



PRIME MINISTER

FOR MEDIA

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ADDRESS TO YOUNG LIBERAL NATIONAL CONVENTION, ADELAIDE

The Young Liberal National Convention in mid-January is one of my most regular and important engagements, and I am delighted to be here today, back in harness for the first time. 1983 is obviously going to be a critical year for Australia. It will be a year of difficulties, but also of challenges and opportunities. It has never been more important to have the right priorities, the right policies, the right directions. As a Liberal Government our overriding obligation is to address the issues of economic management firmly and effectively, without losing sight of our wider objectives.

We all know that in today's situation there are no short term solutions, no instant palliatives or quick fix answers. We need medium to long term policies, consistently applied. People are rightly concerned about the difficulties Australia is facing, along with other countries. But I find it enormously encouraging that most people are expressing a determination that issues should be addressed constructively, looking to the interests of all Australians. A national mood of realism is imperative. For provided we are realistic, provided we are willing to make the best use of skills and resources, I have total confidence Australia can look to the future with optimism.

We also need to keep today's difficulties in perspective. While we do not have the levels of economic growth we would like, our gross national product is continuing to plateau at or near its highest level ever. This contrasts starkly with the catastrophic collapses of the 1930s. At the present time, our national stock of houses, household goods, factories, commercial buildings, galleries, roads, schools and hospitals has never been greater and is still growing. We live at a much higher standard than previous generations.

I want to talk first about where Australia now stands, especially in the light of the world recession. Secondly, I want to examine the importance and continuing role of the major policy initiatives put in place during 1982. Finally, I want to look ahead to our objectives and priorities for this year.

There is no doubt that Australia's immediate situation and prospects are greatly affected by the world recession. We are affected by a general world problem, which is having an impact on every country. There are some things we can do ourselves

to lessen the impact of recession - but because trade is our lifeblood, the recession was bound to hit us hard. The recession has meant less demand for our products, lower prices for our commodities, and more competition in the markets where we sell. This means less incentive to invest, and a tighter squeeze on the profitability of Australian producers. The world recession is proving far deeper and far more prolonged than most people would have thought possible, and there are few signs of sustained recovery.

It is estimated that real GNP growth for OECD countries as a whole in 1982 was minus $\frac{1}{2}$ %, and in the previous year, the value of world trade actually fell, for the first time in over twenty years. The average level of unemployment in 1983 for the OECD area is forecast at 35 million people, a rate of 9.5% compared to about 8 million people or 3.6% 10 years earlier. It is worth reflecting that if someone had argued ten years ago that OECD unemployment would rise to 35 million, no one would have believed it. People would have said they could manage their economies better. We now face the unhappy question of how high unemployment must go before major countries will face the reality of trade problems and thus take decisions to get trade moving again and unemployment down and restore economic growth.

The world desperately needs concerted international action to help us break out of the vicious circle where negative influences feed upon each other. The failure of the November GATT Ministerial Meeting to take effective steps was a serious disappointment to all who seek a revival of world trade and a fall in unemployment. Australia had put forward some proposals designed to encourage world trade by halting the drift to increasing protectionism overseas.

In principle, our proposals were widely accepted and logically unassailable, they would have helped renew confidence, but there was insufficient strength of purpose to grasp the opportunity. The Secretary-General of the OECD has summed up the seriousness of the situation by saying "in the light of events over the last few months, it is my considered opinion that (the) danger of a chain reaction of beggar-thy-neighbour policies, with potentially disastrous consequences, is now greater than at any time since the Second World War".

The absurdity - and the danger - of what is now happening is obvious from a few examples of existing trade barriers. One EEC country, France, has erected barriers against imports of Japanese video-recorders by requiring that all recorders come through one inland customs post totally ill-equipped to handle the volume of trade, while in Ireland the furniture industry was protected by making it compulsory to provide instructions for 'build-yourself' furniture in Gaelic.

