

N. S. W. CHAMBER OF MANUFACTURES DINNER

SYDNEY, N. S. W.

29 JULY 1971

Speech by the Prime Minister. Mr William McMahon

Mr President, Ladies and Gentlemen :

I want to talk to you tonight about the partnership I believe exists between Government and industry in Australia today. And I want to indicate how important that is, not only to our material wellbeing, but to the preservation of those real values that belong to a free enterprise society.

I believe that such a society is built on the rights of the individual to a good education in a secure and healthy environment. It is built on the efforts we make collectively to use the great resources of our land to manufacture goods and services we need and those we can sell. It is based on initiative, encouragement and a sense of adventure.

And it will be a successful society if Government helps to the best of its ability in national economic management, and if industry responds as innovators and developers in a climate of vigorous and healthy competition.

I believe the problems of the day can be relatively short-term.

If we get effective co-operation between government and private enterprise and a more moderate and rational attitude by organised labor to demands on resources at large, then I believe we can prosper greatly.

I don't think I need to remind you that we are now an industrialised society, and in many segments, a highly sophisticated one. All this has happened in the quarter of a century since the war. I take this opportunity, therefore, of acknowledging the contribution Australian manufacturing industry has made to this progress.

You will know, as I do, that manufacturing industry employs 28 per cent of the Australian work force and contributes 28 per cent of the Gross National Product. And the total value of production from nearly 39,000 factories is getting on towards \$8,000 million. Its exports last year were worth \$724 million which is 18 per cent of our total exports and rising. And it attracted about 30 per cent of the total direct private overseas investment in Australia.

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So you represent, Gentlemen, a very significant part of the national effort. If you have any misgivings about your place in the scheme of things I urge you to forget them. A Government has many demands made upon it, and if we cannot always meet them, I ask you to understand that it is a matter of priorities and what is fair to ask the taxpayer to pay. For, after all, it is his money that keeps us going.

At this point, Gentlemen, let me mention briefly the investment allowance. Its suspension by the Government earlier this year was one of a series of anti-inflationary measures which was designed to place a modest restraint on new private investment in plant and equipment.

This action brought us quite a lot of criticism from many of you. This was natural, and this we understand, but it was only one of a number of restraints over the whole area of the economy.

Manufacturers were not singled out to carry a special burden. Manufacturers' views on the matter were put very forcefully to us at our pre-Budget talks with industry early this month and we are giving these views careful consideration.

The investment allowance, you will remember, was introduced in 1962 at a time of declining employment, slow economic activity and uncertainty as to the outlook for the balance of payments.

It was particularly directed to encouraging expenditures on equipment and re-equipment of manufacturing industries which were then at a low ebb, and so to encourage industry to show more vitality and a keener awareness of the opportunities for growth in the Australian economy.

The concession did, I believe, contribute to the end result we were seeking. But more recently, as you know serious inflationary pressures emerged in the economy, and some restraints became necessary.

As I have indicated, the suspension of the investment allowance was just one of several measures taken by the Government. All I want to say at this stage is that the Government's action was a suspension of the allowance, and I can assure you the matter will be held under review. Beyond that it would be wrong for me to go at this time.

Now let me say something about two aspects of economic matters which affect you. One is trade, and the other is tariffs.

In recent years the pattern of our trade has been changing and its direction has been more to the markets of Asia and the Pacific than to the traditional markets of the Old World.

I have said manufacturers are now providing 18 per cent of our total exports. In 1969/70 sixty per cent of this total went to Asia and the Pacific area and was worth \$400 million. Seven out of our ten largest markets are in this area. They are, in order, New Zealand - which has been our largest market for many years - Papua-New Guinea, Japan, Singapore, Philippines, Malaysia and Hong Kong.

This, of course, is greatly to the credit of Australian manufacturers. But as part of the partnership which I mentioned at the beginning of this speech, the Australian Government has :-

- .. Negotiated trade treaties in the region;
- .. Has spent many millions of dollars on promotion of Australian products in those markets;
- .. Provided insurance guarantees and export incentives; and
- .. Is now maintaining seventeen Trade Commissioner posts there out of about fifty all over the world.

