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PRIME MINISTER

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SOUTH AUSTRALIAN CHAMBER OF COMMERCE

I am very pleased to be here tonight to discuss with you some of the major issues confronting Australia, and the Government's approach to these issues.

In the light of yesterday's set of economic measures, this is a particularly appropriate time to discuss the Government's approach. I should, however, say at the outset that the central task facing all of us - achieving a soundly based economic recovery - is not something that the Government can achieve alone. It is a task which we all must share. We all have an interest in economic recovery. We all have the ability to make some contribution to achieving that end.

The Government has constantly said - and I repeat - our top priority is the defeat of inflation.

In order to achieve this objective, the Government must pursue its economic policies in a balanced way - a way which is equitable in its impact across the community. All the objectives that Australians share are linked to defeating inflation. Increasing employment opportunities, reducing interest rates, acting to assist the disadvantaged in our society - they are all dependent on our ability to cope with inflation.

In achieving this, the Government must give proper attention to all four arms of economic policy - the budgetary, monetary, external and wages policy.

Tonight, I would like to outline how this Government has used the four arms of economic policy in pursuing economic recovery.

- the maintenance of the balance between the various arms was the premise underlying yesterday's measures.

To adequately understand our approach it is necessary to understand what happened under the Government preceding us.

The roots of Australia's economic problems - the severe inflation, unemployment, high interest rates and a record deficit - derived from the role assumed by Government in the economy between 1973/75. In these years, the Government operated on the basis of fundamentally misconceived ideas about the role and capacity of Government in economic policy. These misconceptions gave rise to a number of important consequences between 1973/75:

For a time, rational budgetary policy dissolved.

Wages and prices policies were pursued which had disastrous consequences for business profits and employment opportunities.

Concurrently, monetary and external policies being implemented had the effect of disturbing the economic environment.

On the budgetary side:

In 1973/74 the groundwork was laid for a massive expansion in Government expenditure at a time when private demand pressures were becoming excessive.

1974/75 saw an effort to counter unemployment by greater public spending. There was an increase of 46% in Federal Government spending.

This accelerated inflation and unemployment rose by some 180,000.

On the wages side:

The Government encouraged large increases in wages.

The wages share of G.D.P. rose substantially while the profits share fell.

Inevitably high unemployment and inflation resulted.

On the monetary side:

The excessive growth of Government spending fed into excessive liquidity

Consequently, excessive weight had to be placed on monetary policy which led to a credit squeeze. This was however followed by a resurgence of monetary growth.

On the external side:

Attempts were made to offset inflationary pressures sustained by the Government's domestic policy.

The 25% across the board tariff cut partly intended to counter inflationary pressures again served to promote instability, uncertainty and unemployment.

The result of these errors, misconceptions, and compounded imbalances was that this Government, on being elected to power, was faced by:

the greatest unemployment since the Great Depression,
an actual decline in the Gross Domestic Product,
a depression in company profit's share of national income,
a desperate situation in the farming sector,
a decline in real business fixed investment to its lowest level in three years,
a CPI that was fourteen percent higher than it had been a year before and showing no substantive indications of declining,
we were also faced by an overvalued currency which placed great burdens on particular groups in the community - manufacturers, primary industry and import competing industries.

In this situation, we had to establish a balance between the various arms of policy in order to create the conditions for a return to sustained economic growth. One could have made a case for devaluation a year ago. We did not act because the other arms of policy had to be brought to bear on inflation. The Government maintained the exchange rate and tightened the other arms of policy. We pursued stringent budgetary, monetary and wages policies. The Government cut spending, moved to control the growth in the money supply and argued strenuously for wage restraint.

Yesterday, we moved to maintain the balance between the different arms of policy by alleviating the pressure which had built up on the external side of policy and making the necessary supporting adjustments in the other arms of policy.

External Policy

It has been widely, indeed almost universally recognised, that our currency has been overvalued for a considerable time. Some of those who recognised this fact nevertheless argued that the imbalance should be maintained indefinitely to lighten the burden on the other arms of policy in the fight against inflation.

