PRIME MINISTER

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PRIME MINISTER'S ADDRESS TO THE NEW SOUTH WALES CHAMBER OF MANUFACTURES DINNER

Mr. President, Sir John Moore, Gentlemen. I am particularly glad to have this opportunity to speak with you this evening. Bob Cotton would very much have liked to have been here, but he is representing the Government at a South Pacific Forum meeting in Port Moresby and he has asked me to convey his apologies.

It is just ten days since the Budget was introduced in Parliament, and I want to discuss with you its impact on the manufacturing sector. The Budget continues the policies we have pursued since coming to office, policies which have led to inflation being significantly reduced; real economic growth being restored; the expansion of big Government being halted; and Government spending being contained. The Budget will further advance the fight against inflation, because it has reduced the deficit by half a billion dollars and held Government expenditure to zero growth in real terms.

It is because we exercised restraint in Government spending we have been able to introduce a radical change in income tax. We made our tax reform because we know that if Government takes too large a share of the nation's resources, the incentive to work - the basis of a country's prosperity - is undermined. Our tax reforms restore the incentive to work harder and more productively, to earn more and to decide how a greater part of one's income is spent. Under the new scheme, every taxpayer, whatever his level of income, will be better off. Ninety percent of taxpayers will be subject to only one tax rate - 32 cents in the dollar. The first $3,750 of income will not be taxed. Any taxpayer above that, earning up to $16,000 will be taxed at a flat 32 cents in the dollar. If you combine those two steps, he pays less than 25% of his total taxable income in tax. Surcharges apply above $16,000 - 14 cents in the dollar up to $32,000 and 28 cents for income over $32,000.

Our latest tax reforms plus tax indexation will be a cost to revenue of $1,371 million this financial year, and $1,857 million in 1978/79. These personal tax reforms will benefit the manufacturing sector, by strengthening demand, easing pressure for wage increases, and restoring incentive for all staff and employees.

/Manufacturers

Manufacturers have often found it difficult in the past to attract good skilled tradesmen. High marginal tax rates proved a disincentive to acquiring skills, to accepting more responsibili and to working overtime. With the single tax rate of 32% covering 90% of taxpayers, this disincentive has been removed.

Our combined company and personal tax measures in the first two full financial years will have saved taxpayers well over $3,000 million. Anyone who questions the reality of our tax reforms has not faced up to that figure, over $3,000 million. The tax cuts we have made are exactly what people called for before the Budget. The Associated Chamber of Manufactures of Australia called for tax cuts, and so did the Victorian Chamber of Manufactures. The Bank of New South Wales and the A.N.Z. called for tax cuts, and a large number of company Chairmen did the same. Even Mr. Hawke and Mr. Uren asked for tax cuts before they thought we could bring them in.

When we look at the extent of tax reforms we have introduced, I do not believe that anyone can argue that the benefits of these tax reforms have been reflected in a commensurate degree of wage restraint.

Tax cuts certainly would have been impossible under the ALP's so-called strategy which implies a deficit of $3.5 billion. A 50% increase over the 2.2 billion we have budgeted for this year, an increase caused by a large increase in Government spending. What the ALP's strategy would achieve is higher interest rates, and higher inflation. It would do nothing for unemployment. It would not have helped inflation. Even with the rise in company tax of three and a half percent, the nett increase from company tax this year will be only 6%. Noticeably less than the rate of inflation, and noticeably less than the other main components by which the Government retains its revenue. The major reason for the low rise in company tax receipts is the tax reforms, particularly the investment allowance and the trading stock adjustment, introduced in last year's Budget.

Manufacturing industry is of great significance to the Australian economy. It has played a vital part in Australian economic and social development, and will continue to do so. Manufacturing industry accounts for almost a quarter of national production, and contributes about one-fifth of total exports. It employs over 20% of the total workforce, one and a quarter million people, of whom one-third migrated to Australia looking for a better life and greater security. Manufacturing industry has faced considerable difficulties in the last few years. Management has faced the challenge of tackling inflationary pressures, a reduced rate of growth in the domestic market, industrial relations difficulties, greater industrial development in other countries in our region, and, above all, an explosion in wage costs. The grave

/inflation

imbalance between real wages and productivity resulting from the 1974 wage explosion still remains Australia's major economic problem. Wages as a cost have continued to increase relative to other prices.

