



FILE

PRIME MINISTER

FOR MEDIA

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ADDRESS TO VICTORIAN CHAMBER OF MANUFACTURERS, MELBOURNE

Mr. President, Your Excellency, the Lord Mayor, my Ministerial colleagues from Canberra and also from the State Government, Ladies and Gentlemen. Thank you very much Mr. President for asking me to be with you on this day. I welcome the opportunity of being able to say one or two things about the Budget and to be able to talk to you about the way in which the Government sees the Australian economy moving.

I would first like to compliment you on a sign that is behind my head, because the reserve forces can't really operate unless there is co-operation by employers all over Australia. Members of the reserve forces, I believe, play a very important role in Australia's overall national life and in providing a reserve capacity significantly to strengthen Australia's defence. But it can't work, and won't work, without the co-operation of employer organisations, of individual companies. Therefore, I was particularly pleased to see your own gentle advertisement and support for the reserve forces. On behalf of the Government thank you for that.

Mr. President, I believe that the Budget that John Howard introduced a couple of nights ago is a particularly good document because it maintains the strength of the Government's anti-inflationary policies. I haven't met anyone saying the deficit should have been lower. It is an anti-inflationary as anyone wants. But at the same time, it has been able to provide some important incentives, concessions, to different elements of business and to take one or two major initiatives in realising our general objectives and goals in social reform. Being able to do that within overall responsible Budget parameters, having in mind our first obligation to the health of this economy, is I think a pleasing one and I hope you can all share in that.

The Budget does have three major objectives: to strengthen the economic health of Australia; to advance on the progress we have already made; to encourage further growth and development in Australian industry; and also to meet some important social objectives.

The strategy that we have adopted over the last three and a half years has, I believe, been very very strongly vindicated by events that have occurred and by the improvements in important elements of the economy. That is why, of course, the broad Budget strategy is maintained and if anything, strengthened.

For the first time in a number of years civilian employees and employees in manufacturing industry over the last 12 months has started to grow quite strongly. While not yet enough to make any significant dent in the numbers unemployed, civilian employees over the last 12 months has grown by something over 60,000. The first time for a number of years when that has occurred.

Factory production is up in the last year. Over 4 per cent in real terms. Profitability is also up. I know that you would always be able to say that profits could be even higher, but profitability, as I hope you will agree, is improving and in many cases quite significantly.

Because of improvements in productivity, because of growth within the economy, and because of the broad thrust of our wages policy, the real labour costs per unit of output have in fact been reduced and that has been highly significant in re-establishing the competitive base of Australian industry. It is not so long when in the year to March 1975 - and I think a lot of us might have forgotten this - award wages rose by 38 per cent in one year and the Consumer Price Index rose by about 14 per cent or 15 per cent in that same year. No wonder there were some imbalances and difficulties to be overcome against that kind of onslaught.

But over the last period, the annual average growth in award wages has been about 8 per cent a year. That again, has indicated a reasonable degree of restraint and much more than has been found in many countries overseas. Again, in spite of the industrial trouble over the last few months, the movement outside indexation has been minimal and much less than many people feared as we approached the Autumn.

As a result of our policies, and despite present pressures, inflation is down substantially from what it was. But I think it is worth comparing Australia's performance with what has happened in a number of other countries. On an annual basis, inflation to six months in the United States, now stands at 14 per cent. The United Kingdom at 16 per cent. OECD countries generally by 11.8 per cent and Australia at 9 per cent. While we can keep our inflation below that of those major countries Australia becomes more competitive instead of less competitive.

Putting it another around, if you wanted to compare the acceleration rates, on Australia's inflation and that overseas, in the United States inflation has accelerated by 28 per cent, the United Kingdom by 38 per cent, OECD countries generally by 25 per cent, Japan - admittedly from a low base - by 66 per cent and in Germany from a low base by over 90 per cent, Australia by 2 per cent. A much better performance in maintaining and containing inflationary pressures than in all of those countries.

