EMBARGO: 9.05 pm

6

CHECK AGAINST DELIVERY

PRIME MINISTER

FOR MEDIA

WEDNESDAY, 14 JULY 1982

SPEECH TO THE CONFEDERATION OF AUSTRALIAN INDUSTRY

It is a great pleasure for me to be able to address the CAI at the conclusion of its Third National Forum. There is great value in the leaders of Australia's private sector coming together to discuss our economy and where it is going. As the leaders of Australian industries your views and your decisions are of great importance to all Australians.

Tonight I would like to talk to you about the impact of the global recession on Australia, and the state of our economy. I want to say something about the damage we sometimes do to ourselves when we do not work together well enough and spend too much time arguing about different directions or ways of doing things. It is more important than ever that we recognise as Australians that our interests are not in conflict but complementary, more important than ever for us to pull together in building Australia up.

Since 1979/80, when the major economies of the world were hit by considerable increases in oil prices, the global economy has slipped into a renewed recession which has turned out to be far worse than anyone anticipated. As a result, we now live in a very different economic world from anything we have known in recent years.

Industrial production in six of the seven major world economies has either fallen or stagnated in the March quarter. In the United States, the motor vehicle industry is operating at about half of its capacity. The steel industry is equally depressed, and even allowing for some improvement in May, private housing starts were only about half what they were four years ago. In 1981, world trade declined in value for the first time in more than 20 years, real interest rates in the United States and Europe have reached historically high levels and they are remaining high. At present some 30 million people are without jobs in the OECD countries, a terrible reflection of the global downturn, and it is predicted that it will go to 32 million in the first half of 1983.

The world recession has helped to bring down overseas inflation rates. The American inflation rate is now running at about 6 to 7% where it was over 14% just two years ago, while the

.../2

average rate of inflation for the OECD countries as a whole is expected to decline in the second half of 1982 to 7.5% from 10.6% in the second half of 1980. Even with lower international inflation rates, the prognosis for the global economy is very mixed. We have heard for the last year that economic recovery will start in six months' time. I suppose if someone says that often enough they are bound eventually to be right.

The OECD, in its most recent survey, estimates that industrialised economies will grow at an average annual rate of 2½% in the second half of 1982 following a fall of half a per cent in the first half of this year. That is hardly encouraging as a sign of recovery, especially when they are also forecasting that unemployment will increase by another 2 million. The survey estimates that inflation rates will drop only modestly, that real interest rates will remain high.

In the face of these difficulties many of the industrialised countries have resorted to protectionism, sometimes in the form of higher tariffs, sometimes so-called voluntary restraints, and in very large part in the form of non-tariff barriers. In an attempt to retain shares in export markets, some countries have also resorted to subsidising exports. The best example of this is the EEC which is subsidising heavily its exports of many agricultural products.

We have always known that Australia as a trading nation could not remain unaffected indefinitely by a world downturn and the recession is now hitting Australia hard. It is worth considering very carefully how the world recession has affected us. Over the last few years we have become used to relative economic success: for several years we have had a higher growth rate than the OECD average; we have had a lower rate of inflation than the OECD average; employment grew by over 375,000 in the three years to the end of 1981; and our unemployment rate, although too high, was lower than the OECD average in 1981. Now we must recognise that it is much harder for us to retain record.

All of you will be aware of how important export markets are to Australian industry, the value of our trade is equivalent to about 30% of our gross domestic product. The reality of the world economic situation is that Australia's export markets have fallen badly. Between 1979/80 and 1981/82 iron and steel prices, in constant terms, have fallen from $211 to $163 per tonne, aluminium prices have fallen from $1410 to $1072 per tonne, copper from $1955 to $1231 per tonne, beef from $2267 to $1609 per tonne and wheat from $147 to $133 per tonne. In these areas, Australia is producing for the world, so there is no way prices will pick up until world trade picks up.