As measured by the vital indicators, the private consumption deflator, the non-farm GDP deflator, the Consumer Price Index excluding hospital and medical service, average weekly earnings outstripped prices last financial year. I know if you take the CPI unadjusted for Medibank you can arrive at a different result. But that is a most unsatisfactory method of making a proper comparison. Medibank had to be paid for either out of consolidated revenue or by the special levy - a change from one method to the other alters the CPI dramatically but in no way reflects any change in the underlying rate of inflation. Another way of seeing how great present wage rises have been is to compare changes in the Australian average weekly earnings index with the US average earnings index. The components of the two indeces are not the same, but it is relevant to compare the way the two series have increased. In the three year period from the end of 1972 to the end of 1975, Australian average weekly earnings increased about three times the rate of increase in US average wages - 65% compared with 22%. And this increase in earnings does not measure the full cost of labour to employers. In recent years, non wage costs, such as workers compensation, payroll tax, and more generous leave provisions, have increased greatly.

The prospects for manufacturers seemed dismal, particularly in 1974-75 when manufacturing industry suffered the triple shock of an increase of over 30% in wage costs, an inflation rate that reached 19.2% in the last half of 1974, and the effects of the notorious across the board 25% tariff cut. All this eroded our international competitiveness, and was reflected in a loss of export markets, and increased penetration of domestic markets by imports. Employment in manufacturing has fallen by 170,000 since May 1974. But since the December 1975 election, the outlook for manufacturing industry has improved.

First, we recognised the acute financial difficulties which the taxation system imposed on business through the effects of inflation, so graphically described in the Mathews Report. I have already outlined some of the reforms we have made in this area. Second, we have taken decisive action to reduce the rate of inflation which has caused such damage to manufacturing industry in Australia, and we have had considerable success. When we came to office, the rate of inflation excluding hospital and medical services was 16.7%. At the end of June, the inflation rate was down to 10.2%. We are determined to reduce it further.

We have legislated to bring greater justice, common sense and consultation to industrial relations. We have established the Industrial Relations Bureau, and the National Labour Consultative Council. We have legislated to provide for secret postal ballots for the election of officers of unions registered under the Conciliation and Arbitration Act, and to limit their term of office to four years. We have amended the Trade Practices Act to ban damaging secondary boycotts by employees which do not concern disputes over conditions of employment. The Royal Assent has now been given to the Commonwealth Employees (Employment Provisions) Act 1977. This enables Commonwealth Government employing authorities in the public interest to suspend or dismiss Goverment employees who take industrial action which unreasonably disrupts the provision of services to the Australian community. It also provides for standing down without pay Government employees who cannot be usefully employed as a result of industrial action, or who are engaged on functions, the performance of which is seriously disrupted. Before this legislation was passed, the Government's powers were far less than those of many private employers. This legislation goes a long way towards redressing the imbalance. Our firm but fair industrial policy has achieved a significant reduction in the level of industrial disputes.

This year, we have had by far the lowest level of industrial disputes this decade. By contrast with the Government's common sense and desire for consultation, a minority of unions desire confrontation. I know the public wants the Government to be firm in these matters. But when some union tries to confront the community, it is remarkable how readily some people want to ignore it.

The Government is totally determined that the law will be upheld in industrial matters. A community cannot operate if the law is not maintained, and you cannot have a situation where the law applies everywhere but in industrial relations. The previous Government was not prepared to uphold the law. After the air traffic controllers dispute and the postal workers dispute, I hope that no-one has any doubts about our resolve. Perhaps, most importantly of all, the Government realises manufacturing industry's need for -predictability in Government policy.

As we stated in our White Paper on manufacturing industry, a clearly stated and widely accepted approach policy for industry is an important factor in generating the confidence for industry necessary to encourage long term investment. These were not idle words. We are determined to restore confidence - restore the conditions in which the private investor can face the future with greater certainty.

There are a number of factors which are helping to provide a more stable and secure environment for manufacturing industry. The short term and long term policies of the Government have been clearly stated. In the present period of low economic activity and high unemployment, levels of protection will not be reduced where this would endanger employment opportunities, or jeopardise the viability of particular sectors of the manufacturing industry.

We have introduced an exchange rate policy which avoids sudden unpredictable changes. The long run profit share of the national income is steadily being restored. Rises in costs, for labour and raw materials, while still of concern, have been brought under greater control, and increases in real disposable incomes should increase demand for manufactured goods.

Our industrial policy aims at helping, not hindering, business confidence. To do this, a balance must be achieved between long and short run considerations. In the present economic circumstances, the Government is resolved, through its industry assistance policies, to provide the element of security and stability industry needs, and thereby maintain activity and employment.

