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AUSTRALIA

PRIME MINISTER

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ADDRESS TO C.E.D.A.

Four years ago, when I delivered the second Copland Memorial Address to C.E.D.A., I emphasised the importance of restoring the economic strength of Australia. In that address, I set out our primary economic objective as a government. I said,

> "There is no way around the fundamental fact that resources are scarce. Our policies must aim to expand the resources available to us, because only in that way can Australians hope to realise so many of their aspirations. We have seen only too clearly what happens when aspirations run ahead of resources."

When I stated those principles, four years ago, underlying what I said was a confidence that the problems confronting us were manageable. I argued then that they could and would be overcome; and that the successful management of our problems was dependent upon continuation of the Government's policies.

With hindsight, I can say that, to some extent, we under-estimated the severity of the world situation and the entrenched nature of some of the difficulties which we have had to face. As a result, we have had to trim our sails once or twice for the world is a harsher place than anyone expected five years ago. But we have never lost sight of our over-riding objective of strengthening the Australian economy.

Increasingly, during the past four years or so, the governments of major industrial countries, international agencies and central banks, have swung their support strongly behind our kind of policies. Whether viewed from a domestic, or an international perspective, as a result of these policies, the Australian economy has a new and competitive strength.

At the heart of our economic strategy has been the emphasis upon policies which lower and contain inflation. We have always said that this is the only way real growth can be sustained with increased employment and higher living standards for all Australians. Hence, we have continued to stress the importance of strict control of government spending; reduction in the size of the budget deficit; and a responsible monetary policy.

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In the three years to 1975-76, there was an average annual growth in real Commonwealth outlays of 10%. In the five years to 1980-81, we have kept that growth to only about 1% a year. As a proportion of G.D.P., Commonwealth budget spending is showing a significant reduction on the 1975-76 level. Moreover, as a proportion of G.D.P, the Commonwealth budget deficit has fallen from 4.9% in 1975-76 to only 1.2%. And, last financial year, we achieved the largest ever recorded reduction in the budget deficit - $1.5 billion. This year's budget eliminates the domestic deficit altogether.

Complementing this strategy has been our emphasis on regenerating business confidence, so that the business sector could take its proper place at the head of our economic recovery. The lowering of inflation has played a major role in bringing about the revival of business optimism. But we have argued that at least two other factors were crucial; a rise in profits and a government attitude which did not involve unnecessary constraints on enterprise.

In order to hasten the revival of our industries, we developed and expanded a range of special incentives:

- Our investment allowance encourages new investment in modern plant and equipment, and thereby assists companies to compete in international markets and in the domestic market;

- For similar reasons we also provided in the last budget for accelerated depreciation, at a cost of some $250 million by the mid-1980s;

- Export expansion grants and export market development grants encourage a higher volume of exports and the development of new markets;

- Greatly expanded government grants are assisting our industries in their research and development activities.

The benefit to industry this year from these programmes is over $600 million - and the four year total to 1980-81 is over $2 billion.

Last night in my Policy Speech I said that these programmes would be continued. Our general industry policies have also been complemented by a range of other incentives to encourage, for example, exploration and development in the minerals industry, higher production in the rural sector, and increased investment in tourist accommodation.

As part of our commitment to industry, last night I announced several new policies for the rural industry. And, for the tourist industry, we propose to extend the investment allowance to cover plant and equipment used in the industry.

Numerous small-scale enterprises are involved in Australian industry, directly and indirectly, and are being assisted by these measures. However, we have also sought to encourage small businesses in other ways. They play a major role in job creation, in introducing entrepreneurial skills, and in developing new products and technologies. Hence, we have expanded the

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charter of the Commonwealth Development Bank to lend to these organisations.

Most importantly, we have altered the tax laws to make it easier for small companies to build up reserves, thereby widening the scope for self-financing and investment and expansion.

Last night I announced that we would take this policy further. Important though this extensive range of special incentives [illegible] and jobs, I must stress that the over-riding benefit to business in Australia has come from the steady success of the general economic strategy.

Of paramount importance has been the full restoration of Australia's international competitiveness. Since the mid 1970s, this competitivess has improved by about 14%, and we are back to where we were at the beginning of the 1970s. There are many individual firms which have gained from our enhanced trading position; and naturally, the overall benefit is seen in the expansion of exports and a general ability to compete more effectively against imports.

