



PRIME MINISTER

SPEECH BY THE PRIME MINISTER, THE HON. R.J. HAWKE, A.C., M.P.
TO THE BRISBANE CHAMBER OF COMMERCE

8 AUGUST 1983

EMBARGOED AGAINST DELIVERY

CHECK AGAINST DELIVERY

THE TIMING OF THIS OCCASION - MY FIRST VISIT TO QUEENSLAND SINCE THE ELECTION - IS BOTH FORTUNATE AND FORTUITOUS.

FORTUITOUS - BECAUSE NOTHING IN THE SCHEDULING OF THIS VISIT HAD ANYTHING TO DO WITH THE INTERESTING POLITICAL EVENTS WHICH ARE NOW TAKING PLACE IN QUEENSLAND - AND WHICH OBVIOUSLY, ONE WAY OR ANOTHER, MUST HAVE CONSIDERABLE SIGNIFICANCE FOR THE FUTURE OF BOTH QUEENSLAND AND AUSTRALIA. AND BEYOND THAT, I WISH TO MAKE NO COMMENT WHATSOEVER.

BUT FORTUNATE - BECAUSE THERE IS NO BETTER PLACE THAN BRISBANE, AND NO MORE RELEVANT FORUM THAN THIS CHAMBER OF COMMERCE, FOR ME TO HAVE THE OPPORTUNITY TO GIVE THE GENERAL BACKGROUND TO THE MOST IMPORTANT EVENT OF THIS YEAR, APART FROM THE 5 MARCH ELECTION ITSELF.

AND OF COURSE, I MEAN, BY THAT, THE BACKGROUND TO THE 1983 BUDGET.

I SAY "THE BACKGROUND" ADVISEDLY AND WITH PRECISION.

THAT, OF COURSE, IS AS FAR AS I CAN GO -
TO GIVE YOU, AS REPRESENTATIVES OF THE QUEENSLAND AND
AUSTRALIAN BUSINESS COMMUNITY THE BACKGROUND AGAINST WHICH
WE, AS A GOVERNMENT, HAVE MADE THE DECISIONS WHICH WILL BE
ANNOUNCED BY THE TREASURER, MR KEATING, ON THE 23RD AUGUST.

AND ABOVE ALL I WISH TO CONVEY A MESSAGE, NOT JUST
ABOUT THE BUDGET ITSELF, BUT ABOUT THE PROSPECTS FOR THE
AUSTRALIAN ECONOMY UPON WHICH OUR FIRST BUDGET WILL BE
BASED.

AND THAT BASIC MESSAGE - WITH ALL THE NECESSARY
QUALIFICATIONS AND RESERVATIONS, THE REASONS FOR WHICH I
SHALL MAKE QUITE CLEAR IN THE COURSE OF THIS ADDRESS - THAT
BASIC MESSAGE IS ONE OF FIRMLY-BASED CONFIDENCE.

LET ME FIRST MAKE SOME GENERAL OBSERVATIONS ABOUT
THE AUSTRALIAN ECONOMY, WITH A FEW PARTICULAR REFERENCES TO
QUEENSLAND.

IT SEEMS THAT AN IMPROVED SALES OUTLOOK IS LEADING
TO REVERSAL OF THE DE-STOCKING THAT EXACERBATED LAST YEAR'S
DECLINE. THE RAINS HAVE SET THE SCENE FOR A YEAR OF STRONG
FARM GROWTH, ALTHOUGH NATURE HAS REMINDED US OF OUR OWN
VULNERABILITY IN THE AUSTRALIAN BUSH BY REPLACING DROUGHT
WITH FLOOD IN PARTS OF QUEENSLAND.

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IMPROVED WORLD DEMAND CONDITIONS HAVE INCREASED PROFITABILITY IN SOME OF OUR MINERALS AND RURAL INDUSTRIES - NOTABLY NON-FERROUS METALS AND SUGAR AMONGST INDUSTRIES IMPORTANT TO QUEENSLAND.

SOME PROPOSALS FOR LARGE RESOURCE INVESTMENTS ARE BEING DUSTED AND TAKEN BACK INTO THE BOARDROOMS.

THERE ARE SIGNS OF RETURNING CONSUMER CONFIDENCE. PRODUCTION AND EMPLOYMENT IN MOST INDUSTRIES HAVE PULLED OUT OF THE FREE FALL THAT CHARACTERISED THE YEAR BEFORE MY GOVERNMENT TOOK OFFICE. A FEW KEY INDUSTRIES, INCLUDING HOUSING AND STEEL, ARE OPERATING AT HIGHER LEVELS.

UNDERPINNING THIS RETURN OF CONFIDENCE HAS BEEN OUR EXPANSIONARY FISCAL POLICIES, AND A RE-DISCOVERY THAT AUSTRALIANS ARE CAPABLE OF WORKING TOGETHER FOR COMMON PURPOSES.

IT IS NOT YET A STRONG RECOVERY. AT THIS STAGE WE PREFER TO CALL IT A LIFT IN ACTIVITY. THE IMPROVEMENT IN ACTIVITY IS UNEVEN, AS IT IS IN THE LEAD-UP TO ALL RECOVERIES.

SOME TYPES OF ACTIVITY REMAIN DEPRESSED. PRIVATE FIXED INVESTMENT OUTSIDE HOUSING WILL FALL FURTHER BEFORE IT STRENGTHENS - AWAITING, AS IT MUST, THE REALITY OF INCREASED DEMAND AT HOME AND ABROAD.

THE SIGNS OF IMPROVEMENT ARE NOT UNIFORM ACROSS AUSTRALIA. QUEENSLAND BUSINESS LEADERS WILL HAVE NOTED THE WEAKER GROWTH, RELATIVE TO AUSTRALIA AS A WHOLE, OF SOME QUEENSLAND DEMAND INDICATORS IN THE MOST RECENT MONTHS, INCLUDING MOTOR VEHICLE REGISTRATIONS AND RETAIL SALES. QUEENSLAND DWELLING APPROVALS AND HOUSING LOANS RECENTLY HAVE NOT LOCKED SO STRONG.

