Embargoed until delivery

F77/244

AUSTRALIA

PRIME MINISTER

FOR PRESS

4 NOVEMBER 1977

ADDRESS TO MELBOURNE STOCK EXCHANGE DINNER

I welcome this opportunity to discuss with you tonight the state of the Australian economy particularly as it is now clear that economic recovery is well under way. It is clear that 1978 will be the best year in terms of overall economic performance in over five years.

I also welcome this opportunity because my Government has always recognised the vital role of the Australian capital market in our drive to achieve full economic recovery.

During the long period of sustained expansion of the 1950s, 1960s and early 1970s, the institutions of our capital market, among which the stock exchanges were prominent, played a fundamental part. They marshalled financial savings from within Australia and overseas, channeling them to firms, individuals and governments wishing to carry out investment. Almost thirty years of continual industrial expansion and the great development in the 1960s of our major mineral industries were substantially due to the vitality, initiative and soundness of our capital market.

That success story came to an abrupt end in just three years - 1973, 1974 and 1975. The reasons were high and increasing inflation, appalling low profits, and penal taxation. Share and other security prices collapsed, while interest rates jumped to previously unimagined levels. The long-term capital market in particular effectively disappeared; new industrial issues fell right away as companies contracted their new investment plans to the minimum; overseas investors withdrew.

The capital market is often regarded as the bell-wether of the emerging economic trends in the economy. It is with pleasure therefore that I have been observing recent capital market indicators suggesting renewed signs of optimism. Interest rates have begun to decline. In the Government bond market, the long-term rate has recently come down below 10% for the first time since mid-1975. Provided current policies are maintained, there is good reason to expect this trend to gather momentum in the year ahead, spreading to include a wide range of other interest and security yields.

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Some industrial and mining companies have been demonstrating their confidence by expanding their capital raising and it is pleasing to see some signs of greater activity in the issues of longer dated securities.

Both these trends, which appear likely to continue, indicate basic confidence in the waythe economy is heading. Let me tell you quite plainly that such confidence is entirely justified.

Let us recall for a moment the kind of economy we took over when we came to office. Inflation was rampant and unemployment increasing sharply. Real wages had far outstripped productivity. The public sector's claim on resources had grown far too big. The money supply was out of control. Investment was down. And Australia's competitiveness had been badly damaged. From the outset, our economic strategy aimed at reducing inflation and getting private business - who employ three out of four Australians - back on its feet. We realised that the task of restoring the nation's economy would be a lengthy and difficult one, and we made this plain publicly before the election. Above all, inflation had to be beaten.

In our twenty two months of office, we have not wavered off this course. We have resisted all pressures to expand public spending, even though at times there seemed to be some short-term political advantage in doing so.

For the first time in many years, the Commonwealth Government's share of GDP has actually fallen. Without this restraint, we could not have introduced our tax reforms, and even with all our tax cuts, we have still cut the deficit by nearly 40%.

We have succeeded in steadily winding down underlying money supply growth, from around 20% per annum prevailing in the second half of 1975 to about 10% in the financial year just ended, and the Budget is working on an 8%-10% increase in this financial year.

Because of our restraint, because of our success in making the provision of Government services more efficient, we have now achieved a responsible spending base.

Our policy of responsibility has brought major successes. There has been this year a major breakthrough in cutting back inflation, and we have gone a very long way towards breaking inflationary expectations in the community. The 2% Consumer Price Index for the September quarter confirms that inflation is now running at around 9% and falling. National accounts deflators support this. Based on the latest available six monthly period, every one of the following indicators puts inflation under 8% per annum: prices of articles produced by the manufacturing industry, prices of materials used in house building, prices of materials used in other buildings.

Over the three months to July, average prices of materials used in manufacturing industry increased by less than 1%. Overall we have found it necessary to substantially revise downward the inflation projection in the Budget documents.

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These achievements on their own are most satisfying. But more significantly when judged against other countries, our inflation rate now broadly matches that of our major trading partners. This is not just a political boast on the Government's part. It is a statement of fact. The average inflation rate in twenty four OECD countries has remained fairly static in the 8-10% range for two years now. Our underlying rate has gone down from 17% to around 9%. This is a major achievement when it is remembered that the gap between Australia's rate of inflation and our major trading partners was some six to seven percentage points in 1975 under the former Government.

By maintaining our current policies, I am confident that the rate of inflation will be running at an annual rate of between 6%-8% by the middle of next year. The quarterly rate of increase in the Consumer Price Index is now estimated to be below 2% in the March and June quarters, of next year, and declining further as 1978 progresses.

I note that there has been an increasing consensus among economic and finance commentators that inflation is coming down rapidly, and that this has strengthened greatly our prospects of sustained recovery, sound external account, falling unemployment, and lower interest rates. As one commentator has noted, we are rapidly approaching the point of "an emphatic, sustainable turn upwards in the business cycle".

We have done what was needed to reverse the disastrous economic policies of our predecessors. There has been an increase of 23% in company profits for 1976/77, a significantly higher share of national income going to profits, a lower household savings ratio - about two-thirds of the way back to 'normal', and a moderate expansion in real gross non-farm product.

In the eighteen months before we came to office there was virtually no real growth. In our first eighteen months there was real growth of 5%. Evidence is now emerging of new capital investment projects moving ahead, particularly in the extractive and manufacturing industries. A recent Government review of major investment projects planned by companies in Australia reveals substantially greater investor confidence. Firm investment proposals totalled around $5.8 billion, probably projects some $8 billion, and longer-term possibilities about $7.1 billion - and this survey did not include investments of under $5 million each.

