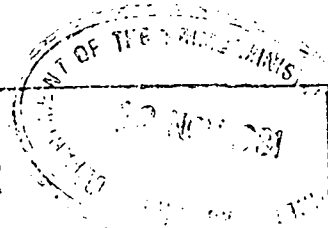




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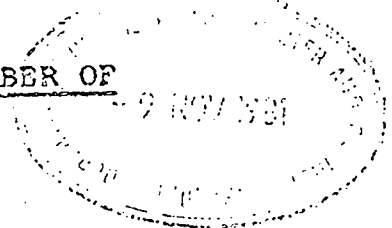


PRIME MINISTER

FOR MEDIA

FRIDAY, 6 NOVEMBER 1981

ADDRESS TO THE SOUTH AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY



It is a pleasure to again visit South Australia and a particular pleasure to be able to address this gathering of members of the South Australian Chamber of Commerce and Industry for it is to a significant extent in your hands, the hands of private enterprise, that Australia's economic prospects - and those of this State - rest.

I am aware that economic recovery in South Australia has not been as robust as in some other States but there are now signs emerging of a private sector revival. In particular, the loss of jobs that occurred between 1977 and 1979 has been arrested and the number of employed has begun to increase. The economic problems of South Australia have accumulated over a number of years, and cannot be remedied overnight. The most important requirement for Governments in achieving a higher level of economic performance in your State - as elsewhere - is to pursue policies that will create a stable economic environment in which businessmen can confidently make decisions necessary for economic growth.

Your State Government, under David Tonkin, has recognised this need, and has taken active steps to put such policies in place. In particular your Government has recognised the need to restrain its own demand on resources, to control its own spending, hold back the growth of its receipts, cut back on bureaucracy and to create a positive and encouraging environment so that private sector development can occur. In that, its policies are four-square with those of the Commonwealth Government.

All of the economic decisions of the Commonwealth Government over the past six years - our budget strategy, monetary policy, industry policy, our economic policies in all areas - have been guided by one general belief. That is, that individual initiative and private enterprise are the well-spring of growth and prosperity, the source of growing real incomes for all Australian families, as well as the main ingredients in the attainment of economic freedom, without which true political freedom cannot exist. This belief - this basic philosophical principle - has a firm basis in reality.

Politicians and bureaucrats cannot know what people really want. Government cannot replace the information transmitted through market prices which reflect individuals' preferences, and the incentives provided by opportunities for profit. And even where the market mechanism is said to "fail" there is no guarantee that political or bureaucratic decision-making can do any better.

This is not to deny the existence of an important role for government. It clearly has such a role in providing defence, law and order, and social welfare; in creating the basic elements of the sort of society in which Australians wish to live; and in establishing the basic framework within which competitive free enterprise can exist and flourish for the benefit of all.

While it is not possible to define, with any precision, what the appropriate limits to government should be, there must be limits, and they should be more narrowly drawn than many governments, here and overseas, have previously recognised.

I believe it to be no exaggeration to say that it was in large measure a failure of governments to recognise those limits, together with a failure to recognise the inappropriateness of Keynesian deficit financing in the post-war circumstances that lies at the base of the world-wide slowdown that still persists today. To be sure, the oil shocks of the 1970's played a substantial role in finally bringing on the recession but inflation was already endemic by the late 1960's already undermining private sector confidence. Government intervention was already reaching far beyond its appropriate bounds.

In Australia, these underlying problems were compounded by the economic policies pursued between 1972 and 1975. Can anyone forget the almost unbelievable 46% increase in government spending that occurred in a single year or the \$3.5 billion deficit in 1975/76, some 5% of GDP, and which would have been higher but for spending cuts we introduced on taking office? The government of that time failed to understand that rapid growth of government spending and massive budget deficits promote inflation, undermine business confidence, and steal away the resources needed for private enterprise growth.

And it compounded the damage it caused by creating a sense of instability and uncertainty in policy. There were large and erratic changes in the exchange rate - a sudden, massive and ill-considered cut in tariffs, a severe credit squeeze and continuing uncertainty in policy relating to foreign investment.

Although Australia still bears some of the scars of those years of economic mismanagement, Australia's prospects have changed immeasurably in the last six years. They have changed because the present government has put into effect an approach to government of a completely different kind.