IT IS INCONCEIVABLE THAT NATIONAL ECONOMIC RECOVERY COULD OCCUR WITHOUT STRONG GROWTH IN QUEENSLAND, WITH ONE-SIXTH OF THE AUSTRALIAN PEOPLE AND MUCH MORE THAN ONE-SIXTH OF AUSTRALIA'S VALUABLE NATURAL RESOURCES AND POTENTIAL FOR GROWTH. SO WE MUST ALL WORK TO ENSURE THAT THIS GREAT STATE PARTICIPATES FULLY IN THE AUSTRALIAN ECONOMIC RESURGENCE.

ALTHOUGH THE LIFT IN ACTIVITY IS UNEVEN, AND ALTHOUGH IT IS NOT YET STRONG, THERE SEEMS LITTLE DOUBT THAT OUTPUT THIS FINANCIAL YEAR WILL BE SUBSTANTIALLY HIGHER THAN LAST YEAR.

CLEARLY THE MAIN TASK OF ECONOMIC MANAGEMENT IS NOW TO WIDEN, STRENGTHEN AND SUSTAIN THE RECOVERY, WHILE KEEPING INFLATION ON A DOWNWARD PATH.

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LANDMARKS IN ECONOMIC POLICY

IT IS NOW JUST FIVE MONTHS SINCE THE PEOPLE OF AUSTRALIA ELECTED A NEW GOVERNMENT TO REVERSE THE DECLINING FORTUNES OF THE AUSTRALIAN ECONOMY.

IN TWO WEEKS TIME, THE TREASURER, PAUL KEATING, WILL ANNOUNCE MY GOVERNMENT'S FIRST BUDGET.

THE FIVE AND A HALF MONTHS BETWEEN THE ELECTION AND THE BUDGET COULD NOT HAVE BEEN MORE ACTIVE AND PRODUCTIVE IN ECONOMIC POLICY-MAKING. THAT SHORT PERIOD HAS SEEN SUCCESSIVELY THE NATIONAL ECONOMIC SUMMIT CONFERENCE, THE MAY ECONOMIC STATEMENT, AND THE FIRST PREMIERS' CONFERENCE SINCE WORLD WAR II TO PRODUCE AN AGREED COMMUNIQUE ON THE MANAGEMENT OF THE NATIONAL ECONOMY.

OUR FIRST BUDGET WILL BE THE CULMINATION OF MUCH OF OUR WORK ON ECONOMIC POLICY SINCE MARCH. IT MUST BE READ TOGETHER WITH THE RESULTS OF THE SUMMIT, THE PREMIERS' CONFERENCE, AND MOST IMPORTANTLY THE MAY STATEMENT.

THESE FOUR IMPORTANT EVENTS IN ECONOMIC POLICY, CULMINATING IN THE BUDGET, ESTABLISH A BASE FROM WHICH NATIONAL ECONOMIC RECOVERY CAN BE LAUNCHED.

WE HAVE HAD TO ASK THE AUSTRALIAN PEOPLE TO ACCEPT SOME FIRM MEASURES IN THE MAY STATEMENT AND SOON IN THE BUDGET. WE BELIEVE THAT THE OVERALL EFFECT OF OUR MEASURES IS TO PLACE THE MAIN BURDEN ON PEOPLE WHO ARE IN A RELATIVELY GOOD POSITION TO BEAR IT.

IT HAS NOT BEEN EASY, AND I AM NOT ABLE TO PROMISE THAT THE BUDGET MARKS THE END OF THE HARD CHOICES AND HARD DECISIONS.

BUT THERE IS NO EASY WAY TO REMOVE DISTORTIONS OF THE KIND THAT HAVE DRAGGED DOWN AUSTRALIAN SOCIETY AND THE AUSTRALIAN ECONOMY OVER THE PAST FEW YEARS.

AS I SAID IN OPENING THE ELECTION CAMPAIGN ON 16 FEBRUARY:

"WE OFFER NO MIRACLES. WE OFFER NO OVERNIGHT SOLUTIONS FOR THE IMMEDIATE PROBLEMS WE FACE OR DEEP-SEATED PROBLEMS WE MUST FACE TOGETHER...

WHAT WE HAVE TO DO IS BREAK OUT OF THE VICIOUS CIRCLE OF CONFRONTATION...

THAT WILL INVOLVE SIGNIFICANT NEW EXPENDITURE...

IT WILL ALSO INVOLVE PUTTING IN PLACE MECHANISMS TO ENSURE THAT THE NEW GROWTH DOES NOT DISAPPEAR IN A NEW ROUND OF INFLATION - THAT IS WHAT OUR PRICES AND INCOMES POLICY IS ALL ABOUT".

I SAID THEN THAT THE WHOLE THRUST OF OUR POLICY WAS TO ATTACK THE TWIN EVILS OF UNEMPLOYMENT AND INFLATION TOGETHER.

THAT WAS OUR FUNDAMENTAL COMMITMENT. WE HAVE COME A LONG WAY, EVEN IF THERE IS STILL A LONG WAY TO GO.

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TONIGHT I WANT TO TAKE YOU BACK OVER SOME OF THE POLICY THEMES OF THE SUMMIT, THE MAY STATEMENT AND THE PREMIERS' CONFERENCE, AND TO FORESHADOW SOME BROAD OUTLINES OF THE COMING BUDGET. I WILL THEN CONCLUDE WITH A FEW OBSERVATIONS ON POLICY ISSUES THAT ARE CRUCIAL TO THE LONG-TERM IMPROVEMENT OF AUSTRALIAN LIVING STANDARDS, BEYOND THE RECOVERY THAT IS NOW IN PROSPECT.

FISCAL POLICY: THIS YEAR'S BUDGET

THE 1983-84 BUDGET, EMBODYING THE DECISIONS ANNOUNCED IN THE MAY STATEMENT AND THE PREMIER'S CONFERENCE, HAS BEEN EXTREMELY DIFFICULT TO PREPARE.

WE CAME TO OFFICE COMMITTED TO EXPANSIONARY POLICIES TO ASSIST IN PROMOTING NATIONAL ECONOMIC RECOVERY. DURING THE ELECTION CAMPAIGN WE OUTLINED A NUMBER OF NEW PROGRAMS THAT WERE TO PLAY A MAJOR PART IN RECOVERY, INCLUDING A COMMUNITY EMPLOYMENT PROGRAM AND A PACKAGE TO STIMULATE THE HOUSING INDUSTRY.