Unfortunately, those putting this view have not always recognised that the imbalance has placed a very severe burden on our manufacturing, exporting and import competing sectors. The Government has always recognised the dangers inherent in the declining competitive position of Australian industry.

Recent events have made an improvement in our competitive position more difficult to achieve and have placed too heavy a burden on some parts of the Australian community and too heavy a pressure on the external arm of policy.

The Arbitration Commission's decision to pass the full CPI increase for the September quarter into wages threatened a further exaggeration of Australia's internal costs and hence our move to a more competitive international position.

The maintenance of unrealistic wages levels has placed Australia's import and export competing industries at risk.

It has also delayed the emergency of employment opportunities.

It has not been sufficiently recognised that continuing to run an overvalued exchange rate has been unfair to employees and those seeking work because the capacity of industry to provide jobs has been inhibited.

Uncertainty about the exchange rate resulting from the decline in Australia's competitiveness has been impeding the implementation of new investment proposals and has resulted in a continuing decline in Australia's international reserves - a decline hastened by the irresponsible statements of some members of the Opposition.

In the last twelve months, despite substantial overseas borrowing by the Government, our international reserves fell by \$1100 million.

The loss of reserves accelerated in the last few months, declining by \$269 million in October and \$260 million to the 26th of the month.

The prospect was for an unacceptable outflow of capital in December and early January.

Last Thursday the Government's official advisers jointly presented two options to handle this situation:

Further international borrowings,
if around \$1000 million; or

Devaluation.

The Government could not accept a situation where uncertainty and speculation would be sustained. Devaluation was therefore the only responsible option open to it. The size of the move may have caught people by surprise. This is perhaps because insufficient account has been taken of the impact of rising domestic costs on our competitive position in international trade. The Government wanted a figure that would end that uncertainty.

Coupled with other policies, we believe this decision will lead to a strengthening in our international trading position. We have introduced a flexibly administered exchange rate. This is not a floating rate subject to daily fluctuation, but it is nevertheless a rate subject to short term movement in accordance with administrative decision.

I am confident that the step we have taken will greatly enhance the processes of economic recovery.

Australia's mining, rural and manufacturing industries will be significantly assisted by the decision, and employment opportunities will be increased. These effects, however, will not be long sustained if appropriate action is not taken with respect to the other arms of policy - budgetary, monetary and wages policy.

On the budgetary side

We have this year budgetted for a reduction in the rate of growth of Government spending from 23% to 11%.

Significant personal and company tax reforms have been introduced and a range of incentives have been offered to encourage private investment.

The deficit has been significantly reduced and equally, or perhaps more importantly, its structure has been altered.

The deficit reflects measures to assist individuals and businesses, not a Government's desire to aggrandise to itself more and more of the nation's resources.

In fact, if this Government had not introduced tax reforms and incentives for business, the deficit would have been \$1.4 billion.

As a result of yesterday's decision, it is imperative that the Government take further steps to control Government expenditure in order to avoid placing too great a pressure on the monetary arm of policy. Government expenditure will be reviewed with the object of making savings by deferring expenditure for next year, any proposals for increases in particular programmes above the real levels of outlay in 1976/77 will be regarded as new proposals.

The Government will in all areas exercise an even more stringent control over its own expenditures. Governments cannot spend their way out of recession and unemployment in times of high inflation. The attempt to do so merely exacerbates underlying economic problems.

If the Labor Government taught us no other valuable lessons, it did teach us this one.

In 1974/75 Government expenditures increased by 46% while the deficit rose by almost \$2,300 million. In 1975/76 expenditure increased by a further 23% and the deficit to \$3,585 million - and it would have been greater if it hadn't been for the measures we took.

During this period, prices increased by more than 30%, yet there was a negligible growth in real output, and unemployment increased by over 180,000. Relaxation of the budgetary arm would mean a higher deficit and cause problems with financing it. We have experienced the consequences of that. Mr. Wran unfortunately does not appear to have learnt from the experience. His so-called plan for economic recovery is a recipe for repeating the disastrous mistakes of the Federal Labor Government.

In monetary policy

The Government is committed to achieving an appropriate rate of growth in the money supply.