Our approach recognises that in order to reduce inflation it was necessary to wind back Government spending, to eliminate Budget deficits, to cut back on wasteful bureaucracy and to eradicate unnecessary and counterproductive regulation. This had to be done to restore private sector confidence and give private enterprise the room and the incentive to grow. The improvements that have occurred in the Australian economy: the creation of some 300,000 new private sector jobs in the last two years, the strongest growth of business investment in over three decades which occurred in 1980/81, and the further strong real growth in investment and GDP that is expected to continue in this financial year, have all occurred despite a more prolonged slowdown in the world economy than many had predicted.

Indeed, Australia's economic performance stands in stark contrast to that of most of the world's major economies. That we have been able to swim against the international tide has only been possible because of a combination of sound overall economic management policies, other policies which have sought to maintain a strong, profitable manufacturing sector, and our good fortune in having substantial resource endowments, especially of coal and other energy materials.

As a nation Australia can have a role as one of the very few great energy givers to the world, a role which is not only of value to the world economy and to ourselves, but even more so to the people of energy hungry nations whose future depends so much on obtaining supplies of energy from other countries, such as Australia. Because the world slowdown is in part caused by the rise in oil prices, a positive incentive has been created to invest in the development of Australia's non-oil energy resources. And because of our import parity pricing policy for oil, the search for domestic oil reserves to reduce our dependency on overseas supplies has grown dramatically.

The benefits of these developments are not restricted to the resource industries, they have flowed through to all sectors of the economy, and are reflected in higher investment in manufacturing, strongly growing retail sales, and increased real incomes.

It needs to be recognised, however, that the maintenance of our recent economic performance, while it can be significantly influenced by actions we take on our own account does depend in some measure on world economic conditions. The openness of the Australian economy to trade and investment flows which in the long run contribute significantly to growth and prosperity in Australia, also means that the rate at which we progress is significantly influenced by trends in overseas markets, especially in the countries that are our major trading partners. The large scale investment occurring at the moment is in part taking place in anticipation of a recovery from depressed world economic conditions. The longer that recovery is delayed, the more marginal some projects become.

The question of what is happening to overseas economies is of substantial concern to the development of our attitudes and policies over the next few years. The likely performance of the US economy over the next year or two remains uncertain, there has been negative growth in the last two quarters; although there have been recently some reductions in interest rates, they remain high; and reductions in the US inflation rate have tapered off. European countries have tightened monetary policies, and raised interest rates, in part in reaction to the high US rates. As a result real interest rates have risen world-wide to levels not seen for many years, and investment and activity levels remain depressed. For too long, inadequate attention was paid to the problem and the consequences of inflation, and as a result world recovery has been delayed far longer than it ought to have been.

The continuing slowdown, the delay in recovery, has consequences for Australia that we must anticipate, and adapt to. Already, there are indications that in some areas we can expect a slowing down in demand from overseas. For example, the rate of growth of our coal exports may begin to diminish, and our iron and steel industry is experiencing increasing difficulty.

There are nonetheless, some bright spots on the world economic horizon. First, there is increasing evidence that governments in North America and Europe now are grasping the policy nettle and, in most cases, are pursuing policies which offer the prospect of reducing inflation and restoring the confidence of their private sectors.

Second, the Japanese economy continues to show strong growth. Since that growth has been based primarily on export growth the prospects that it will continue at recent rates over the next year or two may depend on whether Japanese domestic demand accelerates, but the resilience of the Japanese economy, and their position as a major market for Australia's exports, should offer Australia some comfort while other economies struggle to escape from their depressed condition.

Third, while the prospect that oil prices may now stabilise might moderate the demand for our energy resources in the short run, it may assist the recovery of the major industrialised economies to the benefit of us all, and in the long run will not alter the trend towards conversion to non-oil energy sources.

However, despite these hopeful signs, the reality is that world conditions remain poor, and that fact poses a major challenge for the Australian economy over the next few years. It is not beyond our capacity to meet that challenge, but its very existence makes it all the more important that we resist pressures building up on the industrial relations and wages front that threaten to undermine our international competitiveness and that we get our policies towards manufacturing industries and protection right.