Declining export markets have been one of the factors which has significantly affected investment in Australia. The growth in business investment, which reached a 30 year record just a year ago, has virtually ceased, and while investment remains at a high level it has done so because a substantial number of projects previously started have yet to be brought to

.../3

completion, substantial new investment decisions are unlikely while world economic conditions remain stagnant.

The high level of international interest rates has also hit investment and more generally undermined the economy as businesses which have borrowed heavily to invest now find themselves caught between falling markets and higher costs and borrowing. High interest rates are also causing difficulties for home owners and young people who want to buy their first home, and our housing package was designed to give these ~~difficulties.~~ Australia is basically a victim of high international interest rates. We cannot artificially bring down our own interest rates without that affecting quite dramatically investment in Australia, and our balance of payments, and ultimately inflation.

But is not only world economic conditions which are responsible for the current difficulties in the Australian economy. We have not been helping ourselves as well as we might have. Rising domestic costs have pushed our inflation rate above the OECD average. In the 12 months to the end of March Australia's inflation rate was two percentage points above the OECD average.

A significant cause of all this is the higher wages we have been paying ourselves at a time when our income as a nation has been falling. The damage to our competitiveness caused by high wage settlements has been compounded by much more moderate settlements overseas where 5 and 6% increases have not been uncommon, compared to increases of between 15 and 20% in Australia when shorter working hours are taken into account. The corporate profit share in non-farm product has now fallen to the depressed levels experienced in the mid 1970s.

Against this background of world recession and high domestic wage settlements. It is not surprising that activity levels are being reduced in Australia, that employment growth has diminished, and that unemployment is rising. This was reflected in the March quarter national accounts which indicated that non-farm product had fallen in each of the last two quarters.

In the face of these difficulties there are a number of things we can do and a number of things we must avoid. We must avoid economic policies which destroy incentive, which create uncertainty, which make it more difficult to build up Australia, and which will discourage investment and halt development projects.

Now I don't want to make this a party political speech, but you would be well advised to read the small print of the economic policies to which Labor has committed itself at its national conference. Take uranium mining. Labor's new uranium policy was summed up by Mr Hayden saying last Sunday that any suggestions that Labor has abandoned its opposition to uranium mining is a "travesty of the facts". He went on, "our policy unequivocally supports the objective of an end to the uranium industry". Nowhere does the policy say that existing contracts will be worked out.

.../4

Under Labor the industry will be closed long before those contracts have been fulfilled. Who can challenge Mr Tonkin's statements that Labor's uranium policy "puts at serious risk the potential for at least $3 billion of investment in South Australia and the creation of at least 15,000 new jobs". Labor's policy would destroy the Australian uranium industry. In the debate on the uranium industry the Deputy Premier of NSW freely admitted that Labor's uranium policy and its other economic policies would undermine international confidence in Australia because he said that Labor's policies would lose us our triple 'A' rating, and he boasted that they ought to, and that if a Labor Government was to worry about that then it "didn't deserve to be in government".

Take the capital gains tax issue. What the new policy commits Labor to its strengthening Section 26A of the Income Amendment Act. But we are not told how. Senator Evans, Labor's Shadow Attorney General, has said he has a secret draft "of a re-written Section 26A which will do the job which we want to do". And we are entitled to believe it will be a capital gains tax by stealth. Labor is also committed to a resources tax, but won't say what it will be. When asked to be specific about the tax, the Shadow Treasurer, Mr Willis, has said that those matters would be discussed with business if they got into Government.

Labor has indicated it would get rid of state taxes on mining companies and offset the loss of revenue with the resource tax. It would be naive in the extreme to expect state premiers such as Mr Bjelke-Petersen or Mr O'Connor to give up a state tax to allow the introduction of a Commonwealth tax. What is more likely is that the mining industry would end up with both taxes.

Labor is committed to a prices and incomes policy and a social wage, whatever that may mean: it means all things to all men. So-called prices and incomes policies have been tried again and again in various countries since the war, they have never worked, because they do not address the real causes of economic malaise. Rather than pursue these sorts of policies which would destroy our economy; Australia must do three things; we must minimise the impact on Australia of adverse world economic conditions; we must be prepared to take advantage of the international recovery when it does come, and we must play our part in trying to promote a sustainable world economic recovery.

