EMBARGO: 2.00 PM

B. Belcher

PRIME MINISTER

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ADDRESS TO FINANCIAL REVIEW LUNCHEON

This year's Budget above all faces up to the real problems confronting the Australian economy; the real difficulties, the hardship, with which the world recession is confronting ordinary Australians. It provides a basis on which we can ask and expect the whole Australian community to work together to ensure that the damage we suffer during the world downturn is limited and that we stand prepared to take the fullest possible advantage of world recovery when it eventually comes.

There is no question that the Australian economy is suffering significantly as a result of the continuing world economic downturn, to an extent which no-one anticipated even just 12 months ago.

As the Financial Review stated in a recent series of articles on the dilemmas of current economic policy, with the benefit of hindsight it is obvious that an Australian recession had to come. What no-one anticipated was that the global economy would slip into a recession so bad and so prolonged following the 1979/80 oil price shocks. But when six of the major seven world economies have seen industrial production fall or stagnate; when industries such as steel and motor vehicles in the United States are operating at half capacity; when world trade has fallen in value for the first time in over 20 years; when protective barriers are being raised; when real interest rates persist at historically high levels - despite some welcome falls in the U.S. in recent weeks; when unemployment in the O.E.C.D. countries is already about 30 million, and predicted to go higher; who can doubt that there is a serious world economic problem ? Who can be surprised that Australia has been affected, although as a result of Government policies and our resource endowments it has taken longer than in most countries for the effects to work through. Declining export markets, combined with significant falls in the world prices of many of our products, have now hit us hard and together with the high real interest rates world wide, have significantly affected investment in Australia, although it is encouraging that investment is still continuing at a relatively high level.

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As I have been saying for some time, and again as the Financial Review has supported in its recent articles, real recovery cannot be expected in Australia as long as the U.S. economy continues in recession; and while there have been hopeful signs in terms of activity and interest rates in the U.S., I'll only believe in a real and sustained recovery in the U.S. when I actually see it.

The difficulties facing Australia, and Australians, are not, however, limited to those created by conditions in the rest of the world. Industrial relations problems, including in the vital area of our export ports, have threatened our reputation as a reliable supplier; and while wage settlements in many overseas countries have been at or below increases in consumer prices; Australia's wages have risen at rates well above the CPI; and our labour costs have been further increased by the continued push for shorter hours.

Against this background, our import competing industries as well as our export industries have suffered a significant loss of competitiveness; profitability has been severely squeezed; investment and activity have stagnated; jobs have been lost, and the growth of employment has fallen.

As a consequence, there are real difficulties, not only for businesses, but for all Australians. In the face of these difficulties there are a number of things we can, and we must do. Above all, we must do what we can to minimise the damage to the Australian economy, and the Australian people, of the world recession; we must do what we can to continue to build up the Australian economy, and to prepare ourselves to take advantage of recovery when it eventually does come; and we must work together to solve the problems that have put our competitiveness at risk.

In this context, it was clear to the Government that the 1982/83 Budget had to balance, on the one hand, the need to assist those facing real difficulties, to provide a sound basis for working together; and on the other, the need to maintain a responsible approach to economic management, to provide a sound basis for taking advantage of any signs of world recovery. In balancing these two requirements, the Government was faced with the fact that its budgetary position was already being directly affected by the economic downturn, through declining growth of tax revenues and rising expenditure commitments. Indeed, before any decisions were made, we faced the prospect of an increase in the deficit of around $1 billion as a direct consequence of economic conditions. In the circumstances, the Government decided that the balance it sought would be secured by a Budget which gave real help to Australia's families and other sectors of the community by absorbing many of the direct effects of the downturn;

but which maintained a modest domestic Budget surplus of the order of $200 million, combined with the maintenance of a money supply target growth in the range of 9-11%. To have required a larger domestic surplus would have compounded the difficulties being faced by Australian families and Australian businesses; to have gone to a significant domestic deficit, as advocated by Labor, would have fueled inflation and put further pressure on interest rates. That would have involved a reversal of our basic strategy, and an acceptance of the destructive socialist policies still advocated by Mr Hayden, despite all the evidence - including the recent experience of France - that they just don't work.

