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## PRIME MINISTER

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SPEECH BY THE PRIME MINISTER  
CEDA DINNER - SYDNEY - 21 OCTOBER 1983

It is eight brief months since I last addressed members of this highly respected organisation.

I then did so in Melbourne in the middle of the national election campaign.

The task which I then outlined was a formidable one - it was to nurture economic recovery, broaden it and turn it into sustained economic growth.

You would all recall that we inherited an economy in deep recession: inflation had been running at over 10 per cent through 1982; Gross Domestic Product fell in 1982-83, the first such fall since 1952-53; employment had plummeted and the unemployment rate had risen to over 10 per cent.

It was a disastrous economic situation, which was getting worse.

It is true that some of the influences on the economy that are beyond the control of government - the drought and the world recession - will be much more favourable in the coming year than they were in the one just past.

However, the start to recovery which that will bring must be coupled with policies that will promote, sustain and broaden the recovery.

We are developing and implementing these policies.

In our brief time in office we have also secured - through the Summit and an extensive process of consultation with the community - a necessary change in attitudes.

There has been a change of community attitudes, a change of Government attitudes - a change from confrontation towards co-operation; a change from the politics of division to the politics of reconciliation.

Provided we retain - as I believe we will - the co-operation of the community, our policies will provide a firm basis for inroads to be made into the massive unemployment problem that presently confronts us.

Over the last few months, an increasing number of economic indicators have been pointing to a halt in Australia's economic decline, and more recently to the beginnings of recovery.

The September employment figures released last week are the latest hopeful sign.

An increase in employment of 51,000 in seasonally adjusted terms, bringing to 80,000 the increase since we changed the course of Australian economic policy at the Summit in April, is particularly encouraging.

The Labor Party in opposition frequently pointed out that the human tragedy of unemployment extended beyond the numbers shown in the official statistics to the hidden unemployed, who had given up hope of finding jobs and withdrawn from the labour force.

It is at once both a sign of renewed hope, and a reminder of the dimension of the tragedy, that recently large numbers of the hidden unemployed have begun to seek work again.

This is why the measured unemployment rate rose at the same time as employment grew strongly.

Our policies are directed at creating enough jobs to bring down measured unemployment as well as absorbing the hidden unemployed.

But we have no illusion that this can be done quickly.

We have tried to explain to the Australian people that there is no instant cure to the economic ills that we were elected to overcome.

Against this background let us briefly consider the major issues for economic policy.

We promised during the election campaign an expansionary fiscal policy, which would place a floor under aggregate demand while private investment demand remained low in recession.

My Government has answered that challenge in a controlled and responsible way, in its first Budget.

Among other things these fiscal policies entailed:

- expanded capital works programs;
- stimulation of the housing sector, both public and private; and
- the community employment program.

Partly in response to our policies, the signs of economic recovery include strong growth in new building approvals; a pick-up in activity in many parts of manufacturing; improved consumer confidence, already partly reflected in retail sales; and a slowing in the rate of decline of new investment commitments.

It has been possible to provide more fiscal stimulus than would otherwise be the case without risking an acceleration of inflation because our policies are supported by the Incomes and Prices Accord and a monetary policy which accommodates strong growth but not avoidable inflation.

Through these instruments we aim to ensure that the recovery is not dissipated or frittered away.

While we eschew the discredited "Fight Inflation First" strategy of our predecessors, we nonetheless realise that we must set inflation on a downward path if we are to ensure that the recovery becomes sustained and more broadly based as it gathers pace.

Apart from the direct damage to the Australian economy that would be wrought by inflation at the rate of the recent past, the continuation of poor past performance would stand in the way of continued reduction in interest rates.

High inflation and interest rates discourage private consumption and investment.

We believe that our Prices and Incomes Accord requires support from firm monetary policies if it is to deliver the deceleration of inflation that we are seeking.

You will be aware of the difficulties of setting monetary policy on a course that is neither so restrictive that it blocks sustainable growth in real output, nor so loose that it encourages avoidable inflation.

Our policies aim to balance these two risks..

The task of finding the right balance is even more difficult at a turning point in the economy, when there is uncertainty about feasible growth in real output, and more than the usual uncertainty about factors influencing the velocity of circulation of money.

And the difficulties have been further compounded in recent times by significant deregulation of bank interest rates, which have caused savings bank deposits to increase much more strongly than holdings of financial assets in other forms.

