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PRIME MINISTER

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TRANSCRIPT OF PM AT BUSINESSPERSONS' LUNCH, SHERATON HOTEL, PERTH

28 SEPTEMBER 1983

Thank you for the reception that you've given me - the great numbers that are here - and the warmth of that reception. I appreciate it very much indeed.

Talking about recovery and growth, and as you in business know, one of the essential ingredients in successful business decisions is that of timing. Whatever else you may say about the Hawke Cabinet and the way it moves, you have got to concede that our sense of timing in coming to Perth was impeccable.

I also want to give you one of the more ... (inaudible) signs of economic recovery. I am leading it myself by insisting that I have my suits washed in champagne.

... I wore a suit for the first time last Sunday, as I have told some of you, to the Sydney Cricket Ground, to the Grand Final of the Parramatta and Manly Rugby League, and with that sense of perspicacity which has come to characterise my Government I backed Parramatta and also publicly and was therefore invited to the ... afterwards and there the champagne was flowing and we were overshowered then. I went off to the dry cleaner and when I came to Perth I thought I was right to put it on again, and look what happened.

I tell you what - I don't mind those sorts of showers.

Brian referred to the extent of the powers that he has - winning the Cup and having the dams over-flowing.

Let me tell you a true story about what happened to me in May. We brought down our first major economic statement, as you know, on 19 May. We weren't waiting for the Budget to start to get things moving. As you know, I like to talk and consult with various elements in the community and I asked the representatives of the farmers federation to come in and see me in the Prime Minister's office not long after that. I was there welcoming them when they came in and you recall this was May and the drought had broken. The dams had opened up and the head of the farmers delegation came in and he said "Now, Prime Minister, you have ended the drought, will you stop the bloody rain". I have tried to fix it up.

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Brian also referred to the fact of his open expectations that we would, as a result of our visit here, be able to announce some goodies to the State of Western Australia. I think it is probably quite enough to know that if you have got something to say, you want to say it at a time when you have got a chance to be heard. We had that Cabinet meeting yesterday, but I just had the same sort of feeling that making an announcement out of our meeting there yesterday, it wouldn't have got the sort of coverage today that it intrinsically deserves.

So, we are leaving tomorrow morning, but Brian has been able to persuade me that it would be a good idea to have a joint press conference tomorrow morning and we will be doing that I suggest that you watch the outcome of that. I think we might be able to say one or two things that will be of value to this State.

Ladies and Gentlemen, ... it is the case that you, an audience like this, would like me now after six months in office to speak to you about the signs that are apparent in our economy. Where are we going and what is happening? Of course indeed the last six or seven months have seen a very great deal of attention paid to the question of economic policy in our country. Of course that is exactly as it should be for the health of our economy is of prime importance not just to politicians and economists, but naturally to every individual and every business concern - large or small - in Australia.

Now I think that the main features of Australia's economic performance over the recent longer period going back before our election are pretty well known to all of you. Those features were - inflation had been running well in excess of 10% for 1982 and of course well above - almost double - the OECD countries. Private consumption was very weak in 1982/83 and as you know, private business investment fell over the year to June of this year. The drought had very very severely cut back farming production and income and correspondingly had severely depleted Australia's capacity to earn export income. World demand for our goods generally had been depressed by the poor state of the world's major economies, effected in particular by what was happening in the United States.

On current estimates domestic production of goods and services actually declined in 1982/83 as a whole and I want you to understand that that actual decline in the production of goods and services in 1982/83 was the first time for 30 years - since 1952/53 - that that had happened and it was the last time since 1946/47.

As a consequence of all those features to which I have referred, employment - actual employment - in Australia plummeted and the rates of unemployment increased very dramatically and reflected in measured official terms over 10% of the Australian workforce.

But owing to the characteristics of the economy, that constituted our economic inheritance. Now, after six months of our Government in office, the outlook today is very much less grim.

Let me make it clear what I have got to say. We are not stupid enough to claim credit for those things for which we are not entitled to claim credit, but there are many things for which we are entitled to claim credit.

We cannot of course yet say that there is totally conclusive evidence which would enable us to give the time and date to when the process of recovery actually began and as you all know economic statistics are rarely conclusive on these matters so close to the event.

But, without any doubt, ladies and gentlemen, there is a new optimism about in many sections of the community and there is rightly, a feeling of the worst is over and that recovery is underway.

Today, with you briefly, I want to examine the evidence for that optimism.

