

EMBARGO: 8.00 p.m.



PRIME MINISTER

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ADDRESS TO THE INSTITUTE OF DIRECTORS

Tonight I want to set out the problems the Government confronted on coming to office, the Government's strategy to restore prosperity to Australia, and to show how the policies the Government has adopted - and will adopt - fit in to the basic strategy.

When we came to office Australia was facing an unprecedented set of economic problems.

Government spending had grown enormously, financed by a heavier tax burden on individuals and massive erosion of company profits. We faced a deficit far above the announced deficit of the Hayden Budget of \$2,800 million. Unemployment was at record levels. Rapid inflation was eroding savings and income levels and generating inflationary expectations. Liquidity was excessive and the money supply was increasing at a rate of 20 percent per annum or more. Consumers, uncertain about the future, were saving a substantially higher proportion of their incomes. Businesses, for reasons of confidence and finance, were reluctant to invest.

In the view of the Government the principal source of these problems has been appalling domestic mismanagement.

At the heart of the problem, in our view, has been the enormous rapid increase in Government spending.

The tax burden on individuals inevitably stimulated wage demands. The tax burden on companies resulting from the combination of inflation, accounting practices, and the tax system, has been eroding the nation's capital base, and absorbing the funds needed for business expansion. Combined with the wage and salary costs of the previous years, there was a major obstacle in the way of new investment.

Alongside the tax burden the Government had sought to regulate business more and more - often without regard for the costs of this regulation or whether it was in fact achieving its stated objectives.

Indeed, many people came to believe that there was a concerted effort to undermine private enterprise in Australia to provide the scope for yet further Government intervention and control.

Our strategy - and the programme we have developed - is designed to tackle these central problems in a balanced and predictable way.

Our broad objectives are firstly, to restrain Government spending and - on the basis of such restraint - transfer resources back to private enterprise and individuals. In this way the real value of people's incomes can be protected and private enterprise - which provides three out of four jobs - can have once again the confidence and the resources to invest.

This transfer of resources is a key element in realising our objectives of easing the pressure on wages and salaries and creating conditions for an expansion of employment opportunities.

While providing real protection for the consumer a further objective is to free business of unnecessary, inefficient, and excessive regulation.

In our view private enterprise needs room to breathe, to grow, to expand. Australia must once more become a country which offers rewards for initiative, enterprise and hard work.

The Government also wants to generate a climate of national responsibility in which business and trade unions will both act with a principal regard for the national interest.

We aim to achieve this in part by emphasising consultation with all sections of the community and by an announced and known strategy on the basis of which our policy decisions will be made. The experience of the last three years demonstrates that unreasoned changes in policy do nothing but impede growth, destroy confidence, and create further uncertainty.

It is the view of the Government that business recovery and consumer confidence are both impeded by the same fact - an anxiety about the future which it is the over-riding objective of our policies to dispel.

Let me now mention the policy decisions and actions we have taken - and intend to take - to give effect to our strategy.

Immediately after the election we took action to cut back on Government spending and unnecessary bureaucracy and to improve administrative efficiency. We have already made a large number of economies in administrative expenses and spending programmes - starting with the spending of Ministers and other M.P.'s.

There is clearly a limit to the number of major savings which can be made in the last part of a financial year - but we have already announced economies worth \$360 million. In terms of annual rates these economies are equivalent to savings of approximately \$1 billion.

We have halted the growth of the Federal Public Service. In fact there will be 17,480 fewer people employed in the Federal bureaucracy by the end of June than under the ceilings set by the previous Government. The review of spending and administrative efficiency is continuing. At present the Government is of course, examining all its expenditure commitments in the course of Budget planning.

Restraining Government expenditure is an enormous task. These measures will be essential steps in our strategy of recovery.

I do not wish to pretend that the cuts in Government spending will be easy or painless. The Government is facing very difficult decisions. Responsible and determined choices will have to be made. Australia simply cannot afford all the programmes politicians tend to promise.

The truth is that in order to bring inflation under control and expand productive employment the Government has to face up to these problems. If we succeed in this, Australia can once again be the great country we know that it is.

I want it to be very clearly known that the Government places priority at this critical time on stopping the erosion of individuals and business incomes through inflation. We have undertaken to begin the implementation of personal income tax indexation and inflation adjustments in the company tax area. We want to assure all Australians that there will be the restraints we have undertaken so that the largest possible step towards tax indexation can be taken.

Tax indexation serves to assist in preventing the erosion of people's incomes. By contrast money wage rises in line with past price increases simply stimulate more inflation and erode investment funds.

Restraint in Government spending has been accompanied by measures designed to facilitate investment and reduce the cash crisis for many businesses.

These measures include the 40 percent investment allowance. This allowance is a long-term policy which will boost Australia's future productive capacity. So that businesses can plan securely on the basis of the measure, we have announced that the allowance has been introduced for a 7 1/2 year period beginning 1 January this year, at a rate of 40 percent for the first 2 1/2 years and 20 percent thereafter. Neither this, nor any other policy is going to produce overnight miracles. But there is no doubt that it is going to provide a strong inducement to private sector activity.

A second measure towards the objective of easing cash flow problems has been the suspension of quarterly tax instalments.

Every sector of the Australian economy is interdependent and we have taken a number of measures to assist rural industry on the basis of IAC reports.

As an expression of our determination to free business of unwise and unnecessary regulation which is not in the public interest we have this week announced an inquiry into the operation of the Restrictive Trade Practices legislation.