To put the Budget into a correct perspective it is important to view it in both an historical and an international context. The overall deficit implied by a $200 million domestic surplus is some $1,700 million, just on 1% of GDP. In relation to GDP this is a deficit about one-fifth of that at at the end of Labor's disastrous three years in office, and less than one-third of current deficit levels in the United States, in the United Kingdom, in Japan, in France, in Canada, and in West Germany. Our consistent deficit reductions in earlier years have put Australia in an enormously strong and fortunate position, by giving us some room to manoeuvre responsibly in this year's difficult circumstances, if the US was moving towards a Budget deficit of just 1% of GDP, who would doubt that world recovery was on the way? But the Government is determined to maintain the Budget deficit at the lowest levels in relation to GDP consistent with dealing with new economic circumstances, in a balanced manner, as they emerge.

With a surplus on domestic transactions, the Budget will not add to liquidity in the economy, to inflationary pressures or to pressures on interest rates; and together with the maintenance of a firm approach to monetary management, including use of the new elements of flexibility to financial management decided at the June Loan Council, it sustains our strategy of responsible but responsive economic management. The Budget's greatest strength is that within this overall strategy it gives substantial help to Australia's families and needy sectors of the community, while also providing a basis on which to expect a real measure of wage restraint.

All taxpayers will benefit significantly from changes in the personal income tax rate scale, including a reduction in the standard rate of 30 cents in the dollar, and adjustments to important thresholds, which will cost almost $1,500 million this financial year. Those who are buying or planning to buy homes will benefit from the general tax rebate on mortgage interest payments, and from the request we have made to the reserve bank for a 1% SRD release for lending for housing purposes. And there are further benefits directed specifically at families, especially single-income and low-income families; through an increase in the family allowance for the first and second child; through the $200 addition to dependent rebates where there are dependant children; and through the new income supplement available to low-income families.

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Young people have also been significant beneficiaries from the Budget, through the Commonwealth's education assistance programs, and our employment and training programs. From the beginning of 1983, all student allowances are being substantially increased, in some cases by as much as 20%; and the family income means tests applying to both secondary and tertiary education allowances are to be considerably eased. The secondary allowance scheme designed to help children from families with modest incomes to complete the final two years of schooling and hence to acquire vital skills and expanded opportunities, has been given particular emphasis, S.A.S. living allowances have been increased by 20%, and the family income means test levels have been increased by some 44% to the substantially more generous levels that apply to the Tertiary Education Allowance Scheme. Assistance to T.A.F.E. and to school-to-work transition programs is also being considerably increased in line with the Government's recognition of the importance of the acquisition of education and skills which equip young people for the needs of today's labor markets. Expenditure on employment and training programs particularly those which assist the young unemployed, is to increase by 21% to $250 million, and will provide assistance to an estimated 252,000 people. Under these programs, increased expenditure on assistance for work experience will allow 74,000 new placements in 1982-83, and increases of up to 36% in the rate of subsidy to employers, while significant increases in outlays on the C.R.A.F.T. scheme will encourage and enable employers to receive assistance for some 111,000 apprentices in 1982-83, an increase on the record 99,000 in 1981-82.

Additional assistance to businesses through the Budget comes in variety of forms, both direct and indirect; and this year, for the first time, direct Budget outlays on industry assistance and development will exceed $1,000 million.

The Budget builds on the package of measures announced on 19 July, designed to support the efforts of Australian industry to restore its competitiveness especially through more generous depreciation provisions.

Among the tax reforms in the Budget, there is a further increase from 70% to 80% in the retention allowance for private companies, which will give a full year benefit of $30 million to small business, and fulfill a 1980 election commitment. The Government also proposes to introduce measures to allow losses suffered by one company in a group to be offset against taxable income of other companies in the group, provided the group satisfied a 100% common ownership requirement, thus removing a disadvantage of company groups vis-a-vis integrated companies.

Moreover, the general tax rebate for housing introduced in the Budget should provide stimulus to the building industry and related manufacturers, while the personal tax reductions will generate increased spending and activity across-the-board. Business will also benefit from the stimulus to activity and employment that will flow from the substantial increase in Commonwealth capital works spending and grants for capital purposes, including a 68% increase in the Budget financed civil works program.