THE PREVIOUS GOVERNMENT AT THAT TIME WAS TELLING THE AUSTRALIAN PEOPLE THAT IT WAS HEADING TOWARDS A BUDGET DEFICIT OF ABOUT SIX BILLION DOLLARS IN 1983-84. WE JUDGED THAT OUR PROGRAMS WOULD HAVE ADDED ABOUT ONE AND A HALF BILLION DOLLARS TO OUR PREDECESSORS' ANTICIPATED DEFICIT. AT THE TIME OF THE ELECTION, AN OVERALL DEFICIT OF ABOUT SEVEN AND A HALF BILLION DOLLARS SEEMED TO US TO PROVIDE AN APPROPRIATE LEVEL OF STIMULATION, WHILE AVOIDING EXCESSIVE STRAIN ON FINANCIAL MARKETS.

THE WHOLE ENVIRONMENT OF FISCAL POLICY-MAKING CHANGED DRAMATICALLY THE DAY AFTER WE TOOK OFFICE - WHEN THE TRUTH CAME OUT. WE WERE ADVISED THAT THE CONTINUATION OF POLICIES IN PLACE AT THAT TIME WOULD GENERATE A 1983-84 DEFICIT OF ABOUT \$9.6 BILLION.

A \$1.5 BILLION ADDITION TO A \$9.6 BILLION DEFICIT IS OBVIOUSLY VERY DIFFERENT TO A \$1.5 BILLION ADDITION TO A \$6 BILLION DEFICIT. I SAY THE DIFFERENCE IS OBVIOUS - THOUGH IT IS SURPRISING HOW DIFFICULT IT CAN SOMETIMES BE TO GET THE OBVIOUS ACCEPTED.

A LARGER BUDGET DEFICIT CAN, WITHIN WIDE LIMITS, PROVIDE SOME IMMEDIATE POSITIVE STIMULATION TO ECONOMIC ACTIVITY. HOWEVER, WITHIN THE NON-INFLATIONARY MONETARY POLICIES TO WHICH THIS GOVERNMENT IS COMMITTED, BEYOND SOME POINT THIS WILL EXERT PRESSURES TOWARDS INCREASES IN INTEREST RATES. IF THESE PRESSURES ARE EFFECTIVE, THEY WILL TEND TO REDUCE HOUSING AND OTHER INVESTMENT THAT IS SENSITIVE TO INTEREST RATES.

WITH THE INFORMATION AVAILABLE TO IT IN OFFICE, MY GOVERNMENT FORMED THE VIEW THAT A DEFICIT AROUND \$8.5 BILLION WOULD PROVIDE SUBSTANTIAL DIRECT STIMULUS TO ECONOMIC ACTIVITY, WHILE AVOIDING EXCESSIVE PRESSURES ON FINANCIAL MARKETS.

WE TESTED THIS VIEW BEYOND THE CIRCLES OF OUR OFFICIAL ADVISERS, INCLUDING AT THE SUMMIT AND, LATER, THE PREMIERS' CONFERENCE.

ESTIMATES OF THE PROSPECTIVE BUDGET DEFICIT ON UNCHANGED POLICIES HAVE VARIED THROUGH THE YEAR IN THE LIGHT OF NEW INFORMATION, FOR EXAMPLE ABOUT PRICES AT HOME AND ABROAD, OR ABOUT RATES OF ECONOMIC GROWTH. SOME CHANGES HAVE INCREASED WHILE OTHERS HAVE REDUCED THE PROSPECTIVE DEFICIT ON UNCHANGED POLICIES.

A BETTER OUTLOOK FOR ECONOMIC GROWTH IN 1983-84, ITSELF PARTLY ATTRIBUTABLE TO GREATER CONFIDENCE IN THE ECONOMY UNDER THE POLICIES OF MY GOVERNMENT, LOWERED THE PROSPECTIVE DEFICIT SOMEWHAT. IN THE OTHER DIRECTION, AND ALMOST AS LARGE, REVISED ESTIMATES OF THE COSTS OF FRASER PROGRAMS IN 1983-84 ADDED SUBSTANTIALLY TO THE PROSPECTIVE DEFICIT.

THE MOST RECENT OFFICIAL FIGURING AVAILABLE TO ME SUGGESTS THAT THE NET EFFECT OF THESE OPPOSING TENDENCIES WAS AT BEST SLIGHTLY TO REDUCE THE PROSPECTIVE DEFICIT, LEAVING US SEEKING NET REDUCTIONS IN THE ORDER OF A BILLION DOLLARS THROUGH DISCRETIONARY CHANGES TO REVENUES OR OUTLAYS.

SOME DEVELOPMENTS SINCE MARCH HAVE MADE THIS DIFFICULT TASK EVEN HARDER. THE DEFEAT OF OUR TAX RECOUPMENT LEGISLATION IN THE SENATE WAS A BIG SETBACK.

AT THE PREMIERS' CONFERENCE, WE PROVIDED A ONCE-OFF GRANT TO ALL STATES, ABOVE LEVELS INDICATED IN THE THREE-YEAR FORMULA AND WRITTEN INTO THE FORWARD ESTIMATES. WE ALSO RAISED LOAN COUNCIL BORROWINGS THROUGH THE COMMONWEALTH BUDGET ABOVE THE FORWARD ESTIMATES. WE DID THIS TO AVOID THE STATES HAVING TO CUT EXPENDITURE AND INCREASE CHARGES AND TAXES IN AREAS THAT WOULD BE

MORE DAMAGING TO RECOVERY THAN COMMENSURATE ADJUSTMENTS IN THE COMMONWEALTH BUDGET. QUEENSLAND'S SHARE OF THE ADDITIONAL \$155 MILLION REVENUE GRANT WAS \$31 MILLION. THIS ADDITIONAL GRANT TOGETHER WITH THE INCREASED LOAN COUNCIL FUNDING SHOULD ENABLE THE QUEENSLAND GOVERNMENT TO INTRODUCE A RANGE OF NEW ACTIVITIES TO PROMOTE RECOVERY WHILE AVOIDING TAXATION INCREASES IN ITS NEXT BUDGET.

THIS RESPONSE TO THE PREMIERS WAS APPROPRIATE FROM THE POINT OF VIEW OF THE NATIONAL ECONOMY AS A WHOLE, BUT IT HAD THE EFFECT OF COMPOUNDING OUR OWN BUDGETARY DIFFICULTIES IN 1983-84.

