



(AS DELIVERED)

PRIME MINISTERFOR MEDIA

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SPEECH BY THE PRIME MINISTER TO THE
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Mr Mullens, conference guests, ladies and gentlemen. Thank you for your welcome. May I in turn, both personally, and on behalf of the Government, welcome all the participants to this Financial Times Conference.

The Financial Times is to be congratulated not only on choosing a most appropriate topic but on being able, so it seems, to time it well in relation to the election.

The start of a new period of Government in Australia provides perhaps an opportunity to pause for a moment and to try to put some of the developments over recent years in the economy and economic policies in a longer term perspective.

It also provides an occasion to look ahead beyond the immediate future and to consider the sort of policies that are likely to be required if the exciting potential for economic development in fact is to be realised. One of the lessons of the last ten years which sounds obvious - but which has not yet been fully learned - is that economic growth is not an automatic process.

There has to be an environment conducive to economic development and economic achievement; and that is something that has to be worked at. Governments, of course, have important responsibilities in this regard. But Governments cannot do it on their own.

Businesses and trade unions and, even more importantly, perhaps, individuals have a responsibility not only to have regard to the longer term interests of the community in their own actions, but to support Government policies that are working to that end.

Government in Australia has to operate within a time frame of three years. But policies frequently take much longer than that to come to fruition and, unless they receive recognition and support in the meantime, they can become difficult to sustain.

This is very relevant to the period ahead, when there will be a particular need for policies that have regard to more than just a year or so into the future if full advantage is to be taken of the burgeoning opportunities for development. You will probably all be aware by now of the very large figures that have been produced by surveys of businesses' forward investment plans.

It is not necessary, therefore, to elaborate again on these here, except perhaps to emphasise that the Government is well aware that the realisation of these forward plans is dependent upon having the right environment. We recognise also that, as part of having the right environment, there will be a need for this investment to be spread over a period, so as to avoid inflationary pressures and to maintain economic stability.

It is also important to appreciate that, while a good deal of this large planned investment is related to resource development, it is more broadly based than that. With a return to more stable economic conditions, increased investment opportunities are opening across a wide range of industries in Australia.

It is not always fully appreciated that, over the last 20-30 years, there has been a significant broadening of the base of the Australian economy. Thirty years ago, over 20% of national output came from the rural sector, which was highly dependent on fluctuating export markets.

But, during the last 30 years, there have been notable structural changes. Although they still contribute only a small proportion of national output, mining industries have expanded significantly in relative terms, as have tertiary industries.

The net result of these changes is that the rural sector's share of output is now only approximately the same as that of minings - about 5% of GDP.

However, notwithstanding that large relative decline, the absolute level of rural output has almost doubled over the last 20 years. Those who predict a gloomy future for manufacturing in Australia would do well to take note of that.

The increasing opportunities for expansion in mining and tertiary industries suggests that there will be a reduction in the relative size of the manufacturing sector in the years ahead; but this can, and I believe will, be accompanied by growth in output and expanding investment opportunities.

There should, indeed, be great opportunities for internationally efficient manufacturing industries in areas such as minerals processing and the servicing of growing export markets in Asia.

Now, the question you have really asked me to address is how to make sure that these and other opportunities are taken.

Perhaps the first thing to acknowledge is that, no matter how good the resource base, no matter how promising the export markets, economic development will be frustrated unless there is a reasonable degree of social and political stability.

Community attitudes need to be generally conducive to and sympathetic with such development and the investment needed to achieve that; it must therefore be an important aim of Government to maintain a community consensus on broad objectives. Australia is more fortunate than most in having that kind of a broad consensus.

There are many reasons for this - such as fewer social divisions and a more equal income distribution - which cannot be explored here.

At the same time there are, inevitably, matters on which fundamental disagreement about objectives will arise from time to time; where, as a result, Government has to take decisions that some will see as confronting their interests or their view of national interests.

We cannot expect the running of a country to be like rowing an eight where everyone has to pull together if the boat is to have any chance of winning. There will always be some who, seeing their perceived interests threatened, will pull their oar against Government decisions or, at least, not in time with them.

That is something that, in a democratic community, we have to expect and, within limits, to live with.

Equally, it has to be recognised that Government would become impossible if decisions could never be in conflict with views of particular interest groups. While paying appropriate regard to minority rights and interests, Government must therefore implement policies on the basis of its assessment as to where the broad national interest lies.

This is very relevant to creating the appropriate environment for investment. In framing policies Governments are continually faced with the need to decide between competing economic and social goals. We all know that we would have a faster rate of economic development if there was no need to take account of possible effects on, for example, the environment or traditional Aboriginal areas. But these are matters which Governments must take fully into account if a broad social consensus is to be maintained. This is, of course, a widely accepted function of modern Government.