Action is being taken to prevent devaluation producing an inflationary growth in the money supply.

Official interest rates have been increased.

The Government will closely monitor the volume of lending by financial institutions to ensure that it promotes a sound and non-inflationary economic recovery.

These measures cannot be construed as a squeeze on credit and it is not intended that they will reduce the money available for worthwhile projects.

On the wages side

The Government has in all forums consistently argued that wage restraint is an essential element in economic recovery. All the parties involved in wage determination have a great responsibility with respect to the economic well-being of Australia. The present situation demands wage restraint.

The relationship between unemployment and excessive wage demands is clear - at the present time, one man's wage increase is purchased at the cost of his workmate's job. I believe that only a few people have failed to grasp this fact - Mr. Hawke appears to be one of them.

Last week he stated that wage increases would not be inflationary but would boost consumer confidence and help economic recovery. Nothing could be further from the truth. Wage increases in this context are counter productive - they fuel inflation, increase unemployment and reduce spending.

Again we can turn to the experience of the late Labor Government. In 1974, between the March and December quarters, average earnings increased by 24%, in real terms by 10%. What happened - consumption went up by less than 1%, inflation went up by 13%. The wage increases accelerated inflation, accelerating inflation increased consumer uncertainty, consumers spent less, and unemployment rose.

So much for Mr. Hawke's attempts at economics.

Unless inflation is wound down, unless wage demands are moderated, there can be no rapid return to economic prosperity.

In the two quarters preceding this one, the decisions of arbitration commission not to pass the full CPI increase into wages made a significant contribution to the fight against inflation.

By contrast, the Commission's September quarter national wage decision to pass on the full 2.2% was a blow to economic recovery. It adversely affected the winding down of inflation, the possibility of improvement in employment opportunities, and Australia's ability to compete internationally.

The Commission itself noted the depressed state of the economy, the poor state of the rural industry, and the problems facing Australia in the area of international trade.

Nonetheless, it went ahead and passed on the full 2.2% CPI increase into wages.

The Commission apparently believed they had to choose between industry chaos or economic dislocation. There is no doubt that their choice has worsened the chances of economic recovery. There is great doubt that it will affect the industrial relations situation.

I greatly regret that the threats of a number of union leaders to cause further disruption have been taken to depict the view of the majority of trade union members, and that admitted economic commonsense has been set to one side.

What does this say for Australia?

Those in leading positions in every sphere of life, in every institution should apply what they know to be commonsense - not pander to the extremist statements of a vocal minority who are actively seeking to undermine economic recovery for their own partisan purposes.

The Arbitration Commission's decision was one of the factors that had to be considered in our decision to devalue. Plainly it contributed to a decline in Australia's international position which could not be sustained in the long run. We simply cannot maintain a situation in which the rate of increases in Australia's wages bill outstrips that of its major trading partners.

In the last six years, wages in Australia's manufacturing industry increased 130% compared with 53% in the US and 70% in West Germany. It is only common sense that the country cannot continue to pay higher and higher wages that greatly exceed productivity increases without this leading to higher inflation and increased unemployment.

It is only common sense that Australia is harmed by the level of industrial disputation frequently motivated by purely political considerations. The OECD's figures show that in 1975 Australia had the world's third worst record in industrial disputes. This year, if Medibank stoppages are excluded, our record is better, but industrial disputes are still far too numerous.

The vast majority of union members do, I believe, recognise the irresponsibility of the minority of extremist union bosses. Some of these men are quite explicitly seeking to destroy our social and economic system. Others are attempting to squeeze the last drop of advantage to themselves, regardless of the consequences for the economy as a whole.

These men have no difficulty in mouthing the words of social responsibility while they systematically drive more and more of their fellow unionists into unemployment.

The wilful damage these men have wreaked on the community, their lack of concern for the people who were their workmates before they became members of an irresponsible and oligarchic union elite is breathtaking.

The Government intends to maintain its strong opposition to wage and salary increases which cannot be justified by economic conditions, and to the disruptive activities of a few irresponsible militant union leaders. I believe that in taking these stands, we have the support of the Australian people and of rank and file unionists.