And I am glad to see that Australian industry is now moving quite steadily into the area of joint ventures in the region where once it was just a case of buying and selling. Australian manufacturing companies are now involved in joint ventures in places like Indonesia, Malaysia and the Philippines.

All this activity will assist us if and when Britain goes into the Common Market as we expect her to. Manufacturers will, as you know, be affected by this, although the principal impact will be on rural industries.

Britain's entry could have adverse effects on your ability to compete with British manufacturers within Britain. It could also put you at a disadvantage in competing with the present E. E. C. market where British exporters would enjoy an improved position.

So, Gentlemen, there is a pretty healthy challenge ahead of us in our partnership. There is the challenge brought about by change; by the shifting patterns of world trade; and by our own developing interest in the Asian and Pacific region.

There is the challenge at home to diversify still more our manufacturing industries and to support our great new mining industries with processing and manufacturing activities.

There are of course major problems of cost involved in these developments, but it is encouraging that nine of our mineral companies are already committed to begin or enlarge processing facilities associated with their operations in the seventies.

There is also the challenge to find new markets and develop existing ones. To do this we must be able to compete effectively and this means a greater self-discipline on costs and new levels of efficiency.

I turn now to tariffs which are so closely bound up with the principle of competition to which I have referred. I have concentrated in my remarks on the tariff but there are many other ways in which the Government can assist industry to achieve our mutual objectives of growth and productivity.

I am by no means leaving these out of account. On the contrary, in all of these elements, we wish to continue to work in partnership with private enterprise.

There are two considerations before us in any discussion of this subject. One is our responsibility as a Government to manufacturing industries which are of tremendous importance to Australia. The other is the benefit which comes to the Australian people from healthy and sustained competition.

Competition keeps prices and quality where they ought to be. This stimulates the innovator to try new products and the manager to higher levels of efficiency. How can we ensure that the manufacturing sector continues to contribute to the growth of the Australian economy?

The simple answer is : by ensuring that it uses the resources it has as fully and as efficiently as possible. This is, of course, the prescription that would be given for any sector of the economy.

It is accepted by all that a rising standard of living is a fundamental objective of economic policy, and that increasing productivity is a pre-requisite for this. But there is less willingness to accept the implications for the way we allocate our scarce national resources.

It is in this context that I wish to raise briefly the question of tariff protection. You will all know of the statement that was made recently on tariff policy by my colleague, Mr. Anthony.

And you will be aware that the Government recently sent to the Tariff Board the first ten references marking the beginning of a systematic review of the tariff.

There are two aspects of tariff policy which seem to concern some manufacturers : the more critical attitude which the Tariff Board had said it will adopt towards highly protected activities; and the way this attitude will be implemented, in the review of the tariff.

I have already commented, by implication, on the first matter. If we want a rising standard of living for a growing population, we must continuously increase the efficiency with which we use our national resources.

If we want to increase the efficiency with which we use our resources, we cannot be indifferent to the way these resources are allocated. We cannot accept uncritically their use in activities which require high levels of protection because, prima facie, such activities are less suited to the Australian environment.

It has been estimated that the total value of private investment in the manufacturing sector during the next 20 years will be at least three times that which has occurred during the last 20 years. It seems probable that there will also be a substantial increase in the number of persons employed in manufacturing.

We simply cannot afford to allow a significant proportion of these resources to drift into activities for which our environment is less suited. It is the concern of the Government to ensure that this increasing investment - of both human and capital resources - will be applied where it promotes rather than retards the growth of Australia's future prosperity.

We must see to it that this future investment produces the greatest benefit to the community. To do otherwise would be to allow Australia to become a high-cost low-productivity economy, less and less able to compete in world markets.

If our secondary industries are to export increasingly to the world's market, in competition with other industrial nations, we must ensure that our protection system does not discourage the development of Australian industry according to the principle of comparative advantage.

There are several comments I would like to make about the review of the tariff, and the apprehension which some manufacturers still seem to feel about it. It has been suggested that entire industries are threatened with extinction.

No Government would in fact accept a series of recommendations from the Tariff Board which had the intent or effect of dismantling large areas of secondary industry; and I don't for a moment believe the Tariff Board would ever make such recommendations.