International action to revitalise the world economy would help Australia greatly, we will contribute in any way we can to achieve that objective, for continuing world recession inevitably means continuing difficulties for our economy. The impact of the recession on Australia was worsened by

excessive wage settlements over the last 12 to 18 months. These wage rises came at the worst possible time, both because wages overseas were rising at a much slower rate and because production and profits were weakening here. Over the 12 months to the September quarter 1982 profits in Australia fell by 13%, to their lowest level as a proportion of non-farm GDP since at least 1959-60.

The wage rises have inevitably damaged our international competitiveness. They have worsened inflation and unemployment. This is not an occasion for political point-scoring - the issues facing Australia today are far too serious for that. But I do say that those who pushed for higher wages and shorter working hours must carry a good part of the responsibility for the difficulties we are now experiencing.

The third major factor affecting Australia is one of the worst droughts we have ever had. Most farm prices were down anyway, but the drought is likely to cut the wheat crop almost by half, and more than 110,000 of farms, carrying nearly 100 million sheep and 14 million head of cattle are affected. The drought is having effects far beyond the rural sector and is adding to the severity of the present recession.

Throughout last year, both in our statements and in a series of consistent and far-reaching actions, the Government showed it was aware of the economic difficulties that were looming. In a statement to the Parliament last March dealing with the seriousness of the situation, I pointed to the inevitable impact on Australia of the slackness in world demand and the high cost of funds. I referred to the dangers of increasing protectionism in other countries during world recession. I highlighted the damage caused by excessive wage rises and demands for shorter hours, and I spoke of the importance of matching expectations with reality.

The concerns expressed in that speech were consistently reflected in policy initiatives throughout 1982. The Government pursued the twin objectives of helping people cope with the recession, while working to establish the circumstances in which private enterprise will be able to build up the Australian economy and take advantage of opportunities as they arise.

In March we introduced a far-sighted housing package at a time of high interest rates, real difficulty in bridging the deposit gap, and growing problems in the housing industry. This package helped some 450,000 families buying their first home. We later widened the housing interest rebate to include almost all home loans.

Commonwealth welfare housing expenditure has been greatly increased and will build nearly 4,500 new dwellings in 1982-83, more than half as many again as last year. In all, our decisions in 1982 have led to additional funds totalling some \$1.2 billion in a full year being diverted into housing rebates and loans. Many of these measures will have a continuing effect. Now that interest rates are starting to fall, these

housing measures will have a greater impact on construction in particular as the confidence of house buyers returns and they are prepared to take out new loans.

Since last July, the Government has announced a number of measures designed to help Australian industry. In particular, depreciation provisions have been improved considerably so as to ease cost pressures and assist reinvestment, especially in new technology. An increase in the retention allowance will also encourage reinvestment. Industry will also benefit from the launching of the "Buy Australian" campaign, and more help for small business through the Commonwealth Development Bank. And industry will be given a boost by the increase of about \$580 million expenditure on capital works and other capital purposes this financial year, by the \$2.5 billion which is to be spent on the ABRD program over the next six years, and the tax cuts of \$1.5 billion, effective from November, which will generate increased spending in the economy.

The Government has been particularly concerned with the needs of young people and we have helped them considerably this financial year. Not only have the maximum tertiary and secondary allowances been increased, but to help train young people to get jobs and to contribute more effectively to building up Australia, the Government has expanded employment and training programs, increased work experience and apprenticeship subsidies and the school-to-work transition program, and provided a special three year capital program of \$60 million for TAFE. In a wider context, the Government has done a great deal to improve the position of those people in need during this time of difficulty.

In addition to the measures I have mentioned already, low income families will be helped by the family income supplement, which will take effect from May this year, and from reductions in charges made for pharmaceuticals. Pensioners have benefited not only from increased pensions, but also from increases in supplementary assistance for those pensioners paying rent, from changes to the income test on pensions, and from a \$250 tax rebate for low income pensioners. The unemployed have been helped by significant increases in unemployment benefits, and there has been an increase of 65% in direct funding for welfare housing.

I hope Young Liberals will get out and ensure the community is aware of these effective and innovative actions the Government has taken to help those in need. We need to be on constant lookout for areas of need in our community and to continue to provide assistance wherever practicable.