The union movement shares a responsibility to advance Australia's economic recovery, not wilfully or carelessly undermine it.

And our secret ballot legislation has given the reasonable rank and file unionists a means by which he can exact responsible action from his union leaders.

The measures we have taken are the ones appropriate to the economic situation, but they cannot work overnight. A persistent and balanced utilisation of all the arms of economic policy is necessary. We intend that Australia should have this.

In this connection, I would like to turn to certain administrative changes which will strengthen the Government's capacities in the area of economic policy making.

The establishment of a new department of finance to take over the existing financial management and control activities of the Treasury, will allow the Treasury Department to concentrate its efforts on broad economic policy analysis and advice.

In conjunction with this change, those parts of the Department of the Prime Minister and Cabinet responsible for the evaluation of the effectiveness of government programmes, advice to the government on forward programming, and priority setting and the strategic planning of government initiatives, will be greatly strengthened.

These steps will lead to greater emphasis being placed on longer term policies by the Government's advisers.

The Government has initiated other changes too that will improve the quality of economic advice available to it.

A bureau of industry economics has been established to carry out research work needed to assist the Government in the formation of industry policy. It will also assist the I.A.C. by making submissions on the results of the research where this is relevant to the Commission's inquiries. The establishment of the bureau will fill a major gap in the Government's research facilities.

The new Department of Productivity will encourage innovation and the exploitation of new techniques of all kinds.

We have taken the significant step of establishing a new Department for a very special reason. Productivity until now has been a responsibility of other ministries and inevitably it has tended to take second place.

A separate ministry will for the first time focus attention on this crucial subject.

The new ministry will draw together elements of Commonwealth Government activities directed towards productivity improvement and stimulate and coordinate the activities of other Commonwealth Departments and authorise towards this end.

The new Department will also take over all those elements of the Government's administration that relate to the working environment, human, organisational, social and physical.

The decision of this weekend can be of great advantage to the community.

The competitive position of manufacturing industry competing with imported goods will be strengthened, and the benefits of this will flow on to all those dependent on a vigorous manufacturing sector.

The disastrously depressed farming sector, the gravity of whose position is often underestimated - will obtain an improved position in world markets.

Investment projects which have been deferred can now get under way with their job and income creating potential.

Mining and exporting industries generally, which make such an important contribution to Australia's prosperity will now have their position considerably strengthened.

The prosperity of these sectors is vital to us all, and the flow on benefits will spur recovery provided that they are not frittered away. Balance between the various arms of policy - budgetary, monetary, external and wages policy - has been maintained by what we have done. They must be kept in balance by each section of the community accepting its fair responsibility in the fight against inflation.

The fight against inflation is a battle to which everyone must expect to make a contribution. It cannot be won if the burdens are distributed inequitably across the community. Equally it will not be won if there is not an end of the selfish pursuit of advantage by different groups in the community.

The fight we are involved in now is not a fight for one group, one section of the community. It is nothing less than a fight for Australia's future in which every Australian must be involved.

Let us have a commitment by every Australian to make a personal contribution to getting Australia back to full economic health. Australia has a government committed to a strong private sector as the foundation of a decent life for all Australians. Business must be prepared to commit resources to the future of this country, knowing that it will get full and equitable consideration in Government policy.

Trade union members must be prepared to see that their officials act responsibly and reflect the broad recognition of the need for restraint in wage and salary demands. Every Australian can make a contribution by a personal commitment to make Australia once more a country of which they can be proud. Unless there is such a commitment, we will watch a country with enormous potential waste itself in the destructive pursuit of personal and sectional advantage.

On the night of the Federal Election last year, I said that we were determined to a government for all Australians. The economic policy we are pursuing reflects that determination. Now is the time for us all to work together to build the kind of country we all want Australia to be.

By recognising our common interests as a community, as a nation, we can realise Australia's unsurpassed potential and create a society which our children will be proud of. An Australia which rewards industry and enterprise, which can alleviate pockets of disadvantage and poverty, and which offers to all its citizens the meaningful opportunity to pursue the things they value in the ways they desire.