As a result of these policies of course the dollar has greatly strengthened and we are seeing the benefits of that. Competitiveness has been greatly restored and some Australian manufacturers are now moving out into export markets in a most enterprising and imaginative manner.

The volume of manufacturing exports in the 9 months to March was up nearly 20 per cent over the previous period. Mining and manufacturing investment on projects ready to go and in the final feasibility stage, stands at about \$12 billion. But I note there has been a detailed research by W.D. Scott which indicates that the sum should be nearly \$30 billion over the next five years. I don't make any claims to that figure. It is a very large figure of prospective investment and development but that is the figure from W.D. Scott.

There has been international praise for Australia's economic policies, for a steadfastness in pursuing those policies and in responding to the renewed inflationary pressures arising from results in the Middle East and also from beef prices. The OECD complements Australia's economic policy. GATT noted in its last annual report that Australia is the only country to succeed in achieving a sustained improvement in international competitive position over the last few years. That, I think, is a compliment indeed.

There are clearly some undesirable aspects. There are clearly dangers ahead. Inflationary pressures are rising and we have had to do something about that. Unemployment remains as a continuing problem.

The new dangers have largely been introduced by international pressures on oil and on beef. Over the next few months our inflation will be higher than we anticipated at the time of the last Budget. But with oil and beef out of it, inflation to June would have been pretty much on with the Budget estimate of last year. If we hadn't acted decisively in May, I think we could then have been justifiably criticised as not responding to new pressures which had emerged since the time of the last Budget.

But the Budget itself builds on existing achievements. It responds to new pressures that have emerged. We don't sit back and blame what has happened overseas and say we can't do anything about it. We respond to it appropriately so that the Australian economy can be put in the strongest possible position, maybe even more competitive so that we can do better than North America, as we are, do better than the United Kingdom and France and many other countries, as we are.

I don't want to hark on the past, but I do want to quote one or two statistics to show how we are doing better than countries overseas. But in 1972 inflation was about 5 per cent and it was below the OECD average. When we took office inflation was about 17 per cent and 5 percentage points above the OECD average. In the last six months our inflation rate has been down to about 9 per cent, nearly 3 percentage points below the OECD average. So long as we can maintain that performance, Australian manufacturers, employers, can have confidence in being able to do better in the Australian market and being able to get out further into export markets.

There are a number of reasons of course, why our performance is better: restraint in expenditure, restraint in wages policy, and responsibility in our overall approach to Government policy.

The Government has restrained expenditure I think much more than many people realise. Expenditure reached 30.3 per cent of gross domestic product in 1975-76, and if we compare the figures on the same basis - you have to make an adjustment for family allowances - it is now a little over 27 per cent, a substantial reduction over the three and a half year period.

I think it is not generally understood that Commonwealth Budget outlays in real terms in the three years to 1972, that is under a former Coalition Government, grew by nearly 5 per cent a year - by 4 3/4 per cent a year. Too much. In the three years subsequent to that they grew by a massive 10½ per cent a year in real terms. That was much too much. In the last three years, in spite of some pressures where you need additional expenditure, real expenditure has been about static, has grown less than 1 per cent a year. No Government in the history of Australia, State or Federal, has exercised that degree of restraint in its own expenditures.

We have rigid ceilings on the Public Service. The number now is about 12,000 or 13,000 less than when we took office. If the recruiting programs of our predecessors had remained in force, there would have been 70,000 public servants more costing untold sums; more to pay and to house and to provide the programs that would keep them partly occupied.

This achievement is all the more notable when you consider the very real need for expenditure on social welfare, defence and if I may say it in some aspects of support for industry itself.

In social welfare how many of us understand that due to demographic changes, due to an ageing population, due to the fact that many returned servicemen from the last world war are now approaching 60 and therefore qualify for the service pension, for many reasons, in 1968 there were 176 welfare recipients for every 1,000 people in the workforce. In 1978 that number had grown in 276 for every 1,000 people in the workforce.