First of all, it is almost universally accepted within this country and amongst overseas financial and economic observers, that Australia will undergo at least some recovery this year. Now, I would say that we forecast a degree and it's usually a cause for worry. However, in this case the argument is altogether quite persuasive. Some pick-up in activity is of course assured by the ending of the drought, by the fact that stocks cannot continue to be reduced for long at the rates of recent quarters and by the strong support which my Government's monetary and fiscal instruments provide and by the indications of a substantial improvement in the world economy.

In that respect we cannot, of course, simply assume that the international economic recovery will simply flow through to Australia. I can put it this way. We just cannot hitch a ride into the future. We must ensure, by our own decisions, that the momentum of economic growth comes from within our country as well as from without and that we are well placed to take the fullest advantage of every opportunity which that world recovery offers to us.

Now, our economic policy is directed to fostering, sustaining and broadening the incipient recovery which we can now recognise. The elements of our policy in the short term are to take up some of the slack that exists in the economy, to provide by way of Government decision direct stimulus through capital works to job creation activity and support for housing and to assist those who have been made adversely and grievously affected by the recession.

However, and I think all of you know, that it has been recognised in the business community here and overseas that our approach, as Brian Burke has said, is a responsible one. We have served notice and I serve again that as the recovery proceeds and strengthens, the level of that stimulus by government will be reduced as appropriate to avoid clashes with expanding private sector demands. We are not going to have a situation where the demands of government upon the market to finance the deficit, are going to continue at a level which will prejudice the capacity of the private sector to go to the market, because if

we were to do that, the pressures upon the capital market would be unsustainable and would inevitably be reflected in rises in interest rates which would be against the interests of all in the community and so, as I say, we are doing what has been necessary to give that stimulus in the state of a depressed economy, but we will reduce that level as the demands for private sector increase.

Our Budget policy, as I say, commenced really in May. We were not prepared to wait until August. That Budget policy can afford to be more stimulatory than it otherwise could have because of the scope which the historic Prices and Incomes Accord provides for non-inflationary growth. The success of that Accord, and in particular the suppression of all unnecessary sectional claims is, as has been recognised again in this country, and increasingly around the world which is watching with great interest the experiment that we have successfully initiated. The success of that Accord is a vital component of our annual strategy to restore Australia to long term prosperity and withstand a typical degree of pressure from some quarters at some stages and at its recent congress the ACTU endorsed the Prices and Incomes Accord and at the same time also paid tribute to the business community. We have not, as you know, in these matters sat down with a view that we have all knowledge and wisdom. We have worked these things out in consultation with the important sectors of the community and I have been able to approach the leaders of business in this country - large and small - and they have responded.

They put somewhat different submissions in the Commission and that is as we agreed it should be. But they have accepted the outcome and within their own deliberations have responded to the direct communications that I have sent to the leaders of business and in respect of their own dividend policies, in respect of the emoluments for directors, they should exercise and exhibit the degree of restraint that we are expecting and will continue to demand of the trade union movement.

Now reception of the Budget and our policies generally and community perception of the correctness of those policies provides, I believe, the strongest possible case for optimism about the economy. I know that there wouldn't be anyone in this room who would disagree with the proposition that very seldom has a Budget framed in difficult times been as well received both here and abroad as was that handed down by my close friend and colleague, Paul Keating on 23 August.

Business reaction to the Budget and to the other relevant elements of our policy has been remarkably favourable. I remind you that that reaction has been seen in the stock markets around the country. It has been seen in lower interest rates and, of course, we don't claim the entire credit for that reduction in interest rates, but, of course, our policies have been relevant to it. Also that reaction has been seen in the strength of the external capital account which indicates the vote of confidence in our economy by world financial markets and let me say in respect of the external perceptions of this government and not its policies that you may recall the sort of talk that was foisted

upon this country during the election campaign by our conservative opponents. A campaign tactic of fear and smear against the people of Australia - if you're silly enough to elect a Labor Government that the capital of this country and overseas would flee and that it would not give its support to the Labor Government.

Now that was manifestly an absurdity and it was a disloyal absurdity at that time. Of course, from the very moment of the assumption of office by our actions we showed that it was unfounded and reciprocally by their actions business here and abroad showed that it was a nonsense. It was a matter of considerable comfort to me that when recently I went abroad, and particularly in the United States in June I had Treasurer Paul Keating with me, we met the representatives of the international business community and the American business community in Washington and particularly in New York and we were well received. It wasn't a question of them seeing ideological sign writers marching through the door, but what they did see were the representatives of the democratically elected government which recognised the nature - the intrinsic nature - of the Australian economy and the essential characteristic of that economy is that it is a mixed economy. The private sector which provides 75% of the employment in this country which depends for itself on a stringently efficient public sector and in which there is a mutuality of concern between the public and the private sector - a recognition that they both depend upon the health of the other.