/Concrete

Concrete evidence of the Government's commitment to this objective is evident in our recent action regarding motor vehicles, textiles clothing and footwear. In regard to motor vehicles, the Government has continued the policy it first adopted in 1976 for preserving a minimum market share for local manufacturers, which is sufficient to maintain a satisfactory level of activity and employment. We had hoped that this policy could be implemented without -import restrictions. But when we found that this was not possible, we introduced import quotas, and we shall take further action, if necessary, to ensure that local industry's share of the market does not fall below 80%.

Last month the IAC published its draft report on textiles, clothing and footwear, and a week ago the Ministers for Industry and Commerce and Business and Consumer Affairs, announced the Government's approach to these three industries. It must be a matter of concern to the Government when industry believes that the Industries Assistance Commission is a body to be feared. Clearly, in a country which has a relatively small domestic market, and a high cost structure, continued assistance to industry is inevitable. To have a body which advises on the level of that assistance, but which some believe is dedicated to the destruction of industry, seems a grievous contradiction.

The Government and the IAC itself, have to ask how this position has come about. Does it really arise from the IAC's Charter? Early in the life of this Government, the then Minister for Business and Consumer Affairs, John Howard, wrote to the IAC, to ensure that all IAC reports gave due consideration to the employment effects of it's recommendations, including their effects on employment in decentralised locations, and the capacity of the economy to absorb any changes which the IAC might recommend. The Minister asked that each IAC report should advise on the assistance required, to maintain the present level of activity, and employment, in the production of goods under reference. He also asked that if a lower level of assistance was recommended, the Commission should give reasons, why it did not recommend the assistance required to maintain the present level of activity and employment.

But what do we find? In a time of high unemployment, the IAC submits reports which would create more unemployment. The IAC draft report on textiles, clothing and footwear, produced a totally unacceptable degree of uncertainty in the three industries involved. If we had not acted promptly, it would have severely undermined the confidence necessary to sustain investment and employment in these industries. Our consideration of that report, and earlier reports has led to the Government taking certain actions. Sufficient assistance will be given to ensure that there is no reduction in the level of activity, or employment, in the textiles, clothing and footwear industries for the next three years.

During this period, we expect the industries to make positive efforts to improve their structure and efficiency, and, in consultation with the Minister for Productivity and the appropriate trade unions, to determine the potential scope for increased productivity.

/We have

We have also asked for a study to be made of the role of the IAC against the background of present economic problems in Australia. When this study is completed, we will be in a position to take whatever further action is necessary to achieve a more certain decision making climate. In the current economic circumstances, we have decided not to send to the I.A.C. the five remaining references on metal products under the I.A.C.'s tariff review programme.

We have taken this step because we are well aware that a reference to the I.A.C. can destroy confidence to invest in the industry involved. Indeed, under the present circumstances, with the present reputation of the I.A.C., the long term reference is likely to kill investment plans in this industry. We have no intention of allowing that to happen.

A great deal has been spoken in recent times about structural adjustment. In boom conditions, it is possible to remove resources from one area to another, by deliberate government policy without causing undue damage and hardship.

Protection for a particular industry can be reduced without grave social consequences because employees can readily obtain jobs elsewhere. But to talk of structural adjustment in a time of economic difficulty and under-production is sheer nonsense. This is why in the white paper on manufacturing industry we speak of the differences between shortn term and long term objectives and policies.

If in today's conditions industries are not given adequate protection there can only be more unemployment. In order that we may further define our long term policies for implementation when growth has been restored to satisfactory levels, the government has decided to have a study undertaken under the chairmanship of Sir John Crawford. Of the adjustment problems which will eventually be faced, in the most highly protected Australian industries. It should be clearly understood that adjustment should not be defined as elimination.

What we want is the long term strength, stability and viability of Australian manufacturing industry. I'm sure that Sir John is well aware of how essential a broad based manufacturing industry is to Australia.

Mr President, I know that there are still problems for manufacturing industry in this country. But, I believe that the government is establishing the conditions in which it is reasonable to expect a return of confidence in industry.

Our over-riding goal is to create and maintain a climate in which new opportunities will exist for business initiatives, new investment, and high employment. Government has an mportant part to play in achieving a full economic recovery - but the importance of business itself cannot be underestimated.

What we are now looking for is a positive response from private industry. And we are greatly encouraged by recent developments with the North West Shelf project and a number of new investments in manufacturing industry which have been announced recently.

Recovery in the economy which we are looking for requires a joint effort by all of us -- industry, government, unions. The government's policies - particularly when capped by the tax reforms and reduced deficit of the budget - have set the scene for renewed real growth.

I am confident that, once again, Australian manufacturing industry will play its full part in achieving that goal.

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