One of our most important objectives during 1982 was to establish a climate for wage restraint and this is being achieved in very large measure. Acceptance of the need for restraint was strengthened by the Remuneration Tribunal's decision on Parliamentarians' salaries, by the Academic Salaries Tribunal's decision, and by a number of moderate determinations for both Commonwealth and State public servants.

All this gave impetus to the idea of a wage pause. The agreement which all governments reached at the December Premiers' Conference to introduce a wages pause in the public sector, and to press strongly for its extension into the private sector, provides Australia with an opportunity which we must use to the fullest advantage.

The benefits of the pause are two-fold. First, substantial Government funds can be diverted from wages to employment-related programs. In the case of the Commonwealth, over \$300 million are being diverted over a twelve month period. The Government has already announced that \$100 million of that money will be committed to welfare housing construction, an activity which is labour intensive and which has a high Australian content. I am also pleased to announce that at yesterday's Cabinet meeting the Government decided that a further \$100 million will be used to assist the young unemployed by offering them an opportunity to work on worthwhile community projects rather than being unemployed. \$100 million is also to be spent to help the older unemployed and others disadvantaged in the labour market. Typical projects funded by these programs could include national parks and wildlife activities, conservation and environment projects, national heritage, forestry and local improvement projects. They would be run by local councils, State Authorities and voluntary organisations. These are constructive projects which meet very real needs, and I am sure this convention will be particularly pleased with the measures we are taking to tackle youth unemployment.

Secondly, and more importantly, benefits from the pause will flow through to the private sector. In the short term it may not do much more than help some employers keep employees they would otherwise have retrenched. But in the longer term it will help restore profitability and competitiveness more quickly, enabling Australian firms to sell into other markets and offer more jobs. The pause is above all an attack on one of the major causes of the unemployment problem.

The recognition by all eight governments that a wage pause was needed is a significant fact, and it has sent a significant signal to the private sector, to the union movement and to the various wage tribunals, because all governments, whatever their political colour, are saying that wage rises have caused problems and that strong action is needed to counter these problems.

I have referred to our actions in 1982 because it is important to realise that the Government has been responding to the situation in a comprehensive and consistent manner. As and when we need to build upon those measures, or take fresh initiatives, we will do so. Australia needs stable, long term policies, consistently applied. The direction of our economic policy is right and we shall maintain that direction.

We shall continue to support private enterprise, and a more competitive Australian industry. We will maintain the fight against inflation. And as we can afford it, we will continue to assist people and families.

There would be no point in trying to forecast specific actions, but I want to point to some issues the Government will need to address in 1983.

The first issue is wages. I have spoken of the opportunities provided by the wage pause. The pause is not just something for Governments. It is something which affects all Australians. It is an example of what Australians can do if they are not only realistic, but if they work together to help each other. In the case of the wages pause, employees of the Commonwealth will be foregoing \$300 million in wage increases to help other Australians out of work.

Because of the importance of the wage pause to everyone, I am extremely pleased with the support it has received, not just from the Premiers, but from the community as a whole. It is disappointing that some State Premiers would only support a six-month pause in the first instance, but they will be reviewing their position in mid-year, and I am optimistic that they will agree to extend the pause for the full twelve-month period.

The Arbitration Commission has granted a six-month pause, and the Government is delighted that the Commission accepted the arguments which we put to it. These arguments will be equally strong in six months time, when the Commission reviews the pause, and I very much hope the Commission will extend the pause for a further six months. In the current climate Australia's situation can only be made worse by further wage rises. It would be a mistake, though, to see the wages pause as a solution in itself to our economic problems. It is not.

What it does do is provide us with an opportunity. An opportunity to improve the competitive position of our economy, to restore profitability to our businesses and industries, to get out into the world and sell Australian products, and to create more jobs.

Whether we take that opportunity will depend on attitudes as we approach the end of the pause. If we just put out our hands at the end of the pause and demand they be filled no matter what the consequences then that opportunity will be lost and the benefits of the pause will be lost. Australia will be submerged in mediocrity.