What is less widely accepted - and even less widely understood - is that this can involve sacrificing the economic interests of other groups as well as retarding national economic development and living standards. It may be more a matter of the speed at which economic change is to be permitted rather than any absolute prohibition.

Where important differences exist in community attitudes, or where arrangements have existed virtually undisturbed for many years, it may be in the longer term interests of development to allow change to occur more gradually.

The Government's policy on uranium, for instance, has sought to ensure a pace of development that allowed time for community attitudes to clarify and for appropriate safeguards to be instituted.

Notwithstanding continued opposition from a small section of the community strongly antagonistic to such development, the Government is satisfied now that there are both appropriate safeguards and a widespread consensus in favour of uranium mining and export.

Accordingly we expect such development and investment to push ahead, helping to meet the growing demand for additional sources of energy and contributing to the national economy. Equally, as the recovery in the economy proceeds and gathers strength, there is an increased capacity to allow structural change and this, in turn, allows economic success to build on itself as resources move to areas of the economy where higher returns and profits can be obtained.

The problem of the appropriate speed at which to allow structural change is a good illustration of the continuing need to balance possible damage to investor confidence of allowing rapid change against the costs involved if economic change is prevented to the detriment of the community at large.

This is part of the wider problem of the continuing need to weigh the costs of regulation of business and of intervention by Government. The Government's objective has been - and remains - to avoid sudden, large changes. Over the next three years, we will however be closely examining existing arrangements that operate to inhibit investment and economic change.

We are conscious of a growing feeling in Australian society that, after experiencing a period of economic difficulty, there is now a wish for faster growth in living standards. But at the same time, we also be conscious that that can only occur through real growth in the economy itself.

Economic development and change will be encouraged to proceed, unless there are clear national interests to the contrary.

There will, at the same time, be a need to ensure that the fruits of economic growth are appropriately distributed. This is an important aspect of the Government's responsibility to maintain a social and political climate within which economic development and investment can proceed without creating community tension. There are many difficult issues here.

One of the more important concerns the need to make sure there is equitable sharing of the burden of taxation. That is a subject on which opinions differ widely but to which we will be giving close attention over the coming years.

The Government is particularly concerned at the increase in recent years in the extent of tax avoidance. We will continue to legislate against such schemes whenever they are identified and to take such other action as can be devised appropriately.

The Government will also be concerned to make sure that there are adequate opportunities both for Australian investors to participate in projects involving foreign investment and for the Australian community at large to be seen to benefit from them.

Fortunately this is now widely accepted, both by foreign investors themselves and by the Australian community. Australia is going to need increasing amounts of foreign capital to develop its natural resources and other industries but unlike many other countries we do not have to provide special tax incentives to attract it.

One particular government responsibility - a key one in shaping the investment environment - concerns economic management.

Government economic policies naturally have an important influence on a major determinant of investment - profitability - as well as on the confidence with which businesses can plan ahead in the knowledge that sudden, large changes will not be wrought in economic conditions.

Over the last five years the Government has in fact approached the task of economic restoration in a medium term time frame.

As the last O.E.C.D. survey of Australia put it,

"The management of the Australian economy has remained broadly unchanged since late 1975 when the authorities embarked on a steady policy approach, which, through relatively restrictive fiscal and monetary policies, aimed at removing the imbalances impeding a return to sustained non-inflationary growth over the medium term".

We realised that, after the economic upheavals through which the Australian economy passed a few years ago, it would take time to reduce the imbalances and to re-establish a framework within which businessmen - and consumers - could again begin to take decisions with confidence.

Against this background, it is surprising to hear some suggestions that the Government's economic policies may have been too "austere". It is difficult to see how such suggestions could be rationalised in view of the approach which is summed up in that OECD quotation.

There has been no sudden, dramatic action to reduce demand or to expose the economy to increased external competition. We have instead pursued a steady, moderate but persistent approach towards the restoration of economic health.

Of course, this has necessitated relatively restrictive economic policies because our main objective has been - and remains - to reduce inflation and inflationary expectations. We achieved a considerable measure of success in that regard during our first period in office. More recently, in common with other countries, we have experienced some setbacks.

But whatever shortcomings there may have been in our handling of that situation, it cannot be denied that we succeeded much better than many others in containing inflation, so that our international competitiveness was maintained and in many cases substantially improved.

This phase of increasing world inflation has now passed, at least for the time being. Overseas influences should therefore become a positive factor in helping to reduce domestic inflation. Even so, there will be a need for close attention to domestic economic policy settings, a matter to which I will return shortly.

Before doing so, however, I want to say something about why the Government regards it as so important to reduce inflation rather than, as some would have us do, to "live with" it. There are, of course, many arguments against that view and it is not the occasion to elaborate on them here.