THERE IS NO PAINLESS WAY OF REDUCING A PROSPECTIVE BUDGET DEFICIT BY ONE BILLION DOLLARS. IN THE MAY STATEMENT WE WERE ABLE TO ANNOUNCE COMMITMENTS TO KEY ELEMENTS OF OUR RECOVERY PROGRAM, NOTABLY THE PACKAGE OF NEW HOUSING POLICIES AND THE COMMUNITY EMPLOYMENT PROGRAM, AT THE SAME TIME AS WE REDUCED SOME OF THE OUTLAYS AND TAX EXPENDITURES WHICH WE HAD INHERITED. THE NET EFFECT WAS TO REDUCE THE PROSPECTIVE 1983-84 DEFICIT BY HALF A BILLION DOLLARS. SOME HARD DECISIONS HAD TO BE TAKEN TO ACHIEVE THIS RESULT. BUT AS WAS AGREED BY ALL SIGNATORIES TO THE SUMMIT COMMUNIQUE, NATIONAL ECONOMIC RECOVERY REQUIRES A SHARING OF THE BURDEN OF RESTRAINT BY ALL AUSTRALIANS WHO ARE IN A POSITION TO ACCEPT IT.

RESPONSIBLE FISCAL MANAGEMENT HAS REQUIRED A PAINFUL REASSESSMENT OF PRIORITIES. WE HAVE ENDEAVOURED TO IMPLEMENT QUICKLY THOSE PARTS OF OUR ELECTION PROGRAM WHICH ARE MOST IMPORTANT TO ECONOMIC RECOVERY AND TO ASSISTANCE TO AUSTRALIANS WHO HAVE SUFFERED MOST SEVERELY DURING THE RECESSION.

WE WISH WE HAD INHERITED A POSITION IN WHICH WE COULD DO MORE. BUT AS I SAID BEFORE, OUR STRONGEST EFFORTS HAVE BEEN DIRECTED TOWARDS FULFILLING OUR FUNDAMENTAL PLEDGES ON UNEMPLOYMENT AND INFLATION. WE HAVE HAD TO WORK WITHIN THE LIMITS OF THE PROBLEMS WE INHERITED. AND WE WOULD HAVE LET DOWN THE AUSTRALIAN PEOPLE IF WE HAD RISKED DAMAGING RECOVERY, BY PRETENDING THAT THE THREE BILLION DOLLARS ADDITION TO THE PROSPECTIVE DEFICIT MADE NO DIFFERENCE.

I DO NOT COUNT AMONGST MY DISAPPOINTMENTS THE FACT THAT WE HAVE CONFRONTED SOME LONGSTANDING DISTORTIONS IN THE AUSTRALIAN TAXATION SYSTEM. TAX EVASION AND AVOIDANCE IN RECENT YEARS HAVE REMOVED ANY SEMBLANCE OF EQUITY FROM THE AUSTRALIAN TAXATION SYSTEM, AND MY GOVERNMENT HAS A POWERFUL MANDATE TO REMOVE THEM.

THE ACHIEVEMENT OF TAX EQUITY WAS ONE IMPORTANT PURPOSE OF THE REFORMS OF SUPERANNUATION ARRANGEMENTS THAT WE ANNOUNCED IN MAY. WE WERE SEEKING TO CLOSE A MAJOR TAX LOOPHOLE.

OUR PROPOSAL IMPOSES A VERY MODERATE TAX ON SUCH LUMP SUM PAYMENTS IN RESPECT ONLY OF FUTURE EMPLOYMENT. WE ARE REDUCING THE COST TO THE REVENUE OF A TAXATION CONCESSION THAT HAS ALWAYS BEEN MOST USEFUL TO RELATIVELY WELL-OFF MEMBERS OF THE WORKFORCE.

THE MAY STATEMENT FORESHADOWED CONSULTATIONS WITH INTERESTED PARTIES ON THE FINAL FORM OF THE PROPOSALS. THE MODIFICATIONS ANNOUNCED YESTERDAY BY THE TREASURER MEET ALL REASONABLE POINTS THAT HAVE BEEN MADE IN THE DISCUSSIONS, WHILE PRESERVING THE MOST IMPORTANT PRINCIPLES EMBODIED IN OUR REFORM.

OTHER POLICIES FOR RECOVERY

WHILE FISCAL POLICY IS OBVIOUSLY OF CENTRAL IMPORTANCE IN ESTABLISHING A BASE FOR ECONOMIC RECOVERY, IT CAN BE EFFECTIVE ONLY WITHIN APPROPRIATE MONETARY AND WAGES POLICIES. IN THESE AREAS, WE HAVE GONE A LONG WAY SINCE MARCH IN IMPLEMENTING POLICIES WHICH WILL SUPPORT RECOVERY WHILE HOLDING INFLATION ON A DOWNWARD PATH.

WE WILL MAINTAIN SUFFICIENT MONETARY GROWTH TO ALLOW THE ECONOMY TO REALISE ITS FULL POTENTIAL FOR GROWTH IN OUTPUT. THIS RATE OF MONETARY GROWTH MUST ALLOW FOR THE MINIMUM FEASIBLE RATE OF PRICE INCREASES IN THE ECONOMY, WHICH ITSELF WILL BE STRONGLY INFLUENCED BY THE WAGE-SETTING SYSTEM. THUS WE WILL ALLOW SUFFICIENT MONEY GROWTH TO FINANCE THE LIKELY AND DESIRABLE RATE OF GROWTH IN NOMINAL GROSS DOMESTIC PRODUCT.

THE "FIGHT INFLATION FIRST" STRATEGY OF OUR PREDECESSORS IMPLIED THE TIGHTEST POSSIBLE MONETARY POLICY. IN PRACTICE, MONETARY POLICY OVER THE PAST SEVEN YEARS WAS CHARACTERISED MORE BY INCONSISTENCY THAN BY TIGHTNESS.

WITH OUR POLICIES SUPPORTED BY THE PRICES AND INCOMES ACCORD, OUR MONETARY OBJECTIVES ARE DIFFERENT. WE AIM TO IMPLEMENT CONSISTENT, FIRM POLICIES THAT ACCOMMODATE STRONG GROWTH, BUT NOT INFLATION.

