



PRIME MINISTER

FOR MEDIA

TUESDAY, 9 MARCH 1982

SPEECH TO THE PARLIAMENT ON THE STATE OF THE NATION

Today, Mr Speaker, I would like the House to step back from the cut and thrust of everyday political life to consider the direction in which we wish to move as a nation in the next few years. This Parliament has a profound responsibility to keep abreast of the whole range of issues facing Australia. We need to understand Australia's position in a broad perspective as well as in detail, in the light of international as well as domestic factors. We need to understand the choices which lie ahead and the consequences of the decisions we take. We need a clear sense of our nation's values and objectives and we need to develop and explain our policies in the light of our philosophy.

The world is full of uncertainty and because of this, Australia needs a policy approach which is marked by balance, vision and realism. The world is also full of unrealistic demands and expectations in spite of the immediate social and economic problems which many countries are experiencing and which are having an indirect impact on most countries.

In a situation of significant uncertainty and difficulty, it would obviously be absurd to expect that high and immediate expectations can be attained at little cost or as a matter of course. But neither should we allow the difficulties being experienced by the world economy to be seen in a way which gets them out of proportion - it would be wrong to overestimate or underestimate them.

We need to try to understand them realistically because it is vital if we are to move ahead as one nation in the next few years that people's expectations should be closely adjusted to reality. Nobody has a crystal ball to predict the future fully but we do know that unless we anticipate and adapt our policies in line with changing circumstances, unless we are in a position to take advantage of changes in the world economy as and when they occur, then opportunities will pass Australia by.

We also know that the old adage that you only get out as much as you put in remains as true today as it has always been and it is timely to remember, when we are considering realistic levels of expectations, that what some people get cannot go to others.

The international perspective

In coming to grips with Australia's present position in an overall perspective, it is appropriate to start with the international dimension. Our independence as a nation cannot blind us to the fact that overseas events affect us profoundly.

Much of Australia's history bears witness to the recognition by earlier generations of Australians that we are affected by what happens in other parts of the world. At the present time, Australia cannot ignore the tensions and the threats which exist in so many parts of the world to international security and stability. The Soviet Union pursues its militaristic and opportunistic programmes relentlessly. We see the effects of that policy in Afghanistan and Poland and in attempts to frustrate the peace process in the Middle East. We see it through Cuba's support for Communist insurrection in Africa and Latin America and closer to home, Vietnamese troops continue to occupy Kampuchea, in violation of that country's sovereignty, and posing a threat to Thailand.

Without question, the world situation is troubled and uncertain. New trouble spots can erupt with little or no warning. Our policies must take account of the broad global context and we must recognise that Australia's security is bound up with the strength of the Western alliance. We obviously benefit from the security which this alliance brings to us but at the same time we must shoulder the responsibilities which it entails.

All of this is part of interdependence and whether we are talking about threats to world peace and security, or about problems of world poverty, or about the slackness of world trade, the growing interdependence of the world must be seen as fundamental.

I would like to say here that the development of multiculturalism in Australia in recent years has helped us enormously as a community in gaining the wider understanding which the successful management of interdependence will increasingly call for. I believe it is a tribute to our responsibility and compassion as a community that Australians have felt involved in tragic events in other countries and have given practical effect to these feelings as shown by the massive public responses to appeals like those for Kampuchea, for Southern Italy after the earthquake, and for Poland.

The same concern is equally apparent in the willingness of hundreds of young Australians to respond to an appeal to go as teachers to Zimbabwe.

Interdependence is real and in managing it we need policies which take advantage of the opportunities it creates, as well as minimising the difficulties and dangers which go with it. The growth of world trade provides a compelling illustration of our growing interdependence, of the advantages it can bring as well as its impact on key areas such as employment.

It was the rapid expansion of trade in the post Second World War period that was a mainspring of rapid world economic growth that supported the growth of employment opportunities, and of real living standards for countries at all levels of development.

Between 1963 and 1970, while the volume of world output grew at an average annual rate of 5.6 per cent, the volume of world exports grew by 8.6 per cent per annum. But during the 1970s, the growth of world output and exports both significantly slowed and as a result unemployment started to get worse.

It is particularly worth noting in this regard that between 1973 and 1978, exports from developed to developing countries rose at an average rate of over 20%. How much worse would unemployment problems in developed countries now be without that trade?