In the context of the present conference, however, perhaps the most fundamental reason is that inflation creates such uncertainty about future real incomes that both businesses and consumers are forced to foreshorten their time horizons.

In the case of businesses, uncertainty about future profitability in real terms increases risk and inhibits investment, particularly investment of a longer term nature, as well as inhibiting employment.

This is exacerbated in circumstances where wages are able to rise faster than prices, as happened in 1974 in Australia and as tends to happen in modern industrialised countries when inflationary expectations are high.

Similarly, uncertainty about the future value of their savings, and about future levels of real income, causes consumers in these circumstances to be cautious about their own spending.

The net result is lower levels of aggregate spending in real terms, which means lower employment and lower living standards for everybody; even more important in the longer term is the reduction in future growth potential resulting from lower investment.

In earlier times it was widely accepted that, if an economy fell into such a depressed situation, a government could initiate a recovery by increasing its deficit through higher spending or by providing additional income to individuals or businesses in the form of tax cuts.

It is surprising indeed that there are still a few in Australia who believe that such Keynesian policies will work in circumstances where inflation continues at historically high levels.

Such policies have been tried in recent years in all major countries overseas, as well as in Australia under the Labor Administration. Experience suggests that, to the extent that there is any resultant increase in activity and employment, that this is only temporary. It is indeed now widely accepted that the main result of such policies is likely to be a worsening in inflation and more unemployment and a delay in full economic recovery.

Even the international economic organisations, such as the International Monetary Fund and the OECD, which were for so long enamoured of such ideas, have in recent years increasingly pushed them to the bottom of the list.

If that is so, it may be asked, why do not all governments adopt economic policies that would eradicate inflation?

The frank answer to that, I suppose, has to be the electoral timetable. Very severe measures of restraint would be needed to reduce inflation quickly, and to root out inflationary expectations, and it would be difficult to accomplish that and effect a substantial recovery in activity and employment within the normal life of most governments.

It may be that, with a five year electoral cycle, Mrs. Thatcher's Government's task will be easier : I certainly hope so, and wish her well, though in the difficult economic circumstances in which her Government came to office, it may be remarkable indeed if a significant turnaround in real growth can be achieved in the U.K. in much less than the five years allotted the Government in that country

Whatever approach is adopted, it is important to recognise that the pursuit of anti-inflationary policies has the interests of the unemployed very much at heart. It is only by controlling inflation that there can be a sustained increase in the pace of economic activity, a sustained lift in the provision of jobs, and in due course a sustained reduction in unemployment.

It is true that, in the meantime, those who are unemployed suffer : but, while that is to be greatly regretted, the alternative policies proposed would only make the position worse.

It should be noted also that the "hard core" of unemployed is smaller than is commonly supposed. It is not widely appreciated, for instance, that of those unemployed each month around 20 per cent on average find employment during the following month.

The Government naturally wishes that more progress had been made over the last five years, both in relation to economic recovery generally and the unemployment problem in particular.

But in which other countries has the unemployment problem been overcome, or even significantly reduced, notwithstanding that significant resort has been had in most overseas countries to job creation schemes of one sort or another ?

Which other countries experienced the same disruptions and imbalances that occurred in Australia under the Labor administration.

The facts are that in Australia unemployment has been stable now for about two years whereas it has been rising in many overseas OECD countries; and in Australia there has been a significant strengthening in economic activity (which is continuing) whereas in the OECD area as a whole there has recently been little growth and there is little prospect of much improvement in that situation in the near future.

The Government believes, therefore, that the persistent application of anti-inflationary policies is now starting to bear fruit in Australia and that it holds out the only real hope of producing the investment spending needed to raise productivity and hence living standards, and to reduce unemployment. The Government acknowledges that anti-inflationary policies will not be sufficient on their own either to cope with unemployment or the employment requirements of businesses.

But we reject the idea that the unemployment problem can be handled through make work schemes, which have failed overseas and which fall into the fatal error of treating symptoms rather than underlying cause.

There should be scope, on the other hand, to ease the unemployment situation and to help meet the increasing demand for skilled and semi-skilled labour through improved training, particularly of young people. The Government is helping in various ways but State governments, businesses and individuals themselves, also have important responsibilities in this area.

We recognise, of course, that an adequate supply of the right type of labour is not just a matter of training. We will be looking also over the next year or so as resource investment gathers pace, to skilled and semi-skilled labour from overseas countries.

There will moreover, be a need for greater flexibility in wage rates than is provided under the present wage determination system in order to restore into the wage structure the incentive needed to bring forward an increasing supply of skilled labour.

Regrettably, the structure of wage rates which the wage tribunals have put in place is not only contributing importantly to shortages of skilled labour but is deterring the employment of particular labour categories, notably the unskilled and the young, and is thus an important factor in the continuing high level of unemployment.