If we rise to meet the challenges and opportunities offered by the pause, and if we are realistic about our position when the pause ends, then we can use the great strengths Australia has to regenerate this nation.

The second issue I want to mention, which is directly related to the end of the wages pause, is the method of fixing wages. It is one of the most important issues Australians need to address and it will be of critical importance to industry.

During the year the Government with employers and employees, will be examining the wage fixing system to find the most effective way of determining wage levels to meet our social and economic objectives. No matter what the outcome, it is imperative that we have a stable and predictable system.

A third issue I want to mention is the calls for higher levels of protection. It is inevitable that during times of high unemployment and falling demand some people will call for increased protection. But we have to be clear-eyed about the consequences of higher protection.

The first point I would make is that demands for significantly higher protection must be seen against the background of the support over the last year the Government has given to industry. I have already referred to the improved depreciation provisions and a number of other initiatives which have helped industry. The Minister for Industry and Commerce recently announced steps to speed up and strengthen our procedures against dumping. He has also announced steps to improve the temporary assistance mechanism. And industry will benefit enormously from the wage pause because it will help reduce cost increases.

The 10% devaluation of the Australian dollar against the trade weighted basket over the last 18 months - 13.5% against the US dollar - has also helped domestic industries by raising the landed cost of imports and by lowering the prices of our exports in foreign markets it has helped our exporting industries in difficult overseas markets.

The Government recognises that protection will remain necessary in Australia, and in July last year we decided against a programme of further general reductions in protection, but significantly higher protection would do very real harm to the Australian economy. The most serious consequence of too much protection is that it has counterproductive effects and damages industries which are strong, and export oriented.

It is imperative that we do not take decisions which would make it even more difficult to sell Australian goods on the world market. Higher levels of protection tend to give the greatest support, and therefore the greatest advantage, to non-exporting industries, and this is not in the long-term interests of Australia.

Too much protection means higher costs, so it is harmful to our growing often export oriented industries. Last year, for example, in responding to the application for temporary assistance for the steel industry, the Government was acutely conscious that too large an increase in protection for Australian steel would have

meant higher costs for many downstream industries, including manufacturing industries, which use steel in their products. This would have made it harder for these industries to sell their products in Australia as well as overseas. Indeed, some of these industries might well have asked for more protection for themselves because there had been more protection up the line. And because higher protection means that consumers have to pay more, they have less to spend on other things.

Higher protection may protect jobs in those industries protected, but it would mean less employment in those industries not protected. It would mean a concentration of economic resources in industries which are less efficient. With too much protection, we would build an economic wall around Australia which would not only be harder for imports to scale; it would also be harder for exporters to get out because in many cases their costs had been increased by a higher price for their inputs.

Denying access to our markets would invite retaliatory action by other countries, shutting Australia out of markets around the world. That way lies disaster. Protectionist measures overseas at our expense could cost us tens of thousands of jobs. Would we want to run the risk of that happening to the Pilbara region of Western Australia or in coal mining towns like Blackwater and Collinsville in Queensland, or Muswellbrook and Singleton in NSW all of which depend almost entirely on export markets?

We need to remember that approaching three quarters of a million Australian jobs depend directly on exports. Even more jobs depend on exports indirectly. By preventing efficient industries from prospering as they should, too much protection would deny us the general improvements in living standards which we would all like to see and in the process would undermine our ability to provide secure and sustainable jobs in the longer term. And if there was substantially increased protection, what guarantee would there be that the short-term advantage conferred on those industries would not be whittled away by price and wage increases, just as the living standards of people who have become unemployed have been whittled away by the wage increases of others?

The fourth issue I want to mention is the importance of introducing new technology. It is essential that Australian industry adopts new technology if it is to become more competitive. Our industries cannot afford to be frightened of new technology or fall behind in its development because without it we will not be able to compete with our neighbours and our opportunities for economic growth and, in the longer run, more jobs will be lost.

