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PRESIDENTS' LUNCHEON

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Speech by the Prime Minister, Mr. William McMahon

Mr. Chairman and Gentlemen :

Now, I am not one of those who believe that we should take too unhappy a view of our future. But I do want to emphasise, and I keep on emphasising it as often as I can, that the major difficulty that we face today is inflation, and that we have to keep the forces of inflation - whether they are the **cost-push type** or demand type - we must keep both of them, not only under constant review, but I think we also have to keep them under constant control.

Well, what then about the economy?

As I see it, we have some difficult areas. It is not the consumption area, it is not our balance of payments. It isn't in terms of liquidity because in the last few days, as we forecast in a recent "No Confidence" motion - we forecast then that we would improve the liquidity position of the banks, not so that they could expand activities but so that the activities of industry would not be reduced.

In other words, we have a feeling that while we have inflation, we don't want to strangle the economy in the process of trying to find a cure, but we want to gradually try and bring inflation under control. While at the same time to permit expansion of the kind that we want - round about 5½% per annum - to keep on going and to permit us the increased production out of which better standards of living can be sustained.

So we are not worried about every section of the economy. We can identify three or four problems. The first one is, of course, in capital investment in plant and equipment and we have taken what we regard, at least for the time being, the necessary precautions here.

The second one - and it doesn't really affect you people to a great extent - is in commercial and industrial buildings. And here even in the last few days, I have been advised by the constructing people that they will be able to come to grips with their own problem because they are probably over-built, particularly in office capacity which is now too great - the rents are falling - and there is an automatic reaction and consequently Government intervention isn't justified.

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But the real problems that we face, and these are two that I want to emphasise to you - are Government expenditure Commonwealth and States. What we are doing is preparing the way now for the next Budget, and second what we have to look at is the wage increase or the increases in average incomes or average earnings. Because we believe, and I am sure that this is true, that if it had not been for the 6 per cent increase in the national wage case, we wouldn't have had any serious problems to face at all. In otherwords, we could have looked somewhat benignly at the development of the economy and we wouldn't have been looking to the next Budget to ask ourselves the question : "How do we keep back demand inflation and how do we ensure, not only in terms of our international trade in commodities and in processed materials, but also so far as our primary industries, how do we stop them getting involved any more heavily in the cost and price squeeze?"

So these are the real difficulties. I want to emphasise to you that we must, and you must, keep inflationary pressures under control. And I hope that you don't think that because of some changes that we have made in the last few weeks there can be any lessening of the activities of the businessman to see that his costs keep within acceptable limits and that where you have the capacity - and I know that in all cases you haven't got the capacity - but where you have the capacity, you do keep your costs from rising.

Wages, particularly arbitration and over-award wages, are, I believe some-things that are extremely difficult to handle, and we and you must be active before the Arbitration Commission and in other sources to see that wages are kept within reasonable limits.

Now, I suppose it can be argued that because there was a fall in the consumer index from 1.9 per cent in the last quarter, the quarter before last, of 1.1 per cent, there might be some easing. And you could be fortified in this opinion, too, if you felt that there was some almost imperceptible easing in the labour situation in the past few months. But I want to assure you that whilst there was this almost imperceptible change, it is so small, and against the context of very heavy pressures, that we don't think we can ease up in our control of inflationary forces at all.

I think some people might perhaps say, "Well you eased up. You gave the pensioners, in the case of the married couple a \$1 increase; in the case of the single person, 50 cents."

I have to answer that by saying I could never see for one moment that the pensioner, the people on the maximum rate pension, ought to pay the penalty because wages are rising somewhere else. Consequently, I would have regarded as the strongest of strong moral obligations that these people should receive help.

Equally, too, with the States, I am a little baffled by the opinion that is being expressed that it could be inflationary. We don't think it can be and the highest technical authorities that advise me don't think it has got any substantial influence at all, because what we have done is to reduce our surplus in our internal accounts and to reduce the deficit that exists due to the funding operations of the States in their accounts.

And if it might be that the banks do get an increase in liquidity, we offset that because as I said a few moments ago, when we were discussing the "No Confidence" motion on the Budget, we anticipated that there would be an increase in liquidity in the June quarter and we have only increased the liquidity by half the amount we intended prior to the time when we gave the States the extra \$48 million, \$43 of which was to reduce their own funded deficits.

So similarly you find that the technical experts who are advising me are giving me the kind of advice that I believe is not only in one case morally right; in the other I believe creates a position so that the States themselves will be able to face their 71/72 Budget on a much more sensible basis than before.

What we are doing is to help those that need help - not to slow down the economy because economic growth is of critical importance to us - and then to see that whatever remedial measures that we take outside the wages system are spread over as wide an area as is possible.

I know that I have given you this information and I have done so very very quickly, but in a speech like this you honestly don't get the opportunity to set out in detail what you are thinking or what the path ahead might lead to.

