



PRIME MINISTER

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DIAMOND VALLEY DINNER

The anniversary we are celebrating tonight is one worth celebrating. December 13, 1975 will go down as one of the really important dates in Australian history.

The 1975 election stands alongside 1949. The Australian people made one of their crucial decisions - they chose freedom, responsibility, and constitutional government.

Members of the Liberal Party around Australia worked for that result as never before. And they succeeded in getting the Liberal Party's message over to the people.

We all knew that if we failed last year, so many things Australians valued would be damaged beyond repair. On December 13 last year, the Australian people made clear that they believed Australia required a profound change of national direction.

In November last year, to achieve this objective we placed before the Australian people one of the most far reaching programmes ever proposed by a major party in Australia.

We undertook to give Australia a government which respected the right of people to build their own lives without being told what to do by a few people who claimed to know what was good for everyone. We undertook to take whatever action was necessary to defeat inflation, restore employment opportunities and put the Australian economy on a sound footing.

We undertook to adopt a new approach to social security which stressed the importance of directing assistance to those in genuine need - to those who had suffered most from Labor's inflation.

We undertook to implement major reforms to the Federal system - a radical reassertion of the relevance of federalism and of our belief that government should be close to the people.

We put forward a foreign policy and defence approach based on a realistic appreciation of Australia's security needs.

Our programme reaffirmed the vitality of the Liberal Party's philosophy, and established the relevance of that philosophy to the needs of Australia.

Our top priority was the economy and in particular the defeat of inflation. When we came to office we were faced by the worst unemployment since the nineteen thirties; an actual decline in the gross domestic product; a depression in company profits; a decline in business investment to its lowest level in three years; a desperate situation in the farming sector; an inflation rate 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, all exporters, 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.

In the light of comments in recent days, the strategy we have adopted consistently since the election bears repeating.

Its main elements are the most rigorous restraint on government spending to rein in the bloated public sector and free resources to productive private enterprise; the provision of a wide range of incentives to industry to resume expansion and provide employment opportunities; seizing every opportunity to emphasise the importance of restraint in wage and salary demands. This is essential to keep costs down and create conditions in which employment opportunities can be expanded as rapidly as possible.

We always said that this strategy would take time - that it would be a full three year programme. The strategy we have adopted is the right strategy. It is the only strategy which is going to work. We have pursued it consistently throughout this year.

There are already signs that it is achieving success in the fight against inflation. The 2.2% increase in prices in the September quarter was the smallest increase (with the exception of the Meidbank quarter) since the March quarter 1973.

It is in this context that the decision to devalue the Australian dollar must be understood. We have always been aware that the Australian dollar was overvalued. Indeed, this has been almost universally acknowledged. Costs in Australia - particularly wage costs - had become out of line with those of our major trading partners. A case for devaluation could have been made earlier in the year.

We did not devalue because we considered it essential that the other major arms of policy - budgetary policy, monetary policy and wages policy - be brought to focus in the fight against inflation.

Accordingly, on the budgetary side, we reduced the rate of growth in government spending from 23% to 11%. I do not recall any significant suggestion that we should have been even more stringent in this regard. The restraint we imposed enabled us to introduce significant personal and company tax reforms, including full personal income tax indexation. A range of incentives for business expansion and to start oil and minerals exploration moving again were also introduced.

On the monetary side we have imposed considerable restraint throughout the year.

On the wages side, we have argued consistently before the Arbitration Commission in every wage hearing of the absolute necessity for restraint. In the last six years, wages in Australia's manufacturing industry increased 130% compared with 53% in the U.S. and 70% in West Germany. I recall we were attacked earlier in the year for arguing as strongly as we did. Even then there were those who predicted that if the government based its policies on economic commonsense, the result would be confrontation with the unions.

Unfortunately, too much credence has been given to the threats of extremist union leaders to create further conflict.

There has been a capitulation to threats instead of economic commonsense. Not enough weight has been given to the great commonsense of the vast majority of rank and file trade union members who know full well the importance of restraint at this time. I believe most are disgusted as Australians with the disruptive tactics of a few.

This government will not allow an unreasonable burden in the fight against inflation to fall on wage and salary earners. There must be an equitable distribution of the burden. All sections of the community must behave responsibly.

As a result of excessive wage and salary increases the dollar has remained overvalued throughout this year with damaging effects on our exporting industries - primary, secondary, mining - and import competing industries.

These are the productive sectors of our economy - the sectors that produce the resources with which governments can provide the services they should. These are the sectors that had been hardest hit by cost escalation, that were not indexed to inflation. Unlike those protected by wage indexation they were out in the cold, and these are the sectors which devaluation will benefit.

All of these industries have been hit by the escalation of costs in Australia, and job opportunities in these industries have been restricted as a result.

