraging the present rate of construction of non-dwelling construction such as office buildings and by other ancillary actions of lesser importance which we have in mind. We will seek to increase internal competition and to examine cases where competition from external sources might be justified, so as to make it more difficult for employers to concede union demands.

We are prepared in the future to take any further action which may be considered necessary to play our full part in beating inflation. But unless wage fixing authorities, unions and employers, also play their full part, our actions in the future by the classic weapons of taxation and reducing demand could impose more hardship than would otherwise be necessary and not have the corrective effect which they would otherwise have. What we seek in Australia is production which increases yearly and wages and salaries which also increase yearly but not faster than production, so that there can be a real increase in living standards.

In the present employment situation - full employment - with the growing public demand for more Government services, it will be uncomfortable to achieve this. Many things for which an admirable and persuasive case can be made out may have to be postponed. But in the long run we will all be better off. We all have a part to play in attaining that goal. And for its part, within the limitations the law imposes on it, the Government will play its full part.