In the area of monetary policy we believe it is important that the Government's long-term intentions for the growth of the money supply should not be in doubt. There is a clear, demonstrated relationship between excessive growth of the money supply and high rates of inflation. Unless the Government is prepared to tackle this problem there is no hope for a reduction of inflation in the medium and long term.

We introduced earlier this year a comprehensive and flexible monetary package which has already set us on course to achieving this objective. However, it is clear that the changes in money supply brought about by the policies of the previous Government did great damage to business.

Our approach will ensure that the private sectors will have the ability to finance economic recovery. Normal seasonal needs for liquidity in the coming months will be met.

The Government is determined to do its part in the fight against inflation. But the Government cannot win the battle against inflation alone. Australians will show the kind of people they are by their preparedness to cooperate in the fight against inflation. In such a vital national effort, no section of the community can afford to look at its own interests in isolation.

One fact has emerged very clearly from the experience of the last three years - all sections of the Australian community, all sectors of the Australian economy, are interdependent.

At any one time the total resources of Australians are limited. One section of the community cannot greatly increase its share except at the expense of other sections; decisions taken by one group affect many others who have no say in those decisions.

Powerful trade unions can only greatly increase the real resources going to their members by eroding the value of incomes and savings of the weaker sections of the community, or by absorbing resources which could be used to create jobs.

Large companies have to keep in mind that decisions they take with respect to their own employees may have repercussions

far beyond their own business. Such companies have a responsibility to consider the consequences of those decisions. They ignore this responsibility at their peril.

Government has a responsibility to ensure that its programmes do not unnecessarily absorb resources which are needed by individuals and families to meet their own needs. When the Government fails to take this into account, it directly encourages pressures for higher real wages.

Every part of the community, every institution concerned with economic life, has a responsibility to help bring inflation under control and expand employment opportunities.

In the return to a non-inflationary prosperity the role of the Arbitration Commission is of major importance.

Wages must be at a level that the economy can pay - at a level which will not add to inflation and unemployment.

The Government has a responsibility to put its views on the economy to the Commission in strong terms. Other parties have a similar responsibility.

Ultimately of course, the decision on any particular case is the Arbitration Commission's. But in reaching its decision the Commission itself must take into account the general state of the economy and social justice.

Justice in present circumstances is on the side of those thrown out of employment by excessive wage increases.

Business leaders, leaders of the trade union movement, and Governments all have a critical role to play in the control of inflation and the revival of employment opportunities. I believe there is a growing recognition of this fact throughout Australia.

Great numbers of people on the shop floor are becoming aware in a way they have not been before, that money paid in excessive increases in wages and salaries is not available to create new jobs, or even to support existing jobs. In fact many rank and file members of trade unions are probably more aware of this fact than some trade union leaders. One of the most important contributions that can be made to economic recovery by business is to encourage a greater awareness of this basic fact.

I do not need to emphasise before this audience how critical industrial relations are to bringing inflation under control. There can be no stronger foundation for good industrial relations than widespread understanding of the true nature of the problems that face us.

Talking about the need for a national cooperative effort has to be matched by cooperative action. Effective cooperative action has to be based on frank discussion, mutual consultations.

Some companies have very good procedures for discussing matters with employees. This is a time more than ever, when the example of the best should be followed by everyone.

If employees can get a clear picture of the impact of their wage and salary demands on their own firm, I have no doubt that people will wish, of their own account, to act with great responsibility.

There is no substitute for direct and frank face to face discussions and exchange of information to build a spirit of understanding and cooperation.

For many years now, those who believe that the free enterprise system is best for all Australians have been less active than we should in putting the case. That is one reason why we have suffered the experience of the last three years.

It is good to see that an increasing number of people are taking action to ensure that there is a growing appreciation of the common interests of everyone in a profitable and efficient private sector.

I believe it is important to remember that understanding is advanced not only by the availability of high quality objective material but even more importantly by relations within the particular firm and by the effort that management makes there. It needs to be explained clearly that new plant, new equipment, new jobs, are created out of profits. It also needs to be explained that in a country like Australia, profits are very widely distributed - directly to shareholders and indirectly to the millions of holders of insurance and superannuation policies.

There needs to be a much clearer understanding of the central role of private enterprise in providing through taxation, the resources for Government to spend on such things as social welfare, education, roads, defence and so on. In the current year, for example, private enterprise will directly contribute (through company taxes) over \$2,000 million to Government - more than enough to cover the entire expenditure of the Commonwealth Government on education.

Real expansion in social programmes - which is not financed simply by transferring resources from some other group in the community - must be financed out of growth. Real growth depends on a healthy and vital private enterprise.

Private enterprise does not merely provide the resources which Government can use to improve its provision. A healthy private enterprise is an essential part of the life Australians value.

Private enterprise provides the greatest opportunities. It provides a choice of rewarding jobs, a choice of products and a choice of services.

It is the system which gives the man in the street the greatest control over what is produced. In this sense, it is the most democratic system - the system which is most compatible with the freedom Australians value.

Under the Labour Government, the survival of private enterprise was endangered. We were well on the way to a conformist, centralised society in which the real wealth of Australia, the productive energies and initiative of the Australian people were suppressed.

The strategy the Government has adopted, the measures we have already announced, and will announce in the coming months, will ensure that that does not happen.

I am confident that our approach is already providing a solid basis for the revival of prosperity in Australia, and for the development in Australia of a society in which the interests of all Australians are truly served.