In the international business community ... understood that in myself, the Prime Minister, and Paul Keating as Treasurer and in our Cabinet Ministers, we have leaders and ministers who understand the nature of our economy and are committed to making those decisions which are necessary to stimulate the health of the private sector as well as the public sector and that confidence which they displayed in us then verbally expressed has much more importantly subsequently been expressed in the actual hard decisions which are being taken by the international community in respect of the Australian economy.

Of course, I never claim that all the signs of the recovery to which I have alluded are purely the result of government action. But, as I say, they do stand in stark contrast to those dire predictions made by the Opposition not only as part of the election, but all those stupid predictions which remain in regard to Budget impacts. I believe that there is very sound reason indeed ladies and gentlemen, for those favourable reactions to our Budget strategy that I have indicated.

There is simply no doubt that our confidence is returning to the Australian business community. Surveys of business by the Australian Chamber of Commerce/National Bank and by the joint Confederation of Australian Industry and Westpac show that business anticipates improved conditions over the coming months. While it is true that data are patchy by States the CAI/Westpac survey indicates that Western Australia is one State where business anticipates growth in new orders, output, and employment in the December quarter.

That confidence is in great part due to the sense of certainty that business in this country now has about the conduct of economic policy. You look back over the previous 7 years - there was simply no degree of certainty and predictability about what was happening in regard to economic policy and planning on the part of governments. My Government, since we have been in has continually from day one sought fully to consult with all relevant bodies and to seek as far as it is possible to achieve consensus in the approach to economic management. It has established a clearly understood policy direction and more importantly, it has demonstrated the will to implement. Business now has in this country a further basis for planning ahead than it has had at any time since the end of the last war and with that certainty comes confidence and that confidence provides one guarantee that the recovery will not be aborted.

The Western Australian economy has been one of the nation's strongest over recent years. While the world down-turn has affected the State it remains well placed to participate in the recovery.

Now at this stage, of course, the recovery to which I referred is somewhat patchy. The strongest areas at the moment are housing and the rural and the public sectors. Firstly, in respect of housing there has been a very welcome upturn in the housing industry which has been gathering strength since 1983 goes on. The latest figures indicate that Australia wide dwelling commencements in the June quarter rose by 13.2% seasonally adjusted from the March quarter which itself was 4.9% higher than December. Commencements in the June quarter are 3.9% up over the depressed levels of a year earlier.

I am glad to observe that there are signs that Western Australia will share, albeit seemingly more slowly at this stage, in the upturn in housing activity. While Commencements are still down on last year and the remains are broadly flat for the past four quarters, approvals figures are improving compared to the trend of the year.

There is still better news at one further stage back in the construction chain. Housing lending has been increasing strongly and interest rates have been reduced by many of the major mortgage institutions.

Loan approvals in the three months to July are up 6% in Western Australia over the level of a year earlier and are up by 30% in Australia as a whole. In the case of Western Australia this is still a comparatively disappointing situation but I should expect, nevertheless, that before long, if not already, Western Australia will be matching the national trend.

Now these things have not happened by accident. The Government's new First Home Owners Assistance Scheme comes into effect on 1 October. It should add further to the housing recovery. The Government responded in August to the Western Australian concerns expressed to me by Premier Burke that there was a hiatus in home buying pending introduction of the new scheme. We responded to that by removing the savings requirement of the previous Home Deposit Assistance Scheme.

I want to say to you that the Treasurer, Paul Keating, and Minister for Housing and Construction, Chris Hurford, will be holding discussions with financial institutions to ensure the continuing availability of finance for housing. Recent reduction in interest rates, of course, have also significantly reduced the cost of home loans. Most housing lending institutions have cut their interest rates on home loans by $\frac{1}{2}\%$ and have trimmed deposit rates. Savings bank home loans are now charged 12% while building society rates have also reduced $\frac{1}{2}\%$.

Indeed, as you would know, interest rates have generally fallen recently - including in respect of those rates relevant to the financing of the needs of the business sector. The prime rate charged on large overdrafts, for example, has fallen by between $1\frac{1}{2}$ and 2% since March. This is, of course, as we all recognise another major plus point for recovery. Interest rates will, of course, and I don't try and disguise this fact, fluctuate especially for short dated instruments. Much, of course, will also depend upon positions in financial markets abroad.