After a difficult period in the mid 1970s of weakness in our external trading position, we have re-established a position of strength. Last year the balance of trade was the best for a decade. There was a more than 30% increase in the value of manufactured exports; and there was a 17% increase in real terms in total exports.

This return of competitiveness has been fundamentally dependent upon our holding inflation down to a level less than that in the industrialised countries. In the 12 months to July,

- the O.E.C.D inflation rate was 12.8%
- the U.S.A. inflation rate was 13.2%
- the U.K. inflation rate was 16.9%.

Through the last financial year, our inflation rate was 10.7%, and we are continuing to hold it significantly below the O.E.C.D. level. A major impetus to our growth and the current recovery has come from net exports. This boost to demand has flowed through into domestic activity and has been an essential source of the new jobs being created. During the last year, the growth in annual employment of over 210,000 was the largest growth in employment for 10 years.

In the rural industry, the increase of over 15,000 in employment was the highest for at least thirty years. This year, the main factor in our growth is forecast to be domestic demand, including an expected real increase in business investment of 10%. Here is a clear expression of the success of our strategy - the fact that those with enterprise and initiative are investing and taking the entreprenurial decisions upon which so much of the adaptability and dynamism of our society rests.

The recent business survey by the Confederation of Australian Industry and the Bank of New South Wales shows that this confidence is continuing to gather pace. Two clear financial indicators of this striking recovery are:

- the continuing buoyancy in Australian share prices, and

- the massive increase in share capital raisings.

During the five years of this Government, share prices have risen over 150%, which is striking evidence of improved profit prospects, and the enhanced value of Australia's productive assets. This is in stark contrast to the painful experience of the Labor years when share prices fell 27%. Accompanying the buoyancy of share values has been a surge in share capital raisings, totalling more than $1 billion last year.

It is even more significant that the confidence in Australia should be so high among overseas investors. Last year, foreign investment in enterprises in Australia was more than $2,500 million - a huge rise on the average annual inflow of about $650 million, from 1972-3, to 1974-5.

To have a new investment confidence alive at a time when world trade is depressed and has been slowing, is a notable achievement. The O.E.C.D. forecast nil growth in the O.E.C.D area as a whole for 1980-1, and expect only sluggish improvement in the early part of the eighties. In our case, by comparison, we expect to see non-farm product rising by about three and a half per cent this year - the third successive year of steady improvement. Moreover, the outlook for the early years of this new decade is very much more promising than that confronting the world economy.

In many areas of our economy, particularly those related to our rich energy resources, decisions for investment on an unprecedented scale are being taken. The recent well-publicised survey of major new investment projects conducted by the Department of Industry and Commerce puts a value of $29 billion on projects committed or in the final stages of feasibility study. That figure is an indication of the magnitude of the opportunities for investment and economic growth which are opening up to Australia in the 1980s.

And undoubtedly there will be other projects coming forward. Notable amongst these is the Rundle project. What all this suggests is a development phase before us as important in its impact on our community as any period of resource investment since the Second World War.

However, the nature of the development is different from that of earlier periods. The dominant influence this time is in respect of our energy resources. The shape of this new era is in part a response to the oil crises of the 1970s and, in part, a reflection of our recognition of the opportunities implicit in that changing situation; and

and our implementation of import parity pricing for oil. The increased price, scarcity and uncertainty of oil supplies, are leading not only to a search for new sources of oil but also to increasing recognition of the value of Australia's other energy reserves of coal, uranium and natural gas.

Our coal is important both as a direct export and as a source of electricity. The increase in electricity generation throughout the 80s will be very nearly equal to the increase in electricity generating capacity that occurred over the last 30 years. This offers us an opportunity not previously available to increase substantially the degree of processing of mine output, and to encourage manufacturing industry growth based on competitive and stable energy supplies.

Modern new industries are coming on stream with modern plant and equipment involving advanced technology. This will give us a broader range of export products and a potential to sell to a wider market. These new developments will give Australia in the 80s a much stronger international trading base.

Large and spectacular projects are the most visible source of economic development. However, it would be quite wrong to see Australia's growth in the 1980s as only involving massive mines or vast mineral processing plants. No less important will be the expansion of many thousands of smaller firms which, while individually less spectacular, collectively make an enormous contribution to national well-being.

What needs to be emphasised is the close integration of the various sectors of the economy. Development of the major resource projects will have important linkage effects for the rest of the economy, both directly in the form of demands for materials, plants and services, and indirectly in the form of the higher real incomes which Australians generally will have at their disposal.