FIGHTING INFLATION AND UNEMPLOYMENT AT THE SAME TIME REQUIRES US TO MANAGE THE EXCHANGE RATE WITH AT LEAST ONE EYE ON THE COMPETITIVENESS OF OUR EXPORT AND IMPORT-COMPETING INDUSTRIES, AND NOT SOLELY AS AN INSTRUMENT OF ANTI-INFLATION POLICIES.

WE SHOULD REMEMBER THAT AUSTRALIA WILL BE AFFECTED BY PRESSURES IN INTERNATIONAL FINANCIAL MARKETS, WHATEVER HAPPENS AT HOME. AUSTRALIAN REAL INTEREST RATES WILL TEND TO RISE IF UNITED STATES REAL INTEREST RATES RISE. ON OUR RECENT VISIT TO THE UNITED STATES, THE TREASURER AND I HAD EXTENSIVE DISCUSSIONS ON MONETARY DEVELOPMENTS WITH TREASURY SECRETARY, DONALD REGAN, THE CHAIRMAN OF THE FEDERAL RESERVE, PAUL VOLCKER, OTHER SENIOR OFFICIALS IN THE UNITED STATES, AND LEADING PARTICIPANTS IN THE NEW YORK FINANCIAL MARKETS. WHILE THESE LEFT US WITH A GREAT DEAL OF CONFIDENCE IN THE SHORT-TERM STRENGTH OF THE UNITED STATES RECOVERY, THERE WAS ALSO CAUSE FOR SOME ANXIETY THAT THE CONTINUATION OF EXTREMELY HIGH BUDGET DEFICITS COULD LEAD TO UPWARD PRESSURE ON UNITED STATES INTEREST RATES AS PRIVATE INVESTMENT EXPANDED IN 1984 AND 1985

WHILE WE CANNOT INSULATE OURSELVES COMPLETELY FROM FINANCIAL DEVELOPMENTS ABROAD, CONDITIONS WITHIN OUR OWN FINANCIAL MARKETS CAN EXACERBATE OR AMELIORATE THE PRESSURES COMING FROM OVERSEAS. GIVEN THE CONSIDERABLE PROSPECT THAT INTERNATIONAL FINANCIAL MARKETS WILL EXERT UPWARD PRESSURE ON AUSTRALIAN INTEREST RATES IN THE PERIOD AHEAD, WE WILL BE WORKING TO ENSURE THAT DEVELOPMENTS AT HOME DO NOT COMPOUND THE THREAT TO THE RECOVERY OF PRIVATE INVESTMENT,

ALTHOUGH THERE IS WIDE ACCEPTANCE THAT A DEFICIT AROUND \$8.5 BILLION WOULD BE APPROPRIATE IN THE CURRENT FINANCIAL YEAR, THE COMMONWEALTH WILL NEED TO REDUCE THE DEMAND IT MAKES ON FINANCIAL MARKETS AS PRIVATE INVESTMENT INCREASES IN THE PROCESS OF RECOVERY.

THE LUMP SUM SUPERANNUATION ARRANGEMENTS WERE ONE OF A NUMBER OF MEASURES IN THE MAY STATEMENT WHICH HAVE THEIR MAIN EFFECT IN REDUCING THE BUDGET DEFICIT NOT IN 1983-84, BUT IN LATER YEARS. THE CHANGES IN THE SUPERANNUATION ARRANGEMENTS ANNOUNCED OVER THE WEEKEND DO NOT SUBSTANTIALLY ALTER THE MAIN THRUST OF THE MAY MEASURES, WHICH WAS TO REDUCE VERY SUBSTANTIALLY THE PROSPECTIVE DEFICIT IN THE YEARS AHEAD.

THE PROCESS OF RECOVERY ITSELF WILL TEND TO REDUCE FUTURE DEFICITS, BY RAISING REVENUE AND REDUCING RECESSION-RELATED OUTLAYS. AT THE TIME OF THE SUMMIT, WE ESTIMATED THAT ABOUT HALF THE HYPOTHETICAL DEFICIT WAS CYCLICAL, AND COULD BE EXPECTED TO FALL AWAY WITHOUT DISCRETIONARY POLICY ACTION AS THE ECONOMY RETURNED TO A MORE NORMAL LEVEL OF OPERATION. THE RATES OF GROWTH ENVISAGED IN SCENARIO A, AS PRESENTED TO THE SUMMIT, WOULD REDUCE THE 1984-85 DEFICIT BY OVER A BILLION DOLLARS IN 1984-85 FROM THE CURRENT YEAR'S LEVELS.

IT IS NOT CLEAR AT THIS EARLY STAGE WHETHER THIS CYCLICAL EFFECT, TOGETHER WITH THE STRUCTURAL EFFECTS OF THE MAY STATEMENT AND THE BUDGET, WILL REDUCE NEXT YEAR'S DEFICIT ENOUGH TO MEET OUR STABILITY OBJECTIVES WITHOUT FURTHER DISCRETIONARY ACTION. THIS WILL DEPEND VERY MUCH ON THE COURSE OF PRIVATE INVESTMENT IN THE RECOVERY, AS WELL AS ON WIDER DEVELOPMENTS IN FINANCIAL MARKETS. BUT IT IS LIKELY THAT FURTHER REDUCTIONS IN THE STRUCTURAL BUDGET DEFICIT WILL BE REQUIRED FOR NEXT YEAR.

MY COLLEAGUES AND I HAD LITTLE MORE THAN THREE MONTHS WITHIN WHICH TO EXAMINE CRITICALLY THE EXPENDITURE COMMITMENTS WHICH WE HAD INHERITED FROM THE PREVIOUS GOVERNMENT, FROM THE TIME OF THE SUMMIT TO THE COMPLETION OF WORK ON THE EXPENDITURE SIDE OF THE BUDGET.