Industrial problems and the wages push are foremost among the threats to the continuation of Australia's relative economic success. While it is tempting to think that renewed economic activity has increased the economy's capacity to pay higher wages, and there is some truth in that, much of that new activity is focussed on investment which will bring its full benefits in the future. Excessive wage settlements in anticipation of these benefits are a recipe for ensuring the expected benefits will not eventuate, for unless we can keep our costs internationally competitive and our inflation below world levels, major projects will be deferred or abandoned, to the cost of the whole economy. --

Australian workers and their families have a right to expect that they will share in the benefits of our renewed growth, and indeed they have already done so, for last year households in Australia received an increase in their real disposable incomes, after tax of \$2.7 billion. But a major effort is required by employers and governments to persuade trade unions, and all the people of Australia, that while the growth in output in any year sets an upper limit on what the economy can afford to pay, wage and salary earners are not the only group who have claims to a share.

Business has a claim to a share to finance the reinvestment that is vital to progress and prosperity, and to pay out the profits to shareholders that are essential to maintaining incentives to invest; and the genuinely underprivileged have a claim to a share to improve their lot.

In the case of industrial relations more generally, government can make a contribution, by establishing a framework of institutions and laws, but industrial relations cannot ultimately be determined by governments or government actions, for industrial relations are essentially relations between people, and depend upon how people deal with each other. What is needed is a balanced approach which combines firmness against unreasonable demands, with co-operation to maintain good relations, and to ensure that the rewards of economic progress are fairly shared.

The Government itself has attempted to maintain such a balance at the two levels at which it is directly involved in industrial relations in our dealings with the union leadership and employer organisations on the one hand, where we have developed regular consultations with peak organisations; and in our dealings with our own employees on the other, where we have strengthened our legal powers to take firm action against unreasonable industrial activity and been prepared to use those powers to good effect.

We are, in similar terms, looking at legal provisions that would strengthen the hand of private sector employers faced with damaging and irresponsible strikes, including the possibility of stand-down provisions in Federal awards.

But ultimately it is the ability of employees, employers and governments to establish a co-operative spirit that is vital to Australia's future, and the more so while world economic conditions remain so uncertain. Developments in manufacturing industries, and in our policies towards protection of industries, are clearly also of particular importance at the present time.

No government is more acutely aware than this Government of the importance to Australia of a strong, profitable manufacturing sector as a major source of employment in our cities, our regional centres, and country towns, and as a major source of incomes, growth and prosperity for our nation. The policies of this Government have been designed precisely to restore confidence and the capacity to grow to all sectors of the economy and we have given considerable assistance to industry to aid its recovery from the depressed conditions of the mid-1970's. Having created conditions under which the strength and profitability of the manufacturing sector has been built up, can anyone seriously believe that we would now take actions to destroy that? Australia needs a manufacturing sector that is strong and competitive by world standards.

The Government's policies towards protection are of particular significance in this regard. Our objective of increasing the international competitiveness of Australian industry is well-known. Gradualism and predictability have been key elements in our strategy on protection. It is this Government which has recognised that when change is desirable, industry and the community together need clear guidance on the framework within which the changes are to take place as well as time and incentives to adapt.

A good example of our gradualist approach, and of the value to industry as well as to the community which that approach can have, is the new protection package for the textiles, clothing and footwear industry, which comes into effect from the beginning of next year. That particular decision illustrates the capacity and determination of the Government to find a path towards moderate and gradual adjustment for industries in which so many thousands of people in Australia are involved. It is also a decision which has received the support of the industry and the unions; has already given the industry some new incentives to invest, restructure and reorganise and has already led to a search in some instances for new markets overseas.

The decision that we now face on the motor vehicles industry - a decision that I am aware is of substantial significance to South Australia - is a particularly difficult one. I am well aware that many thousands of Australian families have been dependent on that industry for a long while. Moreover Australian management and labour have combined to produce higher quality products than ever before in the history of the industry. The Government will be seeking to make a decision which will take that industry along a path of moderate change, a path that is appropriate to the particular features of that industry so that it can be a continuing, viable, competitive industry. In speaking to you tonight, I have indicated some of the influences critical to our economic development over the next few years. Despite the influence of overseas economic developments, our future is primarily in our own hands.

With a strong manufacturing base, abundant energy resources as a source of growth and security, the right policies to create the stability that is essential to business confidence and to create the incentives necessary for sustained growth, and the right attitudes among Australia's employers and employees, our future is bright indeed.

I can assure you that for its part, the Government is determined to maintain the strategy that has brought Australia its renewed prosperity. - the well-being of all Australians and their families depends upon us doing so.

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