When everyone says to us restrain expenditure, cut out welfare payments, cut out payments for education, cut out payments for health, does anyone really mean that we should knock off or reduce payments to repatriation pensioners. Does anyone really believe that we should reduce payments or make life harder for people who are in old age groups and who are receiving the pension, or invalid pensioners, or to incapacitated people, because that's where those funds are going in income support payments to a large part of a slightly ageing Australian population.

Quite obviously those figures - 176 for every 1,000 in the workforce to 276 for every 1,000 - spell out in stark terms the additional calls on a Commonwealth Budget. They are not calls, I may say so, that fall on State Governments and their Budgets, because it is we who have the responsibility for income support payments for those in the Australian community who need it. If people say we should cut into this expenditure let them be very particular about it and say precisely which income support payments they want reduced, cut out or abandoned. Nobody advocates cutting those particular payments. We haven't done it.

But then let's look at defence. This year we are providing over \$280 million more, nearly 11 per cent over last year, because we believe there is a very real defence need and we believe it would be wrong if we didn't spend additional sums on defence.

Also, much greater sums are being spent on support for industry, export incentives in particular - \$20 million to \$170 million in a year. Admittedly some back payments being caught up, but a much more expensive program than we envisaged when it was introduced because it has been much more successful than any one dared to predict when it was first introduced. That is a good thing. I hope it is more successful in the future. That has just been a larger charge on the Commonwealth Budget in future years if that is what has happened. But we won't cry about that. We will be glad because that is the purpose of that particular proposal.

But in defence, we have been able to lift the sum spent on capital equipment from 7 per cent to 15 per cent of the Budget. We have been able to reduce the amount spent on wages from 60% to about 50% of the defence budget, getting better value for dollar, putting more money into hardware and infrastructure where it permanently improves the quality of Australian defence. We try and spend as much as we can on Australian equipment. There is a defence industrial committee. It maintains close links with industry. The Government has very particular programs designed to make sure that defence dollars are spent in Australian industries wherever that is possible. We do that for all dollars spent by the Commonwealth Government in its purchasing programs.

Jim Killen, in 15 or 20 minutes time will be making a statement on defence in the Federal Parliament. One element of that is a particularly pleasing one and I hope you also will be pleased with it. Two years ago we had a Cabinet submission which would have involved giving a contract to a French firm, I think French but certainly overseas, for the construction of a major supply ship for the Australian defence forces. Vic Garland will correct if I am wrong but I think the contract was something like \$70 million or \$80 million. We said: "Look, this isn't good enough. We think Australian industry has not been given an adequate opportunity to compete. We want you to go back to Australian industry, back to Australian firms and see if we can't place this contract in Australia. Even if that does mean some delay in getting the new vessel into defence service".

My colleague, the Minister, will be announcing that that contract has now been placed with an Australian firm and we haven't had to give any preference. We would have it we had had to. But we haven't had to give any preference in terms of dollars and price for the Australian contractor because they have beaten the overseas contractor by many millions of dollars in their final tender.

That is an area where people said Australians can't do it, Australian industry can't do it. Well they can and they have and it is time, I believe, that we began to take a greater pride in the capacity to perform, of Australians, of Australian workmen and of Australian industry and entrepreneurs. I think there is a capacity of many of us who could well exhibit that pride in Australian workmanship.

How many people now drive expensive imported cars because they are expensive imported cars, instead of buying a world-class home made product. One of the things you might have noticed in the Budget, there is a gentle inducement to buy the home made product instead of the expensive imported cars.

Mr. President, the Budget reduces the deficit very very substantially indeed, from nearly \$3½ billion to \$2.193 billion, a reduction from 3.4% of gross domestic product to 1.9% of gross domestic product. That is a most significant change, a most significant advance in this Budget. The estimated deficit is a lower percentage of the gross domestic product than would occur in Germany, Japan, the United Kingdom and Canada and many other countries. We have done better than most OECD countries in getting the burden of over-large deficit down in this Budget.