However, it is clear that the lowering of rates recently will greatly assist the cash flow position of many enterprises and it will help to underpin the firming of confidence of private investors.

Lower interest rates and improved consumer sentiment will also I believe help to produce a much needed fillip to consumer spending, particularly for spending on consumer durable goods. Real private consumption has been reached for some time. The latest data for retail sales suggests that there may have been a firmer tone to consumer spending very recently.

Now, of course, our rural economy - the resilient rural economy has bounced back well from drought. While Western Australia escaped the worst effects, the main benefits from the recovery in production and demand will appear in the Eastern States, improved rural export performance in the new year will benefit all of our country.

The world recovery, of course, as we all know, is of absolutely major importance to Australia, particularly to Western Australia. The minerals sector in this State has been bleak for some time, but overseas demand has already picked up for some non-rural exports and the economic recovery in the United States fore-shadows some measure of improvement in demand for exports. I should not, however, be particularly sanguine about the near term prospects for either iron ore or energy exports, both of which are particularly important for Western Australia.

The iron ore market faces particularly difficult times because of a quite fundamental structural change which is occurring in the Japanese steel industry market.

On balance nevertheless the general outlook for exports coupled with an improved industrial climate that can best be sustained by implementation of the Prices and Incomes Accord means that the producers in this State are generally more placed to be competitive in fulfilling extra demands.

I can't conclude on that note, without expressing to you my deep and sincere hope that the current industrial problems in the Pilbarra will be soon resolved. ... credit ... and without trying to be up front about it, I can simply say to you quite seriously, that we have behind the scenes been trying to have an input to see if we can get those matters resolved - not only in an immediate sense, but in the longer term and I express the hope that those efforts together with the efforts of others will soon be successful.

Ladies and gentlemen, that then is how we see the economy developing through 1983/84. There are indications that manufacturers are beginning to respond to these prospects. Such indications of production as we have - the Australian Bureau of Statistics - production statistics - and the ANZ Bank index of factory production have been showing upward trends, but it is to the local market that many people look for evidence of economic performance.

When we took office we said that halting the decline in employment would be the first hard step to reducing unemployment. We are encouraged to believe that that has happened - that we have reached the bottom of the trough and that we are beginning the steady upward climb.

Employment did fall in seasonally adjusted terms in August. Isolated falls of this kind can always occur, especially when the economy is only in the very early stages of a recovery. There may well be other seeming setbacks along the generally upwards path. I suggest to you that one reliable indicator of trends in the labour market is attained by computing 3-monthly averages. On this basis employment rose by 0.3% in the latest period after having fallen consistently on this basis for over a year.

The unemployment rate, on the other hand, has stabilised at a bit over 10%. 10.3% when we came in. It has held the line and gone down to 10.2% last quarter. Employment growth in other words has been sufficient roughly speaking to absorb the natural increase in the workforce. In all likelihood the unemployment rate will rise somewhat again at the upturn in economic activity getting underway. This, of course, is partly also because better prospects for employment may be expected to encourage people to return to seeking employment in the paid workforce who had previously been discouraged.

Western Australia continues to perform better than the majority of States in this area. It was the only State to record an increase in employment over the year to the three months ended August and its average unemployment rate in the three months to August was the second lowest.

In regard to this area of employment I believe that my Government is on track in regard to the promises that we made in the election. I remind you what they were. I said that we would end the explosion in unemployment rates which had characterised the previous 18 months - that we have done. I said we would move to a situation where there would be an

actual increase in jobs. That has been done and will increase. I said that in that sort of context I believed that we would be able to create something like ½ million new jobs in the first 3 years of office and I believe we will go close to achieving that objective.

Overall, therefore, I come to the conclusion, ladies and gentlemen, overall the signs are somewhat mixed. Some components of demand are weak and as you know private investment in particular will take some time to pick up. Yet the indications are quite clearly that the worst is over. Some areas are showing definite signs of an upsurge. These, coupled with the one-off factors which I outlined earlier, will give us a good start as 1983/84 proceeds.

The facts are, my friends, that it is our firm belief on the basis of the evidence available to us already and on our assessment of the impact of the deliberate economic policies that we have put into place, that as we come to the end of this financial year 83/84 - in other words as we get to the middle of 84 - this Australian economy will be growing at a rate of at least 5 ... annum against the experience that I indicated before of 82/83 where for the first time in 30 years we had an actual decline. We will turn this economy around ... what we have done ... (tape ends)