THE ACHIEVEMENTS OF THIS BRIEF PERIOD HAVE BEEN CONSIDERABLE, IN REORDERING PRIORITIES TOWARDS THE REQUIREMENTS OF ECONOMIC RECOVERY AND, IN THE WELFARE AREA, OF THE GENUINELY NEEDY IN OUR SOCIETY. BUT WE CAN GO FURTHER WHEN WE ARE IN CONTROL OF THE BUDGET-MAKING PROCESS NOT ONLY IN THE FINAL MONTHS, BUT IN THE FULL YEAR LEADING UP TO THE BUDGET. WITH A FULL YEAR TO PLAN A BUDGET, WE WOULD BE LOOKING TO INTEGRATE FINANCIAL AND MANPOWER REQUIREMENTS MORE EFFECTIVELY THAN IS POSSIBLE WITHIN THE ARRANGEMENTS THAT WE HAVE INHERITED.

OUR EXPENDITURE REVIEW PROCESS WILL BECOME PART OF THE NORMAL OPERATIONS OF GOVERNMENT. OPERATIONS LIKE THAT OF THE EXPENDITURE REVIEW COMMITTEE IN RECENT MONTHS WILL CONTINUE TO

REALLOCATE EXPENDITURE IN LINE WITH THE REQUIREMENTS OF EQUITY AND GROWTH AS WE REDUCE THE STRUCTURAL BUDGET DEFICIT IN THE COURSE OF ECONOMIC RECOVERY.

OUR EXPANSIONARY FISCAL AND MONETARY POLICIES ARE UNDERPINNED BY THE PRICES AND INCOMES ACCORD. WHEN THE AUSTRALIAN ECONOMY WAS STRUGGLING INTO RECOVERY IN THE SO-CALLED RESOURCES BOOM IN 1981, A WAGES EXPLOSION HELPED TO TURN A GREAT OPPORTUNITY INTO A DISASTER.

OUR PREDECESSORS - AND, SPECIFICALLY, MY OWN PREDECESSOR, INVITED THE UNIONS TO USE THEIR POWER IN THE MARKET PLACE. AUSTRALIAN UNIONS ACCEPTED THEIR INVITATION. THE WAGES EXPLOSION WAS AN INEVITABLE RESULT OF ABANDONING THE CENTRALISED WAGE-FIXING SYSTEM AT A TIME OF RISING EMPLOYMENT.

WAGES POLICY IN ANY COUNTRY MUST BE ATTUNED TO THE TRADITIONS OF THE LABOUR MARKET. IN AUSTRALIA, STRONG TRADE UNIONS HAVE SHOWN SOME WILLINGNESS TO ACCEPT A DEGREE OF RESTRAINT IN THE WIDER INTERESTS OF AUSTRALIAN WORKERS, SO LONG AS THE OVERALL FRAMEWORK WITHIN WHICH THEY ARE OPERATING IS SEEN AS BEING EQUITABLE. THE AUSTRALIAN TRADITION ALSO EMBODIES STRONG COMMITMENT TO RIGID WAGE RELATIVITIES, UNDERSTOOD AS "COMPARATIVE WAGE JUSTICE", WHICH CAUSE WAGE GAINS BY STRONG UNIONS TO BE TRANSMITTED WIDELY THROUGH THE ECONOMY. THE LEGAL SUPERSTRUCTURE, INCLUDING THE FEDERAL STRUCTURE OF ARBITRATION AND CONCILIATION, MAKES THESE RIGIDITIES LESS MALLEABLE TO ECONOMIC PRESSURES THAN THEY OTHERWISE WOULD BE.

THESE AUSTRALIAN TRADITIONS, WHICH CANNOT BE ABOLISHED AT THE WHIM OF ANY GOVERNMENT, PROVIDE AT THE SAME TIME A THREAT TO THE COMING RECOVERY, AND AN OPPORTUNITY TO BUILD A DURABLE RECOVERY. THE THREAT WOULD HAVE BEEN REALISED IF WAGES POLICY HAD IGNORED THE TRADITIONS. THE PROMISE CAN BE REALISED BY THE APPROACH THAT WE ARE ADOPTING TO THE PRICES AND INCOMES ACCORD.

FOLLOWING THE SUMMIT AND IN OUR SUBMISSION TO THE CURRENT WAGE CASE, MY GOVERNMENT INDICATED SUPPORT FOR A GENERAL WAGE INCREASE IN THE ORDER OF 3 TO 4 PER CENT IN THE SECOND HALF OF THIS YEAR. UNTIL THE GOOD NEWS ASSOCIATED WITH THE BREAKING OF THE DROUGHT RAISED FOOD PRICES SHARPLY, IT SEEMED THAT AN INCREASE BASED ON THE INCREASE IN THE C.P.I. IN THE FIRST HALF OF THIS YEAR MIGHT FALL COMFORTABLY WITHIN THIS RANGE. IN THE NEW CIRCUMSTANCES, WE JUDGED THAT IT WAS BEST TO ACCEPT A WAGE INCREASE OF 4.3 PER CENT, TO SECURE WORKERS' FIRM COMMITMENT TO PURSUING WAGE CLAIMS ONLY THROUGH THE CENTRALISED SYSTEM.

IF THE RECOVERY PROCEEDS STRONGLY IN THE YEAR AHEAD AND BEYOND, AS IT SHOULD EVEN WITH A WAGE INCREASE SLIGHTLY HIGHER THAN WE WOULD HAVE PREFERRED IN OTHER CIRCUMSTANCES, THIS WAGE ADJUSTMENT WILL BE SEEN AS A GOOD INVESTMENT IN FUTURE WAGE MODERATION. IN THE FIRST HALF OF NEXT YEAR, THE INTRODUCTION OF MEDICARE WILL TAKE A FEW PERCENTAGE POINTS OFF THE INCREASE IN THE CONSUMER PRICES INDEX. AS A RESULT, EVEN WITH FULL WAGE INDEXATION, MONEY WAGE INCREASES IN 1984 SHOULD BE IN LINE WITH THE UNITED STATES AND OTHER MAJOR ECONOMICS EXPERIENCING STRONG GROWTH WITH RELATIVELY LOW INFLATIC

ON THE OTHER HAND, IF AUSTRALIAN RECOVERY IS DELAYED, OR INSUFFICIENTLY STRONG TO PROMISE PROGRESS IN REDUCING UNEMPLOYMENT, THE PRICES AND INCOMES ACCORD PROVIDES A FRAMEWORK FOR ADJUSTMENT OF POLICY, INCLUDING THE TIMING OF WAGE INCREASES.