In particular the estimated domestic deficit this year will be just under \$900 million, much less than half that of last year. This is important, because it leaves room within the markets for private sector demands. It assists very greatly in the conduct of monetary policy, especially given the containment of capital raising programs of semi and local governments, a decision which we came in for a mild degree of criticism about over the course of last June. Of course, it means that there can be greater funds for business investment and generally for housing.

It obviously exerts a further downward pressure on inflation which was sorely needed, but obviously further strengthens the Australian dollar and thus helps create the conditions for continued expansion and confidence in business.

As I believe there are some hard-headed people who have been making those very judgements over the last two days. I don't believe people invest on the share market just to boost the Government's confidence or to make other people feel that the Budget was a good one. They spend their dollars in a hard-headed way. A few people on the share markets have been voting a vote of confidence in Australia over the last couple of days.

There is an odd argument going on at the moment. Some people are saying that a tax cut is not a tax cut. Well, if anyone wants to say that a tax cut is not a tax cut, let them volunteer now to give the tax cut from the 1st of December back to the Federal Treasury. I don't think there will be too many volunteers for that.

But if people want to argue that there should have been tax indexation instead of a tax cut, that is a fair enough argument and I can understand it. But if people want to argue that an income rises, they should not pay income tax on those greater dollars that they earn, I think that is the greatest piece of humbug and nonsense that I have ever heard in my life. If people have a larger income, obviously they expect to pay tax on the additional dollars they earn. But there is a tax cut. I could understand it if people say it should be greater. I can understand it if they said it should have been tax indexation instead of the tax cut.

Last May, John Howard said we could not afford both. He didn't even say we could afford one. But we have been able to afford one of them and we remain just as firmly committed as we ever did to tax indexation, but only when we can do it financially and responsibly. We are also looking for some assistance to the wages tribunals in being able to establish those responsible conditions by an exhibition of some restraint in wage decisions.

The Budget re-emphasises our commitment to monetary and fiscal responsibility, to the reduction of inflation and to an environment which will encourage growth and development. It is a Budget in which income taxes have been lowered in which there is a degree of smaller government and an increased role for private enterprise and for private initiative without which the wealth and prosperity of any nation will wither and die.

There are policies in the Budget which promote growth, promote development. It does embody some special policies for business, for the rural community, for a further amplification of our energy programs. It builds on past policies. You well know what we have done with the investment allowance, with the expanded charter for the Development Bank, now being able to lend to all business sectors. The changes to the Industries Assistance Act-amended to take account of Government policy and employment and social consequences of its recommendations, something which it doesn't seem to do entirely even with those causes in the legislation.

The Government has established preference for Australian products for all its own purchases, and in some cases a very substantial preference.

In 1978 we reduced the sales tax on new motor cars and now there are some new initiatives designed to encourage development of more efficient, export-oriented and competitive industries.

Division 7 tax - which I suspect some of you have heard of - the first Budget increased the retention allowance from 50% to 60%. That is now increased to 70%. That is a help for small businesses.

Export expansion grants have vastly increased from \$20 million to \$170 million through the course of this year. Some of that is picking up a backlog in payments, but the final demand through this year would even be to an extent higher than that if the program continues to expand as it has up to the present time.

Export market development grants are up very substantially. Industrial research and development, under Ian Macphee's guidance, came to \$24 million last year, \$24 to \$32 million this year, aiding initiative and enterprise throughout Australian industry. A depreciation allowance for tax purposes on buildings providing traveller accommodation, encouraging people to pay more attention to the development and expansion, the great opportunities open to Australia through an expanded tourist industry.

For the rural community, the special depreciation allowance reappears for special storage facilities, for grain, hay or fodder. I imagine that would put a gleam in some primary producers eyes.

The national water resources program has been expanded by 25%. The main elements of our energy program is designed to promote conservation of a scarce resource, designed to encourage people to move into alternative supplies of energy, designed to encourage exploration and development.

Import parity pricing for oil is an essential part, an essential weapon in pursuing those three basic and vitally important objectives.