While we accept that unemployment remains a problem, it is important not to overlook the benefits that have flowed from the Government's anti-inflationary policies. The most obvious benefit to be seen flows from the improvement in Australia's international competitiveness.

As a result Australian industry is now much better placed to compete with imports and is in fact producing increasing exports not only from our resource based industries but from a very wide range of manufacturing industries. Over the last two years, exports of manufacturers are estimated to have increased in real terms by no less than 23 per cent, showing quite clearly that Australian manufacturing industry is well able to compete successfully against international competition when economic circumstances allow.

But the benefits flowing from anti-inflation policies have not, of course, been limited to the restoration of international competitiveness. There has also been an improvement in business profitability which is, in turn, now being reflected in an upsurge in domestic and foreign investment as well as in higher employment.

Over the last year, indeed, total employment has risen by more than 3 per cent, and no less than 200,000 additional jobs have appeared in the economy. If the participation rate of those over 15 wanting to be in the workforce had not increased unemployment would, in fact, have fallen by around 100,000 over the last 12 months. There are, moreover, good prospects for a continuing rise in employment.

In short, anti-inflationary policies are creating jobs.

As they do that, they will also begin - to the extent that the structure of wage rates allows - to reduce unemployment also.

There are also indications that, with the faster growth in employment and an improvement in consumer confidence, growth in consumption expenditure could now be moving on to a somewhat faster track.

In short, even despite the effects of drought, there is a good prospect that 1980-1 could be the third year in a row to see a faster increase in the pace of domestic activity in Australia. Particularly at a time when there is expected to be little or no growth in the OECD areas as a whole that is, surely, an indication of the benefits of anti-inflationary policies.

A key element in our policies has been the exercise of restraint on public sector spending, and on public sector calls on financial markets exercised through the Commonwealth Budget. Since 1975-6, Commonwealth Budget outlays have been reduced from about 30 per cent of GDP to about 28 per cent and the budget deficit from nearly 5 to just over 1 per cent of GDP. These are significant achievements.

We would have liked to have made faster progress but were constrained from doing so by the sort of considerations that I have already mentioned. It is our firm objective to continue along this road and we are conscious that, as the private sector of the economy picks up, the need to do so is actually increasing, not diminishing.

For one thing, with the strengthening in private sector activity more room will need to be made by containing and, where possible, reducing public sector demands on resources. That is why, at the last Loan Council meeting, we agreed with the States on the need for government infrastructure expenditure to proceed in an orderly and carefully integrated manner, to make sure particularly that resources of skilled labour and the capital market are not subjected to demands that would add to the inflationary pressures.

As I have indicated, we will also be working to further contain public sector demands through containing the size of the Commonwealth Budget. Apart from the growing need for this in terms of avoiding strains on the economy, it will be an important objective of the Government to minimise burden of taxation. This can only be undertaken responsibly however, if it is accompanied by restraint, a reduction in Government expenditure.

But we recognise that there is an increasing demand for greater freedom of choice in the spending by taxpayers of their own incomes and we believe that the significant improvements in incentive that would flow from a reduced burden of personal income taxation in particular would considerably strengthen the economy, so long as this could be achieved without prejudice to other important economic objectives. For the present, however, the primary task ahead is to contain the inflationary pressures that have emerged over the past year or so, and to bring our inflation rate once again firmly back onto a downward trend and the last quarterly figure offers some encouragement to that objective.

That will call, however, for firm fiscal and monetary policies with - as I indicated in the Budget Debate - monetary policy playing an enhanced role.

We will be aiming, as was indicated in the Budget, to secure a significant reduction in the growth in the money supply during this financial year. That, we believe, is essential if the present favourable environment for investment is to be sustained.

There is no doubt that such a reduction can be achieved without endangering the strengthening recovery in private sector activity; sufficient finance will be available to permit growth in line with Budget forecasts. The containment of inflationary pressures will also require a slowdown in the rate of wage increases.

This is something to which everyone must contribute - governments, businesses, arbitral authorities and, not least, trade union leaders and the trade union movement itself. It is surely time that unions started to recognise that wage increases in excess of productivity increases are not in the longer term interests of their own members and can only make it more difficult to reduce unemployment.

This is true whatever the form of a wage increase but it would be particularly true of the irresponsible claim for a 35 hour week, given the very large addition to costs the granting of that claim would involve.

We will be looking to the arbitral authorities to assess all wage claims in the light of the Government's economic policies and the need to reduce inflation. Australia has entered a decade which has the potential to see economic development unparalleled in Australia's history.

That potential will however only be realised if a favourable environment for investment is maintained. The Government believes that will require the continued and persistent application of firm anti-inflationary policies and the pursuit of policies that ensure that the fruits of economic development are equitably and properly shared among all Australians.