We must also recognise a further aspect of interdependence - that other nations are taking an increasing interest in our economic and trade policies. Others rightly expect us to be good neighbours, to play our full part in promoting the continued orderly growth of world trade as responsible members of the international economic community. It is plain that the growth of trade, and the growth of interdependence more generally, increasingly exposes a nation's economic system to influences from outside its own borders. Our own increased interdependence with the rest of the world has been highlighted by the quite violent economic fluctuations which have been a characteristic feature of much of the last decade.

Each surge in the price of oil has led to a crisis which caused the growth of world trade to slacken and Australia has been affected in a number of ways by both the oil price shocks and by the slackening of trade. There was obviously renewed interest in the exploitation of alternative sources of energy and this has given Australia opportunities. But the slower growth in world markets has affected our exports and any dip in commodity prices due to unfavourable conditions overseas is plainly going to have an impact on Australia.

Even before the first oil price increase in 1973, inflation had become more or less endemic in most industrialised nations. Excessive growth of government spending and inappropriate use of deficit financing played a major part in this. The oil price increases compounded these problems, making growing unemployment and growing inflation the order of the day. Even then, most countries did not recognise what was needed in terms of restraint of government spending, in terms of firmness of monetary policy and in terms of wage restraint. Although there are now signs in a number of countries of a determination to pursue more economically realistic policies, natural economic processes have run their course. In Europe and North America, economic growth has virtually come to a standstill in the last two years and unemployment is high, and rising. In France unemployment is 8.5%, in the USA it is 8.5% in the United Kingdom it is 11.7%.

By the second half of 1982, total of OECD unemployment is expected to rise to 28.5 million people, compared with just over 21 million in 1980. In these conditions of virtually no growth and rising unemployment, overseas inflation rates are falling. The OECD inflation rate is now under 10% and falling, a reduction of three percentage points below the 1980 rate.

The U.S. inflation rate fell from 12.4% in the 12 months to December 1980 to 8.9% in the 12 months to December 1981, and the British inflation rate fell from 15.1% to 12% in the same period. Perhaps paradoxically, sluggish growth and falling inflation has been accompanied by some of the highest interest rates, both real and nominal, that the world has seen. This situation stems from a number of factors.

The situation should be seen against the background that interest rates rose less rapidly than inflation during the 1970s. Real interest rates were negative for a substantial part of that decade. And while falling inflation rates in some countries is a cause for optimism, financial markets are not convinced that the underlying problem of inflation has been solved. The present situation has been aggravated by an unfortunate mix of policies in some countries. Budget deficits have been allowed to soar and the resulting pressures on the money supply have only been kept in check with exceptionally stringent monetary policies.

Sluggish growth, low business profits and high interest rates have in turn interacted to produce stagnant investment and continued economic recession. Overseas markets are growing very slowly, if at all. International commodity prices fell 20 percent in the year to the last September quarter. Australia's farmers are also experiencing generally flat or falling prices along with rising costs and they are also subject to quotas and restrictions of many kinds in international markets.

Over the last year or so, and partly reflecting some of the factors I have been referring to, there have also been some significant shifts in the world oil situation. At the present time, world crude oil supplies are more than ample to meet demand but oil prices are still very high. The future levels of energy supply and energy prices are full of uncertainty. Our economy is inevitably constrained, and increasingly constrained by its interdependence with the rest of the world.

We cannot but be affected by factors such as the present slackness in world demand, and the high cost of funds, nor can we avoid being affected by the protectionism which strikes at many of our exports, especially our farm products. And it is important for us to be aware of the very real dangers that are created by increasing protectionism in other countries during a time of world recession.

Associated with these influences has been a rapid growth in our current account deficit, squeezed profitability for our export industries and some reappraisal and deferment of resource projects. But investment is still moving ahead strongly.

We cannot afford, as a nation, to try to ignore overseas developments or their inevitable influence upon us. What we must do is develop appropriate responses. We must be ready to react, ready to adapt, especially to fundamental changes in the world economy while minimising the undesirable effects of unwelcome influences. In so doing we need policies which lay solid foundations for future growth which will allow us to take full advantage of the renewed growth overseas which must occur at some time and which will carry us through the intervening period of world downturn no matter how short or long it may turn out to be. In particular, we must prove ourselves reliable and competitive suppliers. We cannot afford to price ourselves out of world markets, or earn ourselves the reputation of being incapable of meeting contractual commitments because of poor industrial relations.