But there are other policies to encourage the use of L.P.G. Commonwealth cars are going to be LPG fired wherever that is possible, for the future. We have removed sales tax on conversion kits. The Budget continues this thrust. The conversion cost from oil-fired industrial equipment - there will be a 40% investment allowance if it is new equipment and it will be written off immediately if it is a question of conversion of existing equipment away from oil.

In addition to that, the advantages and encouragement for offshore exploration for oil is now being extended to onshore exploration for oil. That again, I would hope, will encourage greater exploration. I also hope greater exploration by Australian firms who might better be able to meet the costs and obligations of the search onshore than offshore.

In terms of our broad social objectives, the decisions we have made have been fair and they advance the cause of social reform. Because inflation, for reasons that we all know, is higher than we envisaged at the time of the last Budget, pensions are indexed twice a year and not once.

But other things I think have been overlooked. Over three years we have provided funds for 15,000 beds for aged and disabled people through the programs of this Government. Through a period of financial stringency we haven't forgotten obligations to people who need assistance.

Over the last three years there has been a tremendous expansion of assistance for disabled people through sheltered workshops and special programs to assist them.

The Budget continues and builds on those programs. The eligibility for pensioner health cards is going to be extended to supporting parent beneficiaries and there are extensive changes in assistance in the repatriation area.

The Budget is not just an economic document. It is also a broad social document and one of important social consequence. Ultimately our capacity to advance in a social sense, depends upon the strength of the Australian economy, what we can do for ourselves and the kind of world we are living in.

I would like to conclude by just talking for a moment or two about the kind of trading world we find now and which I expect to see into the 1980s.

It is not a particularly encouraging one, but that doesn't make me gloomy or pessimistic about Australia's prospects. Far to the contrary. For a whole number of reasons inflation is too high and growth in world trade is too low. Growth in trade over the last 7 or 8 years has been about 4 per cent year. Not enough to reduce the numbers of unemployed in the advanced western countries. In the previous 20 years it ran at about 8 per cent a year, through the years of low inflation. Unless the major countries can reduce their inflation, growth in world trade is likely to be low and unemployment around the world is likely to stay high.

I think the greatest prospects for being able to achieve a breakthrough on the world inflation front is if after they get through their present time of difficulties the United Kingdom can join Germany and Japan and the three of them persuade other major industrialised countries, and North America, that they have to pay much greater attention to the inflation problem than they have over recent years.

But even if that doesn't happen where does Australia stand? I believe we can have confidence in ourselves. Even if the world see it as a difficult one and a sluggish one, there is no need for us to be timid about our own future, because we have many advantages and it is up to us to develop those advantages and explore them to the full.

Our inflation is under that of many other countries. It is our intention that it stay that way, so Australian industries will become more competitive, will get out further into overseas markets - exports to new countries - and that will provide more jobs, more work, more opportunities for Australians.

But also, if we maintain economic and political stability, maintain a tightly run ship in economic terms, we have a great capacity to attract investment to this country, as indeed we have over the last year or two. Approvals made by the Foreign Investment Review Board in the June Quarter were running at an all time high - about \$1,400 million worth of approvals in that particular quarter. \$2,000 million worth of new development and investment in the coal industry.

\$2,000 million worth in the aluminium-bauxite industry. That is because Australia possesses resources, provides a stable environment and economic policies that are encouraging growth and investment and development.

Therefore, because we can run our economy well, because we are a resource-rich nation and we are attractive and have policies that are attractive to overseas investment, there are greater opportunities for people to work in partnership with Australia, help develop those resources and provide greater opportunities and work for Australians. Government policies reinforce that.

The infrastructure financing proposals agreed to with the States involve the expenditure for something approaching \$2,000 million over the next few years - \$450 million this year on great infrastructure developments that will reinforce the resource projects undertaken by private enterprise.

So, even if world trade is sluggish, with the right policies we can, if you like, a larger share than we otherwise would, maintain Australia in a securer position, provide more activity and opportunities for Australians than would otherwise be the case. But it is up to us to capture the opportunities, to have confidence in ourselves and if we do that, there is nothing that we can't achieve.