The situation we faced last week was that despite substantial overseas borrowing by the government, our international reserves fell by \$1,000 million in the last twelve months.

The loss of reserves accelerated in the last few months, declining by over \$500 million in two months.

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

Last week the Government's official advisers jointly presented two options to handle this situation: Further international borrowings, of around \$1,000 million, or devaluation.

The government could not accept a situation where uncertainty and speculation would be sustained. We were not prepared to put Australia into hock for another \$1,000 million with no assurance that this would be sufficient.

Devaluation was therefore the only responsible option open to us. As I said before, it is a most serious matter when a government is forced to take an action of this kind. It indicates how severely rising internal costs - principally from wage and salary increases we cannot afford - have eroded our international position.

It demonstrates not that our anti-inflationary strategy has been wrong. Rather it shows the necessity for pursuing that strategy with even greater vigor than before.

Devaluation is a recognition of the reality of our situation. It will unquestionably assist those of our industries most damaged by the overvalued dollar. It can therefore have positive effects. Investment projects which have been deferred can now get underway with their job and income creating potential. Mining and exporting industries generally which made such an important contribution to Australia's prosperity will now have their position considerably strengthened. The disastrously depressed farming sector - the gravity of whose position is often underestimated - will obtain an improved position in world markets.

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. Employment opportunities can increase.

These industries have taken far too many shocks in the last few years - the Whitlam Government's 25% across the board tariff cut, inflation, and unreasonable cost increases. The Government will not take action without proper examination.

If these are areas where tariffs are operating, and there is not domestic production, the government will be looking to see what can be done. This applies particularly to imports of producers materials and equipment.

As there is a transfer from imports to domestic production, production runs in Australia should increase. This should give Australian manufacturers an opportunity to contain costs. They have a great responsibility to do so.

The prosperity of these sectors is vital to us all, and the flow of benefits will spur recovery.

But that will not occur if costs continue to rise, unreasonably, if inflation does not continue to be controlled. To ensure that this devaluation is a positive element in economic recovery, it is therefore essential that our anti inflation strategy be pursued relentlessly.

We intend to bring the other arms of policy - budgetary, monetary and wages policy - even more firmly to bear in the fight against inflation. An immediate review of all government programmes is being initiated. This review will identify areas where further savings can be made by the deferral of expenditures.

Undoubtedly this new stringency is going to mean the deferment of some projects. It would not be necessary if wage and salary demands had been adequately restrained. On the monetary side, it is unfortunately necessary to increase interest rates. The Australian savings bond has gone up 0.2% to 10%. The Bank has completed action to establish a new regime of government bond yields of 0.5% at the short end and substantially less than that at the long end. The volume of lending by financial institutions will also be closely monitored to ensure that the growth in lending comes back from recent excessive levels.

The wages front and industrial relations are obviously vital. Restraint is essential. The Government will take every possible action in its power which can contribute to wage, salary and price restraint. Let me state the Government's position so that there can be no possible misunderstanding.

Inflation is the enemy Australia must defeat. It undermines security destroys the values of savings and incomes, hinders the expansion of job opportunities, erodes our position in the world, and in the end, eats away at confidence in our institutions. We are going to beat inflation.

We are going to do whatever is necessary to beat inflation. This is a time when every Australian has to ask themselves what they are prepared to do. The Government cannot do this job alone. In 1975, Australia had the third worst strike record in the western world. This is what is damaging our country more than anything else - the utterly selfish pursuit of advantage, regardless of its costs to other members of the community.

An increasing number of people are prepared to stand up and say - no - they will not strike without good reason, and they will not go along with those who urge disruption and conflict.

This week's decision forced us to face again the fundamental question where do we want Australia to go?

Throughout this year we have acted to help those damaged by inflation. The family allowances scheme has brought thousands of families back out of poverty; we have restored an expanded home savings grant scheme to help young couples close the deposit gap. We have initiated a housing allowance voucher experiment to

expand the choice of low income families. We are adjusting pensions automatically to compensate for price rises. WE have indexed personal income tax to put an end to un-legislated tax increases. We have increased the real value of spending on education to expand opportunities. We have also begun the major task of decentralising government power. We have legislated for a federal ombudsman to protect citizens against officials. We have introduced mandatory secret postal ballots for all union elections.

These are all important Liberal measures which will be lasting achievements of this government. Above all, however, we will be judged by our capacity to restore economic health to Australia.

That is the battle we have been fighting since we were elected. Our strategy has already achieved significant results. And it is the right strategy.

In the battle against inflation we need the support of every person who believes in a free and democratic Australia.

The strategy we have pursued throughout this year is the only one which will work. In the light of devaluation we will be pursuing it harder than ever.

We knew this fight would be tough. It is tough. It is going to be tough for a long time. It is a fight we are going to win.