The Australian Economic Achievement

When we look at Australia's present position in the light of our economic achievements over recent years, it is plain that great advances have been made and a strong foundation laid for the future. Although we are a trading nation and despite the continuing slackness of world trade over recent years, we have swum against the tide. And I believe that in the current circumstances, when the facts of interdependence plainly make our position increasingly difficult, our determination to succeed through farsighted and sustainable policies will be seen as right. It is an undoubted fact that as a result of our policies Australia has prospered in recent years while the rest of the world has been stagnating. Private enterprise has prospered and Australia has benefited. To be sure, we have had valuable resources to exploit and profit by in a troubled world economy.

But that did not make success certain for the opportunities we had could have been squandered. Possession of resources is only the first condition of prosperity. Another necessary condition is sound government policy and there is no denying that the policies we have followed have created the conditions in which private enterprise has been encouraged to take the lead in exploiting the opportunities on offer. The confidence required for investment to go ahead has been created and as a result of this turnaround, the living standards of Australia's families have been improved and we now stand ready to grasp the opportunities which will inevitably lie ahead for us.

A consistent assault on inflation has been essential in creating an environment in which private enterprise could plan and invest with confidence. The sustained restraint which has been imposed on government spending which has been virtually unrivalled throughout the world has been indispensable to success. The interests of all Australians require that this restraint must be maintained along with giving proper emphasis to priority needs and concerns. The Budget deficit has been pulled back from almost 5% of G.D.P. to less than 1%. The Commonwealth has eased the pressure on domestic capital markets by curbing its own borrowing requirements and we look for support in this endeavour from other levels of government. Action has been taken to promote industrial expansion and encourage the growth of productivity and there has been a concern for the competitive position of Australian industry.

While success with inflation has been vital, successful, non-disruptive management of the exchange rate has also been vital. Secure and improved access for our products has been sought on established markets, in the U.S.A., Europe and Japan and Australian exports have been helped to make significant gains in new and expanding markets especially in Asia and the Middle East. Industry has been helped by initiatives to encourage industrial research and development and by an accelerated depreciation allowance. Industry has been given due notice of change where reduced levels of assistance are desirable. And to avoid delay in putting in place the stable policy foundation on which industry will be able to plan in the longer term, the general reference on tariffs was brought forward.

Manufacturing industry is indispensable to balanced development throughout Australia and in 1981, manufacturing industry investment increased by 32% in money terms. The effect of all these policy approaches has been to build Australia up. Their goal, which we all share, has been higher living standards for Australia's families. And their benefits are now plain to see - almost 400,000 new jobs created in the three years to the December quarter, almost 90% of them in the private sector; real household disposable incomes up by \$2.9 billion after tax in 1980-81; average weekly earnings up by more than \$13 per week in real terms in the two years to the September quarter.

This has been reflected in stronger growth in consumer spending and much stronger private investment in housing; between 1977-78 and 1980-81, investment in dwellings rose by 26.5% in real terms. The gains that have been made also point towards a better future. Business profits rose 17% in real terms in the last three years. With that has come a surge in business investment. The 1980-81 rate of increase was the highest for 30 years. The 1981-82 rate is also likely to be over 10% in real terms. And this, as a share of G.D.P., will bring business investment back close to the levels that used to be taken for granted in the 1960s.

Business investment is vital to our children's future. It is the only basis of more jobs and more real spending power in the Australian community and this is why it is so important to give high priority to building up the economy. But it is not only in economic matters that Australians expect their Governments to apply effective policies. And when we look across a wider range of concerns, there is cause for pride in what has been achieved.

I shall mention just a few areas in order to provide a broader perspective from which to view some of the challenges which lie ahead. In relation to defence, important steps have been taken in the policy of making sure Australia has an up-to-date and balanced defence force, including the acquisition of the F/A-18 fighter aircraft, of the British 105M.M. gun, and of the aircraft carrier Invincible; and we need to be aware that strong capabilities contribute not only to national security but also to regional stability and security.

In international affairs, consistent expression has been given to Australia's concerns and actions such as our efforts in relation to the issues of world poverty, our decision to take part in the Sinai Peacekeeping Force, and our contributions through the Commonwealth have helped to build Australia's reputation as a forward-looking, outward-looking and reliable nation.