OF COURSE, THE ARBITRATION COMMISSION RETAINS ITS INDEPENDENCE. THE COMMISSION WAS THE INSTRUMENT PREFERRED BY ALL PARTIES AT THE SUMMIT, INCLUDING EMPLOYERS, FOR ADMINISTERING THE RETURN TO CENTRALISED WAGE FIXATION. THE GOVERNMENT HAS MADE ITS OWN VIEWS KNOWN. IN THE PRESENT CASE, AND IN FUTURE, EMPLOYERS AND THE UNIONS HAVE THE OPPORTUNITY TO CONVINCING THE COMMISSION THAT IT SHOULD ADOPT A DIFFERENT COURSE.

THE AUSTRALIAN TRADE UNION MOVEMENTS IS NOT A MONOLITH. SOME UNIONS FROM TIME TO TIME WILL FEEL THAT THEIR OWN INTERESTS MIGHT BE SERVED BY PURSUING CLAIMS OUTSIDE THE CENTRALISED SYSTEM. THE RETURN TO CENTRALISED WAGE-SETTING WILL NOT DELIVER THE BENEFITS OF ECONOMIC RECOVERY TO ALL AUSTRALIANS IF WORKERS FEEL FREE TO PURSUE CLAIMS OUTSIDE THE SYSTEM. IF THAT BECAME WIDESPREAD, WE WOULD HAVE LOST THE BASIS FOR OUR EXPANSIONARY FISCAL AND MONETARY POLICIES. I DO NOT BELIEVE THAT AUSTRALIANS WILL LIGHTLY LET THIS HAPPEN. WE ARE REASSURED BY THE STRENGTH OF THE ACTU'S COMMITMENT TO THE SYSTEM. THE ACTU LEADERSHIP EXPECTS THE COMMISSION TO MAKE COMPLIANCE WITH THE SYSTEM A CONDITION OF A GENERAL WAGE INCREASE.

OTHER POLICIES FOR LONG-TERM GROWTH

THE FISCAL, MONETARY AND WAGES POLICIES WHICH WE HAVE PUT INTO PLACE OVER THE PAST FIVE MONTHS ESTABLISH AN INTEGRATED BASE FOR STEADY GROWTH IN OUTPUT AND EMPLOYMENT, ACCOMPANIED BY THE MODERATION OF INFLATION.

BUT WHETHER AUSTRALIAN LIVING STANDARDS CONTINUE TO RISE BEYOND THE LIFE OF THE PRESENT PARLIAMENT AND INTO THE NEXT, AND BEYOND, DEPENDS ON OUR SUCCESS IN ALLOCATING OUR RESOURCES TO THEIR MOST PRODUCTIVE USES. PRODUCTIVE USE OF OUR RESOURCES REQUIRES ACCEPTANCE OF NEW WAYS OF DOING THINGS, STRUCTURAL CHANGE IN OUR ECONOMY, RAPIDLY CHANGING PATTERNS OF FOREIGN TRADE, AND HIGH LEVELS OF INVESTMENT FROM HOME AND ABROAD.

AN AUSTRALIAN SOCIETY THAT IS BROADLY UNITED ON THE GREAT NATIONAL GOALS, THAT IS SEEN BY MOST OF ITS CITIZENS AS A FAIR SOCIETY, AND WHICH OFFERS ITS PEOPLE SECURITY OF INCOMES AND EMPLOYMENT, WILL EMBRACE THESE CHANGES. BUT A DIVIDED AUSTRALIA, A SOCIETY THAT IS SUSPICIOUS OF ITS GOVERNMENT, WILL CLING TO WHAT IT HAS.

A CONSERVATIVE AUSTRALIA, AN AUSTRALIA THAT IS AFRAID OF CHANGE, WILL BE CONDEMNED TO DECLINING LIVING STANDARDS AND AN INCREASINGLY INSECURE PLACE IN A RAPIDLY CHANGING WORLD.

LONG-TERM GROWTH IN OUR LIVING STANDARDS IS FEASIBLE ONLY IF WE MAINTAIN OPEN INVESTMENT AND TRADE POLICIES. BUT THESE POLICIES WILL BE POLITICALLY FEASIBLE ONLY IF AUSTRALIANS BELIEVE THAT THE BENEFITS OF PROSPERITY ARE BEING SHARED EQUITABLY.

WE MUST PREPARE TO TAKE ADVANTAGE OF NEW TRADING OPPORTUNITIES IN NEW INDUSTRIES IN NEW PLACES, AS THE DEVELOPING COUNTRIES OF NORTHEAST ASIA AND SOUTHEAST ASIA OVERTAKE JAPAN AS THE MAIN CENTRES OF STRONG INDUSTRIAL GROWTH IN OUR REGION AND, INDEED, IN THE WORLD.

WE MUST CREATE NEW OPPORTUNITIES IN THE RESOURCES AREA BY FINDING NEW MARKETS OUTSIDE OUR OWN REGION. RATIONALISATION OF FISCAL ARRANGEMENTS IN THE COAL INDUSTRY, THROUGH CO-OPERATION BETWEEN THE COMMONWEALTH AND THE STATES, ALONG THE LINES MY GOVERNMENT HAS BEEN SEEKING, COULD OPEN A NEW ERA OF EXPANSION OF COAL PRODUCTION AND EXPORT TO EUROPE.

WE WILL CONTINUE TO USE OUR INFLUENCE AS A GOVERNMENT TO SECURE OUR TRADITIONAL MARKETS. THIS IS CLEAR FROM THE PRIORITY MY GOVERNMENT HAS GIVEN TO SECURING OUR BEEF MARKETS IN THE UNITED STATES, TO BUILDING A NEW INTERNATIONAL SUGAR AGREEMENT, AND TO PREVENTING BILATERAL DEALS BETWEEN THE UNITED STATES AND JAPAN DAMAGING OUR OWN FOOD AND MINERALS MARKETS IN JAPAN.

IT IS NOT APPROPRIATE TO INTRODUCE NEW PROGRAMMES TO LIBERALISE IMPORTS AT THE HEIGHT OF RECESSION. BUT ANY ADDITIONAL ASSISTANCE THAT WE PROVIDE TO LESS COMPETITIVE INDUSTRIES WILL BE DIRECTED AT ENCOURAGING RATHER THAN DISCOURAGING PRODUCTIVITY GROWTH, AND TO THE LONG-TERM VIABILITY WITHOUT PROTECTION OF THE INDUSTRY. THIS HAS BEEN OUR OBJECTIVE IN NEGOTIATIONS WITH THE STEEL INDUSTRY, THE OUTCOME OF WHICH WILL BE ANNOUNCED BY SENATOR BUTTON LATER THIS WEEK.