The second point that I want to mention to you, and I think it proper that I should do this, is to say something to you about tariffs. I want to emphasise to you as one who has been on the relevant Tariff Committee of the Cabinet for more years than anyone else, and as one who has read, I believe, very nearly every tariff report that has been presented to us over the course of the last fifteen years, that I am not one who speaks to you - I can't speak to you as a technical expert - but I do speak to you as one who is fairly well informed about the tariff mechanism of his country.

Not like Alan Westerman, who was one of the great members they had on the Tariff Board, but at least I can speak with a considerable degree of Ministerial authority.

What I want to emphasise to you is this. First, we ourselves as a Government no matter what might have been said in critical quarters in the last year or so, will maintain control of the tariff mechanism itself. And we will maintain control of the final decisions that are made because whilst the Tariff Board itself can make recommendations, it is we alone who can make the actual decisions themselves.

And I say that we will give it special attention.

I have established a tariff committee of the Government. Now it is a pretty high-powered one, with people who will be able to read the reports, and who go into the Cabinet Committee with the advice of their own Departmental officials. And what I can assure you about is not only will we take into consideration the social consequences of action, but we know that if we are to grow and particularly ensure that productivity has to improve, then it is up to us to ensure that manufacturing

industries not only remain competitive, but the ideals of being economic and efficient will be one of the bases on which we will make up our minds on what should be done.

The point I want to make to you is this :- of course in the interests of this country we have to regard the manufacturing industry as a tremendously important section of the community and the one where we have got to get productivity increases if we are to be able to sustain increasing wages and increasing standards of living.

Our Chairman a few moments ago, did ask me a question relating to meetings with manufacturing industry and other groups of industry as well. The opportunities will be there for you to present your views to us. We will change the procedure considerably on this occasion.

After discussion with the various authorities - the manufacturers, the primary producers, the construction experts, the Manufacturing Industries Advisory Council, the Export Development Council and others - I am fairly certain that you will find that on the next occasion before the Budget discussions commence, we will arrange, on a much more individual basis - say with the manufacturers alone or with their associated industries - we will arrange for discussions with them.

Secondly, we will give you much more time. It won't be a question of coming there and reading out a document with us scratching our heads and wondering what it is all about and seeing a bewildered look on Harold Herford's face.

We will give you plenty of opportunity to present your views. And what is much more important, I hope that we will be able to cross-examine you and find out what the manufacturing industries are thinking, and what they think can be done in the best interests of their own industries and through supporting their own industries, the best interests of the Australian community.

So you have the chance. I think we will only meet once a year from now on, but at least the time available will, I hope, be at least as good as you would have on the two meetings that you would have throughout the year.

This I think will bring us together. You know our problems. We will know yours, but above all, I believe we will be working in the interests of the Australian community and we will be working in the interests of trying to push up productivity.

And could I point out this to you about... because I had mentioned the industrial position and I have now brought in this question of tariffs and of your own industries. Within the course of the last few days I have been looking at the wage rises that have occurred in Japan and of the productivity increases that have occurred. What has surprised me - because I have so frequently put the argument that whenever increases in wages grow faster than increases in productivity, then of necessity you get an inbuilt inflationary pressure.

And I have said over and over again that I think according to that single factor alone, we have got an inbuilt inflationary pressure of something of the order of 5 per cent. I don't mention the exact figure because I believe it possibly is a little stronger than that. But of all the indexes that we take, particularly what is called the Paasche index, it is obvious that on discounted gross national production figures, that there is an inbuilt rate of inflation of at least 5 per cent.

But nonetheless the argument that I want to put to you is this can be conquered if we get productivity high.

The Japanese wage increases are about 10 per cent per annum - much bigger than ours - but because they have a productivity increase in excess of 11 % probably in some years a little higher than that, they are able to absorb them and that is why in international company, they are able to better than compete with other countries in the world.

We are not in that position because in the case of our primary industries - our rural industries - they can't have productivity increases of that kind, but even if they did, the international level of commodities prices spread over a wide area isn't sufficiently great to permit them to take the increase in costs.

Now the only other point that I would like to make to you is this. I haven't had the opportunity to come and talk to you as much as I did in other years, and to get the benefit of the advice that you were able to give.

I can assure you that in the days when I did have the opportunity to talk to the manufacturers, I was probably as well versed and as well informed on manufacturing problems, and consequently of the problems of the whole economy as any other person in Cabinet.

I want to assure you, and particularly you Mr. Chairman and those of my friends that I have just spoken to, that my door is usually open.

I welcome opportunities to talk to you. I don't welcome them to talk to you as I mentioned a few moments ago on a personal basis. But I do welcome them because I know that if we can co-operate, you and I - I representing the Government and my colleagues and you representing great industries that are increasingly making this country powerful and great. Permitting us, too, to compete in international trade and to do so successfully, permitting us to grow at a rate of gross national production in real terms of $5\frac{1}{2}$ per cent. Believe you me, if we can co-operate together - with the mining and the other industries - we can make our contribution to greater productivity, then I won't be so worried about inflation.

The day hasn't come yet, but if we can co-operate, we can make a lasting contribution to the increasing greatness of this greatest of all countries.