This is a bright investment outlook. It is good news for Australia. It means more jobs for Australians. The 1977/78 Budget charts a course of strengthening recovery during the course of the year. This recovery will be founded on expansion in consumption, investment, and a turn-around of the balance of trade flowing through from devaluation. The emergence of the economy's new strength will be more apparent as we move into 1978.

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There was real growth in retail sales in the September quarter. In money terms, sales increased by 3.2%, compared to 2.5% and 1.8% in the previous two quarters. A survey of capital expenditure by the Bureau of Statistics shows an expected increase of 14% in the current half year - which would be the largest increase in recent years. Housing finance approvals by major lenders were 18% higher in August than the 1976/77 monthly average. In the June half-year private commencements in construction (other than building) were up 61% on the same period last year. Export volumes rose in the September quarter.

In the finance sector, as you would know, a number of factors have led to expectations of lower interest rates. Significantly lower interest rates are vital to full economic recovery. Those who call for additional spending on one programme or another fail to realise the implications for interest rates of greater public spending. If this Government were to resort to Labor's big spending approach - the community's confidence would be shattered. The opportunity to lower interest rates would be gone. There is no way this Government will treat this election as an auction - the ALP has already promised $3,000 million.

What we offer is a much rarer commodity - a responsible and effective Government.

In the coming election campaign, there is a choice of the utmost clarity. We are committed to a system where worthwhile free enterprise can flourish. Our commitment is not founded simply on the fact that free enterprise is the most efficient economic system, or the most efficient producer of the resources required to provide a better life for all Australians, though it is both of these. We support free enterprise because it is the most democratic system. It confers on the individual maximum freedom of choice. It allows the individual maximum opportunity to innovate, to strike out on his own, to try out new ideas and projects. It makes the individual consumer the ultimate allocator of resources.

The Australian Labor Party of course supports an entirely different approach. We have the evidence of three years of Labor rule. We also have the evidence of their new economic planning policy, adopted in Perth last June, which is binding on every Labor Parliamentarian. Let me read you some extracts. "Labor will initiate national planning to relate the performance of both the public and private sectors to the goals of society, and to give direction to the allocation of resources between the various sectors in the economy." "A Department (will be) created with the responsibility to co-ordinate preparation and maintaining of plans" "Labor will set the overall objectives .. Government will intervene where necessary to reach national objectives" "Public enterprise is particularly to be established or extended in the fields of banking, consumer affairs, insurance, finance, marketing, housing, stevedoring, transport and in areas of social monopoly." These words represent the Australian Labor Party's plan for Australia - a vast bureaucracy armed with vast powers to impose controls on the daily lives of us all.

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Elements of this plan to again damage and disrupt business - if they were ever to get a second chance - are now being publicly disclosed. Mr. Whitlam has indicated his disapproval of the investment allowance, the taxation incentives to mining companies, vital concessions to rural industry such as income equalisation deposits, our changes to private company taxation laws. In addition, our personal taxation reforms, which will release $2,250 million from revenue into the hands of individuals and companies this financial year and $2,935 million next year, would be far from safe under Labor. Our new tax scales have not been endorsed by the Labor Party and Mr. Hayden has refused to commit himself on tax indexation.

Significant advances have been made in restoring the Australian economy, and while unemployment will, of course, rise in the Christmas period of school leavers - it always does - from February unemployment will fall in a steady and sustained way. The Government has shown sensitivity and concern about unemployed Australians. We have developed policies that tackle its real causes.

Firstly we have tackled inflation. Labor's policy of massive expenditure would lead to inflation rising again, and there would be no permanent gain for the unemployed. We all remember how Labor panicked as unemployment rose in 1974 - how they introduced the now discredited RED scheme, only to stop spending on it in 1975. The same discredited schemes still form the basis of Labor's current economic platform.

Compare our policy decisions on unemployment. We have given industry the protection it needs. Recent trade figures show the effects of devaluation boosting exports and curtailing imports. We have introduced a number of new imaginative programmes to provide immediate help to the unemployed, and, unlike Labor's RED scheme, these will bring an enduring benefit to those who participate in them, and they are being achieved within a responsible economic framework. They include National Employment and Training Scheme, Special Youth Employment Scheme, Community Youth Support Scheme, Relocation Assistance, and the CRAFT Scheme for Apprentices. More than 122,000 Australians - mainly young people - have already benefitted from these programmes. They are all schemes which help to improve basic skills, and no eligible person will be refused assistance.

The Government has also initiated an education programme for unemployed youth which helps young people develop skills such as literacy and numeracy needed in the workplace. Specially selected teachers at technical colleges are re-teaching small groups, and early results of this new programme have been most encouraging.

Only a few days ago, at the Premiers' Conference, it was unanimously agreed that a Special Youth Employment Task Force be set up in each state. That force will promote a major campaign to encourage employers to make a special effort to employ additional young people from the beginning of 1978. I trust you and your clients will respond enthusiastically to this campaign.

Mr. President, I have greatly enjoyed this opportunity to discuss with you and other members present here tonight the economic problems which the Government has had to tackle, the successes so far achieved, and the prospects ahead. In my view it will not be too long now before the traditional and crucial role of the capital market in raising much of the capital for the re-equipment of our industries will assume even greater importance. The circumstances will not be quite the same as they were in the 1960s. New initiatives, new techniques, will be called for.

I am sure that the Government and the community can look to you to live up to our expectations and to carry out your role with the responsibility and flair that is in your best tradition.

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