To minimise the effect of world economic problems on Australia and to prepare for an international recovery it will be vital that we pursue policies which suits Australia's economic situation. And we must do everything we can to make sure that all Australians play their part in the economic development of their country. It is against this background that the Government currently has under consideration three reports from the IAC - on general reductions in tariffs, on export incentives, and on assistance to industry through the Budget. In its decisions on these reports, the Government will be looking to provide a stable basis for long-term planning by industry, without putting the short-term viability of Australia's industries at risk.

We have stated quite clearly that in examining aspects of Budget assistance to industry, we are not looking to reduce the level of assistance, but rather to ensure that it is given in a way which best suits industry's needs, and in a way which best promotes activity - and especially investment - in Australia's industries. In this way, government can help industry to keep building Australia up.

Indeed, in the different and difficult conditions Australia now faces, we are aware of the need to avoid compounding industry's problems, whether through our decisions on the IAC reports or through our Budget. At the same time, industry itself must do what it can to improve its international competitiveness; industry itself must act firmly to restrain wage and other cost increases, and not expect government to underwrite excessive wage settlements; industry itself must do what it can to create a favourable industrial relations climate, and not expect government to do the job on their behalf.

We must get the message across to all Australians that it is only by working together, not against each other, that we can succeed, Australians must understand that we have complementary interests. Excessive wage increases and strikes are clearly going to undermine our competitiveness.

Over the last few months a number of things have been done to build Australia up. The national wage case decision in May was a recognition by the Arbitration Commission that further wage rises will undermine our economy, and the Tripartite Conference in Canberra last week between the Government, the ACTU and your own organisation showed that there is a basis for co-operation between the major economic groups. I was encouraged by the establishment of a tripartite working party which will try to reach agreement on a common statement on the economy to put to the wage case hearing in August.

Just a few days ago a task force with representatives of the ACTU, the seagoing maritime unions, and the Australian shipowners, signed a proposal based on the Crawford Report designed to improve industrial relations procedures in the shipping industry, and to allow Australian ships to compete on similar terms with flag carriers of Australia's major trading partners. This Report, which will now be considered by the Government in the Budget context, provides an example of what can be achieved when unions, management and governments are willing to co-operate, willing to work together.

The Commonwealth Government is also working with the governments of Queensland and NSW on the difficulties of the coal industry including problems at ports. These problems are now too serious to start apportioning blame. We must sit down together and try to find solutions. By working together in this way, we will be able to minimise the impact of the global recession. By doing this we will ensure that we will regain our competitive position in the world, and that we are well placed to take advantage of the global recovery when it finally comes.

.../6

It is not going to be easy to get international agreement in a practical sense on the kind of action needed to achieve world recovery. When I was recently in the United States, Japan and South Korea I used the opportunity to outline policies which the Government believes need to be given careful consideration by the international community. I urged that there should be an international freeze on protectionist measures, that the international community should work towards a steady reduction in levels of protection, and that export incentives and subsidy schemes should be phased out.

Obviously no country could adopt these proposals alone, and the Government has emphasised that it has no intention of implementing them unilaterally, nor would it help in solving the overall problem for a single country to do so. But I believe that if countries adopted these proposals together, they would provide a real impetus for regenerating global growth, and bringing down inflation. They could help enormously in getting us back to the situation of the 1950s and 1960s when world trade was a major engine of economic growth, years in which the volume of world trade expanded at an annual average rate of 8%, providing increased employment, and leading to growth rates which could double real incomes every twenty years or less.

Our proposals have received a good deal of international support, and I believe they warrant real and effective consideration at the GATT Ministerial Meeting in November. In the light of international and domestic economic difficulties then, there are things we can do ourselves, and must do. By working together all Australians will contribute to the regeneration of our economy, which eventually will be assisted by renewed economic growth overseas. These are the objectives which we must work for.

---oOo---