In addition to substantial amounts to be spent on airport development, aged and disabled person accommodation, and through grants to the States for spending on welfare housing and the normal roads program, the government has introduced the new Australian Bicentennial Road Development Program. Through its contribution to improving Australia's transport and communications system, this program will benefit all industries in the long term as well as giving an immediate boost to the construction industry. The program will enable the completion of a national road system of acceptable standards by 1988 as well as facilitating improvements in urban and rural arterial roads and local roads. It will be funded from a special surcharge on the petrol and diesel excise and including the $150 million to be spent in 1982-83 is expected to involve a total expenditure of about $2.5 billion over 6 years. It is worth noting that the better road system that will result from this program, together with the removal of exemptions from excise on diesel fuel for railways under the new rebate system for certain off-road users of distillate, will offer a more equal basis for competition between road transport and railways.

Other innovations contained in the Budget of interest to business include the new tax relief on dividend income which will provide a rebate at the standard tax rate for up to $1000 of dividend income at a cost of $75 million in a full year. This measure will give encouragement to investors, particularly small investors, and should assist business to raise the funds it needs to build for the future.

Particularly in the light of widespread representations from industry, we have also decided to provide an incentive to employee share participation schemes, by freeing from tax benefits arising from the price at which shares are issued under approved schemes. The Government believes that this concession will allow the development of schemes that will create among employees a greater feeling of sharing in the fortune of companies that employ them, and that it will provide benefits to productivity and industrial relations.

There is no doubt that this Budget has improved the position of Australia's families substantially; no doubt that it has improved the position of needy groups in the community substantially; no doubt that the higher deficit which would have been necessary to allow for greater benefits would have threatened the very foundations of Australia's future economic strength.

This Budget provides an opportunity which Australia simply cannot afford to miss for community-wide support of wage restraint and co-operation. The kind of co-operation which Australia needs today cannot be achieved by Governments alone. It cannot be imposed as a matter of Government policy. The Government has done what it can in giving a lead, and providing a basis for co-operation to prevent any new wage-push - and I believe the community will want all responsible groups to heed the Government's call to work together.

Even before the Budget was brought down, there was growing support for the sort of moderation in wage increases that is so important to Australia's economic and social future.

The Tripartite Conference between the ACTU, the CAI and the Government showed an important degree of agreement that excessive wage increases would throw people out of work,- and in more recent times, both the President and the Secretary of the ACTU have spoken out strongly in favour of wage moderation.

Moreover, following the Remuneration Tribunal's recommendation of salary increases well below the inflation rate for parliamentarians and senior public servants, recommendations which the Government accepted, the Academic Salaries Tribunal made similar recommendations; and some leading companies have announced a freeze on salaries, or very small increases.

Because of my belief in the critical importance of wage moderation, especially at this time, I took the opportunity to write to a number of companies, to State Premiers and to the ACTU and the CAI, to explain the nature of those decisions, and to seek their support for them in their own decisions.

The example that had already been established in this way offered a basis for some optimism that restraint might be widely achieved - and the decisions made in the Budget give all the more reason to ask for and expect that responsible wage decisions will occur throughout the workforce. Equally important to Australia's future is stability and co-operation in the area of industrial relations. Since February of this year, we have experienced a significant reduction in the unacceptably high and damaging levels of industrial disputation which were experienced through the second half of 1981.

And a significant example of co-operation between unions, management and Governments has been provided by the agreement reached, based on the Crawford Report, to make shipping flow more smoothly through our ports. Governments themselves, State and Federal, equally need to co-operate and to face difficulties together. And the recent discussions between the Federal Government, the Governments of NSW and Queensland and the coal industry, to solve the problems that have plagued one of our great export industries, has shown what can be achieved when common interests are recognised and pursued.

If we can all work together, if we recognise the benefits which flow to us all from reasoned discussion rather than conflict about the claims of different groups then, but only then, will we put ourselves in a position to take advantage of all the opportunities and strengths that Australia possesses. Then, but only then, will we be able to keep building Australia up.

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