PARADOXICALLY, RAPID STRUCTURAL CHANGE AND PRODUCTIVITY IMPROVEMENT REQUIRE STABILITY OF POLICY. AUSTRALIAN INDUSTRY HAS SUFFERED FROM EXCESSIVELY RAPID CHANGE IN POLICY IN RECENT YEARS. WHILE WE WILL BE DOING ALL THAT WE CAN TO PROMOTE ECONOMIC EFFICIENCY AND EQUITABLE INCOME DISTRIBUTION, WE WILL AVOID CHANGE FOR ITS OWN SAKE.

MORE GENERALLY, THE STRONG POLITICAL POSITION OF MY GOVERNMENT PROVIDES A BASIS FOR GREATER POLICY CONTINUITY THAN AUSTRALIA HAS KNOWN FOR MANY YEARS. AND OUR SEARCH FOR CO-OPERATIVE SOLUTIONS TO AUSTRALIAN NATIONAL PROBLEMS, SYMBOLISED IN THE PRICES AND INCOMES ACCORD, THE SUMMIT, AND THE PREMIERS' CONFERENCE, SHOULD REDUCE THE HUGE COSTS TO LONG-TERM GROWTH OF THE DEBILITATING CONFLICTS IN INDUSTRIAL RELATIONS AND THE FEDERAL-STATE AND INTER-STATE RIVALRIES THAT HAVE HELD BACK AUSTRALIAN NATIONAL GROWTH FOR MANY YEARS.

I DON'T BELIEVE IT'S POSSIBLE TO EXAGGERATE THE COST OF THE CONFRONTATION AND CONFLICT OF THE KIND WHICH CHARACTERISED OUR SOCIETY FOR MUCH OF THE PAST DECADE - THE COST, NOT JUST IN MATERIAL TERMS, BUT IN TERMS OF NATIONAL COHESION AND PURPOSE. I BELIEVE IT WAS THE RECOGNITION OF THE COSTS OF AVOIDABLE CONFLICT - AND I EMPHASISE AVOIDABLE CONFLICT - THAT MOTIVATED THE OVERWHELMING MAJORITY OF THE

PARTICIPANTS AT THE SUMMIT. AND I STILL BELIEVE THAT THE ESSENTIAL SPIRIT OF THE SUMMIT CAN BE SUSTAINED AND PUT TO WORK, IN A THOROUGHLY PRACTICAL WAY.

THE MOST CONCRETE EXAMPLE OF THE CONTINUING WORK OF THE SUMMIT IS EPAC - THE ECONOMIC PLANNING AND ADVISORY COUNCIL. AS IT DEVELOPS, EPAC'S GENUINE ADVISORY ROLE WILL REINFORCE, AS PART OF THE NORMAL PROCESS OF ECONOMIC DECISION-MAKING IN THIS COUNTRY - THE TWO ELEMENTS WHICH WERE THE KEY TO THE SUCCESS OF THE SUMMIT - CONSULTATION AND KNOWLEDGE-SHARING. EPAC WILL ENSURE THAT THESE PROCESSES OF CONSULTATION AND INFORMATION-SHARING WILL BE PLACED ON A CONTINUING BASIS, FOR THE FIRST TIME IN AUSTRALIA'S HISTORY.

AND INDEED, THE ENTIRE EFFORT OVER THE PAST FIVE MONTHS HAS BEEN DIRECTED TOWARDS CREATING A NEW, AND FOR AUSTRALIA, UNIQUE FRAMEWORK FOR ECONOMIC DECISION-MAKING IN THIS NATION.

WE HAVE NOT REGARDED OUR TASK AS BEING MERELY TO DRAW UP AN ANNUAL BUDGET AND THEN TO PRESENT THAT BUDGET AS THE BE-ALL AND END-ALL OF ECONOMIC POLICY.

WHAT WE HAVE DONE - AND IT IS UNPRECEDENTED IN AUSTRALIA - IS TO ESTABLISH A COMPREHENSIVE AND INTEGRATED BASIS FOR CONSISTENT, LONG TERM ECONOMIC PLANNING. AND IN

ESTABLISHING THAT COMPREHENSIVE AND INTEGRATED FRAMEWORK, WE HAVE SOUGHT TO INVOLVE, ON A CONTINUING BASIS, THE RELEVANT SECTIONS OF THE COMMUNITY - OTHER GOVERNMENTS, BUSINESS, INCLUDING SMALL BUSINESS, THE UNIONS, THE RURAL SECTOR, THE COMMUNITY GROUPS - WHICH ALL HAVE SUCH A HIGH STAKE IN THE SUCCESS OF OUR POLICIES, IN BOTH THE SHORT AND LONGER TERM. FOR WHAT IS AT STAKE IS NOTHING LESS THAN THE FUTURE PROSPERITY AND WELLBEING OF AUSTRALIA ITSELF. AND I DO BELIEVE THAT WHEN THE TIME COMES AND THE WORK OF THE PAST FIVE MONTHS - AND I MEAN THE REAL WORK, OUR REAL CONCERNS AS A GOVERNMENT - CAN BE JUDGED IN THE PROPER PERSPECTIVE OF HISTORY, IT WILL BE ACKNOWLEDGED THAT WHAT HAS BEEN ACHIEVED - NOT JUST BY MY GOVERNMENT, BUT BY ALL THE SECTIONS OF THE COMMUNITY, LIKE YOURSELVES, WHO HAVE CONTRIBUTED TO THE WORK - IT WILL BE ACKNOWLEDGED THAT WHAT HAS BEEN ACHIEVED HAS BEEN A TRANSFORMATION - A TRANSFORMATION IN ATTITUDES, IN THE APPROACH TO ECONOMIC DECISION-MAKING, AND IN THE MEANS AVAILABLE TO GOVERNMENT AND THE COMMUNITY FOR BETTER, MORE SOUNDLY-BASED ECONOMIC DECISION-MAKING THAN WE HAVE EVER HAD BEFORE.