At present the Government encourages the introduction of new technology through depreciation allowances, the Australian Industrial Research and Development Scheme, the CSIRO, the Rural Research Programme and the National Energy Research Development and Demonstration Programme. Total Government spending on all forms of research and development as a proportion of GDP is the fifth highest in the O.E.C.D. but our level of research and development by the private sector is noticeably low.

Our broad policy for encouraging new technology is not industry specific: rather, we have allowed industries to make their own decisions and to determine the direction of expenditure on new technology. I have discussed with the Minister for Industry and Commerce whether or not this policy should be maintained or whether specific policies for specific industries and technologies should be introduced. He will be considering this question early this year. We will also need to examine whether Australia spends enough on research and development and the application of new technology and to see if there is more we can do.

The fifth question that clearly needs examining is the response of Government to changing levels of investment. We have been saying in past years that public investment should be held back to make room for rapidly rising private investment. But the situation has now changed, and private investment is falling under the impact of the recession. When private investment is down it is appropriate for governments to examine the levels of their own investment. We have already moved in this direction, especially through increased capital works, including the new airport programmes and the A.B.R.D. Governments can do a great deal, operating in partnership, to build the basic infrastructure for the future and assist private enterprise when opportunities occur.

In this context I am pleased to announce that at yesterday's Cabinet meeting the Government decided that the Alice Springs to Darwin railway will be completed by 1988 - Australia's bicentennial year. The rail link will be of tremendous economic, social and defence significance to Australia and will be the largest current railway development project in the world. It will cost a total of \$545 million. During construction the railway will provide employment both directly and indirectly for over 1250 people. One of our election promises in 1980 was to complete this project by 1990: the project will in fact be completed two years earlier.

The sixth matter which needs to be addressed is water resources. We are now in the middle of what could turn out to be the worst drought this century. The drought has highlighted in the starkest way the problem of adequate water supplies. Australia is often described as the world's driest continent and water has always been of critical concern. Millions of people in cities and on the land in NSW, Victoria and South Australia, depend on the Murray Basin for their livelihood. Much has been done already to improve the quality of River Murray water but in the present circumstances we will need to see what else ought to be done. Also our dams are dangerously low and major cities are facing severe water restrictions.

In 1981 the Commonwealth set up a forward looking investigative study to develop a perspective on Australia's total water resource needs through to the year 2000. The States are co-operating with us in this exercise. But there is an urgent need for us to consider whether our current programmes and policies are adequate and whether the scale of our thinking has kept pace with that of our predecessors when the Snowy Mountains Scheme was developed and carried through. We need to consider an imaginative approach which recognises that water will always be scarce in Australia and that it should be conserved wherever possible.

1983 will be a year of immense challenge to Australia, but will also be a year of opportunities. We must learn from what has happened, and make sure we emerge from the recession stronger, more competent and more competitive than we have ever been. We need a total effort from every part of the Australian community. The challenge for Government is to guide Australia through the recession, with a clear perception of our long term objectives. Coping with the recession realistically is not a matter of throwing up our hands in despair and saying there is nothing we can do to help ourselves.

We cannot just rely on economic recovery in the United States to regenerate Australia. Rather, we need two things. We need the right policies to enable our businesses and industries to go out and get a larger share of markets, to become more competitive and to be more profitable. Without the right policies, economic recovery in America won't help us at all. But in addition to the right policies we also need the energy, innovation and determination to get out and get a bigger share of the action even if world economic recovery doesn't come for a very long time.

I know Australians can and will do just that. This is what faith in Australia is all about. It is what our commitment to freedom and private enterprise means, it is the path which realism dictates for 1983 and it will make our nation stronger and more self-reliant than ever.

Socially, we must continue to build on Australia's excellent record as a genuinely liberal society. A society which rejects uniformity and which has what someone recently described as a "zest for differences" which generate innovation, ideas and progress. The differences between us as individuals, the variety that different and distinctive cultures and attitudes give to Australia, are an essential part of the community's driving force. Tolerance of differences and their encouragement also engenders in individuals respect for their own community and social system. By creating a liberal, dynamic society we can make Australia really great and set an example to the rest of the world.