Those who predict the demise of whole industries fail to appreciate the distinction between an 'activity' and an 'industry', and fail to recognise, when studying data on average rates of protection for various industries, that an average is an average.

The Tariff Board has said it will adopt a more critical approach towards highly protective activities - namely those with effective protection over 50 per cent.

Conclusions were erroneously drawn by critics that the future of all activities within highly protected industries was in jeopardy, when data were recently published by the Tariff Board on the structure of protection in Australia which showed the average rate of effective protection for industries. These erroneous conclusions were drawn despite information the Board published about the wide variation of rates within each of these industries.

Those who regard the tariff review as essentially negative fail to appreciate, I believe, the complex network of inter-relationships between different manufacturing activities in the economy.

It is only when one begins to explore the nature of these relationships that the positive effects which the tariff review will have become apparent. For example, a reduction in the duty on a particular product will increase the effective protection afforded those using the product concerned. Duty reductions are not therefore necessarily negative.

Conversely, duty increases are not necessarily positive - for those using protected products. In a nutshell, an increase in a duty does not necessarily result in an increase in protection. An important fact highlighted by the information the Tariff Board recently published on the structure of protection in Australia is that many manufacturing activities do not need all the protection which the tariff at present affords them.

In other words, the costs of some activities using protected products are inflated in order to provide protection to other activities which do not need it.

As your own organisation, Mr. President, has argued that high costs are the main cause of the present inflation, it would doubtless support the speedy removal of this excess protection. Consuming industries, for instance, will benefit directly from reduction of protection on their inputs in cases where existing tariffs are higher than necessary to sustain profitable local production of those inputs.

In such cases, the removal of the unnecessary protection will reduce the costs of the consuming industries. This, in turn, will make the prices of their outputs more competitive. Removal of those tariffs which do not protect any local production - another purpose of the review - will reduce the costs of imported inputs for manufacturing.

In this connection, I remind you that between 60 and 70 per cent of all Australian imports - in the main, those which are not in competition with local production - are used in direct factory production by Australian manufacturers.

Removal of unnecessary protection and preferential margins on imports which are not in competition with local production will directly benefit manufacturers using such imports in their production. In cases where existing preferential margins are substantial, their removal may also be expected to give Australian manufacturers access to new and cheaper sources of imported materials and equipment.

In all these cases, removal of unnecessary protection in the course of the tariff review will make the Australian manufacturing sector more competitive without detriment to any existing Australian industry.

And the market for Australian manufactures will, as a result, tend to expand faster. This, in turn, will increase the employment opportunities - for labour and capital - in Australian manufacturing.

The review will also bring some important indirect benefits for manufacturing industry. One such benefit, overlooked by some who are apprehensive about the review, is the additional information which it should provide about manufacturing activities in Australia.

For example, it should provide for manufacturers more specific information than is at present available :

- .. about the size of the domestic market for particular products;
- .. about production costs at different levels of output; and
- .. about the general structure of local industry.

This is obviously basic information for any potential investor in a manufacturing activity.

The review should also provide individual manufacturers with a unique link between their own activities and those of the industry to which they belong - to the extent that statistics published by the Tariff Board can be compared with the more aggregated statistics published by the Bureau of Census and Statistics.

Indeed, because of the immense volume of data already available from the Bureau, and the new information which will become available as a result of its integrated economic censuses, links between statistics published by the Board and those published by the Bureau will add a new dimension to public understanding of the costs and benefits of protection.

This will be to the advantage of manufacturers, the Government and the community.

In summary, I am confident we can expect quite positive and beneficial effects - for manufacturing industry and for the whole community - to flow from the systematic review of the tariff.

I believe our policy is wholly constructive. It is not punitive. It is designed to help not hinder. It is part, I believe, of the new maturity which has come to Australian industry and will be for the good of all.

I do congratulate you all on the wonderful job manufacturing industry is doing to speed the growth of the nation and on the efforts it is making to increase productivity. This is a time when new products, new ideas and the application of new technologies are of tremendous importance and have a fertilising influence on the whole of the economy.

Your horizons are getting wider every year and I wish you well in your great endeavours.

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