

Address by the Acting Prime Minister, the Rt. Hon. J.D. Anthony, C.H., M.P., to a meeting of the Economic Advisory Committee of the Liberal Party of Australia, at the Liberal Party Federal Secretariat, Canberra, Friday 19 November 1982.

I suppose it was predictable that the first reaction of many people to the Government's proposal for a wage pause has been to ask, if wages are going to be frozen, why shouldn't prices be frozen as well. This reaction is predictable, and even understandable. Those who ask this question, however, must recognise that it has not been price increases, but excessive wage increases, which have been destroying jobs over recent months.

Because domestic demand is weak and the world economy has become increasingly competitive, many businesses have not been able to put up prices enough to cover increases in costs, and have been forced to retrench staff.

Freezing prices now would just lock industry in to this depressed profitability which is forcing the shedding of labour. That would not reduce unemployment. It would increase it.

The squeeze on profits has, of course, been the result of a combination of factors. The world economy is in recession. Real gross national product in the OECD counts is expected to actually fall this year, and unemployment has climbed. It is now over 13 percent in the United Kingdom, 12 percent in Canada and 10 percent in the United States.

The value of world trade fell last year for the first time in 20 years, and remains stagnant. Protectionism is growing. Commodity prices are weak. Real interest rates are high world-wide. For a time, we were insulated from the recession by resource-related growth. It has now hit us, and excessive wage increases made that a double blow. Those who have recently become unemployed are paying the price.

Wage increases are the one factor making unemployment worse which we as a nation can, if we have the will, do something effective about.

Some of the comments on the Government's initiative imply that until now we had done nothing about unemployment. I find that sort of comment extraordinary. Step by step, throughout this year, the Government has put in place a framework of measures to deal with the emerging economic situation.

I was very disappointed to read an editorial in the Sydney Morning Herald on Tuesday, which said, in part, that although the Government thought that the drought justified an addition of \$350

million to the Budget deficit, it did not feel that unemployment justified the addition of one per cent to the deficit. That is very unfair comment. It ignores the obvious fact that increased unemployment benefit payments will boost the deficit by a similar amount to the drought relief payments - and for a similar purpose, to relieve hardship. It also completely ignores the many measures the Government took in the Budget and before the Budget to deal with the worsening economic situation.

It is true that unemployment has increased even more than was anticipated before the Budget. The Government's present initiative recognises that, and builds on the measures already taken.

In March, we brought in a major housing package, designed to give real assistance to the housing industry, to those seeking to build homes and to families struggling with their mortgage repayments. In June, at the Premiers' Conference, we gave an increase of more than 16 per cent in tax-sharing funds to the States, and an even larger increase, of 21 per cent, in funds for local government. At the Loan Council we provided a 10 per cent increase in State Government borrowing programs, including a substantial extra allocation for welfare housing. Borrowings by electricity authorities were freed of restrictions, and we agreed to an increase of 14 per cent in the programs of other semi-government authorities. Those decisions helped make possible major increases in capital works now in train throughout the country.

In July, we brought in a special package of fiscal measures to assist industry. The final steps came in the August Budget, where we concentrated heavily on measures to help cushion the effects of the difficult economic circumstances which we knew were facing the country.

The Budget provided income tax cuts worth \$1.5 billion in 1982-83. It provided higher family allowances and other major measures of income support, and a new housing interest rebate scheme complementing the March package. Most of these measures are now coming into effect, from 1 November. They are directed particularly to those likely to be facing hardship: those on lower incomes; families, particularly families struggling to meet mortgage repayments; pensioners and the unemployed.

Those measures of tax relief and income support significantly increase the disposable incomes of ordinary working people and so lay a firm basis for wage restraint. A typical breadwinner will be receiving benefits of about \$20 a week, or around \$17 after taking account of the indirect tax increases. That is equivalent to a wage increase before tax of eight or nine per cent - a valuable boost to family incomes, by any standards.

That is a solid basis on which we have called on every Australian who has a job to sacrifice a future wage increase to

help save the jobs of others - and perhaps even his or her own job.

The Budget contained a range of other measures designed to help employment, including a major expansion of capital works funding, more money for aged persons' accommodation, welfare housing, roads and airports. In total, the Budget provided over \$4 billion for capital purposes - an increase of 17 per cent on last year. And to help those seeking jobs, we increased funds for manpower and training programs by 21 per cent to \$250 million.

Yet the Sydney Morning Herald says we are not willing to provide one extra cent to relieve unemployment! I think the facts I have outlined show how shallow this response is.

We are doing all we can, and not only at home. We are making a significant contribution to helping find ways out of the world recession. The whole reason for the initiative I will be pursuing in Geneva next week at the GATT Ministerial meeting is to try to stimulate world trade. For a country like ours, so dependent on trade for growth and prosperity, that is absolutely essential if our industries are to get moving strongly again.

Returning to the initiative which the Government has launched this week, by inviting the Premiers to come to Canberra on 7 December to discuss a proposal for a wage pause, I'd like to make it absolutely clear why we are focussing on wages.

The plain fact is that wage increases have gravely aggravated our problems, just at a time when we should have been preparing to meet the tougher climate of a recession. The economy is now feeling the effects of an extraordinarily badly-timed major push in wages. That push was spearheaded by a metal trades package which, taking account of reduced hours, was equivalent to an increase of over 20 per cent in wages.

The push spread widely. Over the year to the September quarter, average weekly ordinary time earnings of adult males employed full-time rose by 18.2 per cent - and this does not take account of reductions in standard hours. That means wages rose 50 per cent faster than prices over the year to the September quarter. To put it another way, real wages rose by over five per cent, more than 10 times the increase of only 0.4 per cent in non-farm productivity over the most recent 12 months recorded.

Our international competitiveness was severely affected. Businesses have not been able to pass on the cost increases and have been forced to retrench staff. In the OECD over the latest 12 months (to May), the average wages increase was 10.7 per cent and falling. That compares with our 18.2 per cent to September.

We can contribute to efforts to find solutions to the international problems, but of course we cannot do much about

them directly. Nor do we have any "magic wand" which will get us rapidly out of our own difficulties. But I repeat what I said earlier: the wages front is where we do have a weapon in our own hands, if only we have the courage and the will to use it.

This is a weapon which cannot be wielded effectively unless there is a broad consensus behind it. The Government earnestly hopes that the States will join us in helping to lead this consensus, which must extend right throughout the community.

I cannot stress too strongly that the essence of the proposal, and the key to its success in saving jobs, is that it should put in place an effective economy-wide pause in wages. Spending the savings we will make in public wages on employment-related activities will be a supplement to that, certainly - but the thrust of the proposal is the wage pause.

It is not easy for a Government to ask the community to make sacrifices. But that is precisely what the Government is now doing. We cannot - the nation cannot - effectively tackle unemployment without cost.

We want those who have jobs, who have mostly received substantial wage increases and will all receive substantial further support from the Budget, to sacrifice a future wage increase to help save their own jobs, and help restore jobs for those now out of work.

If the community is not prepared to make that sacrifice, the outlook for many thousands of Australians is a bleak one indeed.

We know the course we propose is a hard one. It will be strongly opposed. We know similar efforts have failed before. But things are much more serious now than they were then, and I believe there is a mood in the community to face up to difficult choices.

Speaking here to people representing the business sector, I urge your full commitment to the Government's proposal. The Government looks to the whole private sector to join with the public sector in making this proposal work, and securing the benefits it is designed to bring.