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AUSTRALIA

PRIME MINISTER

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NATIONAL WAGE CASE

At its meeting this morning Cabinet considered the gravity of the possible consequences for the economy flowing from the 5.6 per cent increase in the Consumer Price Index for the December quarter, announced earlier this week.

In particular, Ministers expressed their grave concern about the possible implications of this increase, inherited from the previous Government, for proceedings in the National Wage Case, due to open before the Conciliation and Arbitration Commission next Tuesday, 3 February.

This confronts the Government with a very difficult decision.

The Government has expressed its support, under current economic circumstances, for the wage indexation principles laid down by the Commission last year.

The first of the Wage Indexation Principles enumerated by the Commission last year states:

> "The Commission will adjust its award wages and salaries each quarter in relation to the most recent movement of the six capitals CPI unless it is persuaded to the contrary by those seeking to oppose the adjustment." (Emphasis added)

Because of the difficult economic circumstances, particularly inflation and unemployment, the Government finds it necessary to argue that instead of granting the increase of 6.4 per cent which would result from fully passing on the CPI increase for the last two quarters, the Commission should at this time determine upon a figure of about half that order.

An increase of that magnitude in money wages at this time would have quite calamitous consequences for the economy. It would be in the interests of nobody.

The ultimate goal for Government, employers and employees must be renewed economic growth, more jobs and fewer people out of work.

The economy is in a very serious condition. A sharp rise in wage costs such as would be involved in fully carrying through the latest CPI increase into wage rates would produce a sharp shock to business confidence, would reinforce expectations of continuing high inflation, and would retard the process of reducing unemployment.

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There is a very clear and close nexus between inflation and unemployment. Until inflation and inflationary expectations are reduced, there can be no prospect of lasting economic recovery; that in turn means that there can be no prospect of improving <u>real</u> wages and providing jobs for all Australians.

Under the most favourable circumstances, it would not be possible to halt inflation overnight - on the contrary, the struggle to rein it back will at best be a long one and a hard one.

What I now say is that if a very large wage increase is now to be injected into the situation, the task of the Government and the Australian community as a whole will be made infinitely harder.

We have concluded that in present circumstances the Commonwealth Government would be breaking faith with the Australian people's wish to control inflation if it were not to argue against a full adjustment of wages and salaries according to the movements in the CPI for the last two quarters.

It is for the Commission to rule upon the applications it will have before it next week.

It will of course be open to other participants in the Commission hearings to argue their own views in accordance with the principles laid down by the Commission. For our part, we believe that any such argumentation must have regard first and foremost to the effects of the final outcome upon the outlook for economic recovery and the availability of jobs for all Australians."