In the area of tax avoidance, determined measures have been consistently applied - measures which are really biting into this anti-social industry.

In the field of legal reform, the Human Rights Commission and now the Freedom of Information Legislation - the first that will come into place nationally in a Westminster system - are effective measures to meet important community concerns.

In the field of environmental protection, the declaration last year of the new section of the Great Barrier Reef Marine Park gave further clear expression to the concern for the preservation of our environment which is so widely felt in the community, especially among young people.

In education, the issue of giving our young people the skills they need is being tackled and the increasing emphasis on TAFE is an important element in this.

Families, especially those with low incomes who received little assistance from the old rebate arrangements, have been enormously assisted by the Family Allowance Scheme which was introduced several years ago and family allowances were substantially increased for larger families from last January.

In the area of social welfare, the automatic indexation of pensions has given income security to a very significant number of people in the community and assistance has been extended to particularly needy groups, such as pensioners facing high rents and sole parents on low incomes.

It is obviously important that governments work to advance the wider opportunities and way of life which Australians want as well as working to secure and improve the material living standards of Australia's families. I believe that as a result of what has been achieved, Australia is now facing the future from a position of comparative strength for there is great underlying strength in our economy and as I have said already, we are well placed to take advantage of future opportunities provided we work hard to maintain our strong position.

Challenges and problems

But it is not only opportunities which lie ahead although they will surely come. As we look ahead, as we form our expectations for the future, we plainly need to recognize that there are also problems and challenges. It is our task to identify them, to explain them, to address them realistically; having done that, to seek the co-operation of the community in coming to terms with them. One thing which is plain at the present time is that a fresher and sharper breeze is blowing through the markets of the world as our industrial competitors, faced with their own

situation of no growth and unemployment, restructure their industries, as they improve their productivity and efficiency and as their inflation rates fall. When this is added to the fact that many markets are, if anything, shrinking rather than growing, it is clear that we shall have to fight harder to sell the exports on which our economic development depends.

This harder competition from overseas comes at a time when there are some problems on our own doorstep. Plainly, inflation remains at the forefront as the principal threat to our economy because while much has been achieved in pulling inflation back, there are substantial inflationary pressures in our economy at the present time.

Demands for higher wages and shorter working hours have been contributing substantially to these pressures. And in Australia's present situation, there can be little doubt that excessive wage rises and damaging strikes are placing economic progress at serious risk. It is imperative that we recognise as a nation that wage rises which are beyond the capacity of the economy harm everyone and benefit no-one. They cause higher inflation; they threaten our ability to compete on world markets and they create more unemployment.

There is no doubt that wage restraint in the next few months is vital to us all for further wage increases at this time on top of the wage and shorter hours settlements of the last six months are beyond the capacity of the economy and time is needed to absorb the increases which have already taken place.

Let me add that there is plainly a continuing need for an appropriately firm monetary policy. In present circumstances, with a weakened balance of payments and strong inflationary pressures, there could be no thought that the money supply would be allowed to expand to accommodate inflationary wage settlements. It is vastly important to us all that demands and expectations should be matched with economic reality as it now is both internationally and domestically. Whatever else may be arguable, there is no doubt that our overall level of economic growth places clear limits on the sustainable real wage increases which can occur.

We must never forget that everything, including wages, has to come out of what Australia is producing. Further limits on wage increases are imposed by the claims of needy and underprivileged people to share the benefits of prosperity and investors also have their legitimate claim for profits, which are the basis of the further investment on which future growth depends.

As I have said on many occasions, Australia would benefit greatly from rational debate on the proper balance between these respective claims and I believe that such a debate could have a most valuable impact in helping every section of the community to decide what expectations are reasonable, what claims are legitimate, and which demands ought to be moderated.

I turn to the industrial front where the level of strikes and industrial disputation is plainly a matter for the most serious concern. The Government is addressing the situation with some important legislative initiatives as part of an on-going

concern with reforming industrial relations.

First among these initiatives will be the provision giving private employers a right of stand-down in strike situations to bring about a better balance in the bargaining position of unions and employers and to equalize their responsibility before the law. We believe that this measure will help to bring home to unions the real cost to the community of strike action and that it will help bring a degree of balance to the negotiating process.

The second initiative is designed to put renewed vigour into efforts to achieve a restructuring of unions more in line with the needs of a modern Australian economy and to move away from a system rigidly tied to craft-based unions.