In the Australian context there is a particular role for government to complement and support resource development through the provision of essential infrastructure. Throughout our vast continent, the generation of power, transport, communications and airports are essential features of development. The Government has accepted this responsibility, and has introduced special programmes in all these areas. Special infrastructure borrowings agreed with the States amount to nearly $5 billion, of which almost $700 million applies to this year. This is a catalogue of economic activity which puts paid to the prophets of gloom and doom.

It represents a vote of confidence in Australia's future and Government policies. The benefit of all this will be felt nationwide. But, important as our endowments are, their existence is not sufficient to make sure that development in the future will take place as it should. Because, without the right economic environment, development will fall well short of its potential, as it did in the 70s. And that is precisely the prescription that the Labor Party is offering for the 80s.

Labor is proposing what governments of major countries and their central banks, and the leading international economic agencies have roundly rejected. Even the most favourable of international conditions could not underpin economic growth if we were to lurch back into a period of high inflation and suffer the negative effects of increased government regulation of economic development.

It must be clearly understood that the confidence necessary to embark on long-term investment projects could not be sustained in such an environment. Amongst many criticisms I have of Labor Party policies, there is one over-riding criticism. They have no policy to contain inflation. Their essential programme is a massive programme of additional spending. In only six areas they promise to spend an additional $2,500 million of taxpayers' money. These programmes have been costed by Government Departments, and by the Department of Finance. The figure of $2,500 million is a figure that would have to go into any Labor budget. But there are more than 250 other programmes to which the Labor Party is committed and which have not been costed.

Labor still believe that Government activity holds the solution to economic growth and development. Let there be no doubt. This is the way to much higher inflation. It is the surest route to the destruction of our progress to date, and our future potential. But it doesn't end there. Mr Hayden now proposes a tax cut when the official Labor Party platform, and the official policy statements of the past year, firmly commit him to the expenditure I have mentioned.

Indeed, the concept of lower taxation is alien to Mr Hayden's philosophy. In the F.E. Chamberlain memorial Lecture in March last year, he argued that,

> "The challenge to ..Socialism.. is the rapid spread of philosophies based on lower taxes and smaller government.."

The reality is that Labor proposes much higher taxes - as those who have read their platform will know. They have promised a wealth tax. Mr Hayden has repeatedly called for a capital gains tax. And the Party is committed to a resource rental tax. Again, I remind you of Mr Hayden's own words,

> "I have committed my organisation to a capital gains tax, a resource rental tax, a levy on domestic oil producers, a number of initiatives in the tax area and other measures of that nature..."

What Mr Hayden conveniently forgets is the essential role of profits in leading to higher investment and hence more jobs in Australia. The threats to Australian industry, and indeed Australia, which are posed by the Labor Party are not just those of inflation and taxation. For the Labor policies include removal of the existing incentives for business as well as increased government intervention and regulation of industrial development.

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Mr Hayden's own words are,

> "We would terminate the investment allowance introduced by this Government..."

In April this year, Mr Hayden attacked the Government's policies of incentives to industry, referring to them in scathing terms as having fattened profits and abolished jobs.

The reality is of course, that these incentives have played an important role in promoting investment and creating new employment opportunities. A further threat lies in Labor's expressed commitment to increased government intervention. They are committed, in section 7 of their platform document, to a variety of means of establishing more direct government influence, from an extension of public enterprise to nationalisation.

In practice, during the past year or more, they have spelt out specific proposals for some 50 statutory authorities, councils, commissions and committees. These include an Australian hydro-carbon corporation and a national fuel and energy commission. These are policies that obstructed and stifled business expansion, exploration and development in the mid 70s.

Labor continues to cling to outdated economic dogma which has been rejected by most advanced Western countries. Their proposals are being made at a time when the advanced world is moving the other way. These policies have no relevance for Australia in the 80s. This is a time for building on the progress we have made. And we all have a role in this building programme.

From management, we expect innovation and the leadership skills which enable business to adjust to new conditions and to seize new opportunities. From the workforce we expect responsibility and restraint in recognition of the fact that rising living standards for all Australians can only come from higher productivity.

As a government, we will continue to play our part; to take the necessary and sometimes difficult decisions in order to maintain the overall economic framework and structure which are essential for the achievement of Australia's full development potential.

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