And the third proposal, for voluntary unionism, seeks to protect the basic rights of ordinary average Australians.

The Commonwealth is also addressing a number of industrial relations issues in co-operation with the States. Important consensus was reached at the recent Premiers' Conference and Labour Ministers have already met to consider options to facilitate handling of demarcation disputes and the development of a complementary industrial relations system. In considering the problem of demarcation disputes, the objective must be both to protect employers who are harmed and unions which are attacked.

The Premiers have also agreed to work with the Commonwealth in efforts to seek agreement with unions and shipping interests along the lines of the recommendations of the Crawford Report, and to reduce the level of industrial disputation in the maritime and waterfront industries. Thus in co-operation with the States, and through our own legislative initiatives, we are taking a positive approach which should remove some of the hurdles in the path of industrial peace and bring a greater sense of responsibility into industrial relations.

In addition to the threats to Australia's economic well-being posed by wage demands and industrial disputes, there are a number of other issues which are of great concern to the community which need to be explained and addressed with balance and realism.

Home ownership is one issue which is causing very considerable concern in the community and nobody wants Australia's high level of home ownership to be damaged. The issue is complex. There are three inter-related problems. The availability of funds, the high interest rates which currently prevail, and the high cost of houses, especially in some cities. At the present time, the Government has this issue under close review and the Government will in due course announce the policy changes it believes are necessary.

Taxation is a further issue of great concern to the entire community and I want to reaffirm that it is the policy of the Government to make further income tax reductions when it is economically responsible to do so. The present tax levels concern the Government as they concern the community and it is

important to remember the major taxation reforms which the Government has implemented including initiatives such as the doubling of the rebate for dependent spouses which has taken place, the deductibility of superannuation contributions up to \$1200 a year for self-employed persons and others not covered by employer-sponsored schemes, the abolition of death duties, and the tax rebate for health insurance. The cost to revenue of these initiatives alone is well over a billion dollars a year. It is important, when the community considers taxation levels, to be aware of a number of critical factors, the implications for the budget of an ageing population, the need for increased defence expenditure, and the need to pull back earlier budget deficits drastically.

Consistent with factors such as these, the Government's commitment to lower taxes and greater spending power is clear and we shall continue to follow those policies which provide the only basis for sustainable tax cuts.

Mr Speaker, I have sought to draw the House's attention to some of the major factors which need to be taken into account by the Australian people as we look to the future and seek to match our expectations with reality. Many of the issues which we are facing are complex. Many of the problems do not offer easy solutions and the right balance between competing claims is in many cases difficult to find. But of course it is not unusual for a situation to exist in which expectations are greater than can be satisfied, in which different groups within the community are making claims which are inconsistent with each other, in which some claims can be satisfied only at the expense of others, in which some short-term aims conflict with longer-term objectives.

It is easy for people in pursuing their own objectives to overlook the claims of others and put at risk the source of the future well-being of everyone.

The objectives of the vast majority of Australians are plain. As a nation, we seek rising standards of living. We seek more dollars in taxpayers' pockets. We seek an increasingly compassionate society. We seek wider opportunities and greater scope for people to develop their talents. We seek greater security for all our people. We seek increasingly efficient public institutions. We seek the conservation of our heritage and our environment and much more as well. All of these objectives are consistent with each other and a balanced policy approach commits us to pursuing them all. But we plainly cannot pursue all or any of them as fast as we would wish. Indeed, in times of economic difficulty and stagnation, ^{overseas} we may be committed to pursuing them far more slowly than we would wish because one thing which is vastly important is that in pursuing these objectives, we cannot afford to destroy economic growth itself. Without growth, all our other efforts and objectives will come to nothing.

It is significant that Australia's growth rate in the last two years has been almost twice the OECD average and it is significant that the OECD predicts a growth rate of over 3% for Australia in 1982 against an OECD average of just over 1%.

There is growth in our economy but we cannot take the future for granted. In a situation of international uncertainty and world economic downturn, where our own growth is held back by the no-growth situation of other economies, we must surely accept as a community the need to avoid putting at risk the present strength of our economy.

In dealing with these issues, it is imperative that we weigh up our own claims and expectations against the kind of growing Australia which we want to build for our children, considering both in the light of the real opportunities which are open to Australia in the interdependent world in which we live because only in that way can we reach responsible conclusions on the decisions which lie before us both as individuals and as a nation.

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