This has contributed to M3, the monetary aggregate which has been used in Australia for projections of monetary growth, expanding more rapidly than the narrower and broader monetary aggregates, and so has exacerbated the normal problems associated with relying on a single aggregate for monetary policy purposes.

The Treasurer in the Budget Speech announced a conditional projection of monetary growth for the current financial year, that M3 would grow in the range of 9 to 11 per cent over the twelve months to the June quarter 1984.

The Treasurer said that policy would not focus solely on M3, and that we would be monitoring a range of financial aggregates with coverage both narrower and broader than M3.

The Treasurer also indicated that the projection would be reviewed during the year in the light of trends in activity and other relevant developments.

Over recent months M3 growth figures, on the "year to the latest month" basis which attracts most attention in Australia, have been running a little above the range indicated in the Budget Speech.

These M3 figures reflect a great deal of past history and are not inconsistent with our current June quarter on June quarter projections.

Any revision of our expectations of real growth, or marked continuing divergence between M3 and other aggregates, would be examined in the mid-year review.

While international developments completely beyond our control exercise their own powerful influence, our own policies are directed towards doing what we can to support strong, non-inflationary growth.

I know that there has been concern that the Australian dollar has appreciated against the trade-weighted-index over the past seven months, to a level similar to that immediately before the March devaluation.

I am aware that this has removed a competitive advantage enjoyed for a while by our export and import-competing industries.

But I ask producers not to take too short a view of these issues.

The overall stance of our economic policies is directed at improvement of Australia's competitiveness over the medium and longer term.

In the short-term, changes in international conditions can cause fluctuations in our competitiveness.

Producers should take some comfort from our clear commitment to fighting inflation and unemployment at the same time, which means that we will avoid holding the exchange rate at artificially high levels, which a government might contemplate if it was fighting inflation first.

Looking further ahead, we will ensure that there is not excessive competition between the public and private sectors for financial resources as recovery proceeds.

We intend to wind down the current level of direct Government stimulus to the economy as private sector investment picks up.

This will limit undesirable pressure on interest rates in the process of economic recovery, and remove one threat to the durability of recovery.

Of course, reducing that stimulus will not be easy.

To assist, we have established an ongoing process of expenditure review that will not only consider any proposals for new expenditure, but will also look at existing programs to ensure the greatest possible efficiency and their continued relevance to the emerging needs of the economy.

In our first Budget we were able to reduce the prospective deficit that we inherited by over half a billion dollars, at the same time as we implemented much of our program. We were able to do this without major general increases in taxation because we made large reductions in the programs and tax expenditures which we inherited.

In other words, we effected a substantial reordering of expenditure priorities.

In future Budgets we would hope to continue to give effect to that reordering.

As I stressed in my address to CEDA during the campaign, Governments cannot sustain recovery on their own. We require the co-operation and contribution of all sectors.

That is why the Prices and Incomes Accord is so vital.

As I said to you back in February the essential function of the Accord is to create the setting for real economic growth without this blowing out in self-defeating pressures on inflation and the balance of payments.

It provides a clear framework for the settlement of income claims.

It serves as the basis upon which we can expect claims upon the community's resources to be geared to the capacities of the economy and the requirements for optimum development.

Successful implementation of the Accord gives us a chance to avoid the disruption caused by unnecessary arguments about division of the economic cake which, in the past, has led so often to part of the cake being lost.

A broad base of community support now underpins the Accord.

Importantly, some key elements of the Prices and Incomes Accord received support at the Summit and more recently at both the A.C.T.U. Congress and in the Arbitration Commission's ruling on the National Wage Case.

At the National Wage Case the Government sought to strike a balance between short and longer term economic and industrial relations considerations within the framework of an effective Prices and Incomes Policy.

Accordingly we supported full indexation on a six-monthly basis, on the condition that there should be no extra claims.

The Government argued and the Commission accepted that ratification of sectional settlements should be refused unless the commission judged that special or extraordinary circumstances apply, such that they can be isolated because of their special characteristics.

It is for the Commission to determine such circumstances.

It is only if we can restrain growth in labour costs and competing claims that we can pursue an expansionary fiscal policy while winding down inflation.

My Government is committed to the success of the Centralised Wage Fixation System now established by the Arbitration Commission.

The principles articulated by the Arbitration Commission recently amount to a new system.

The Commission's requirement that unions place their signatures on commitments to no extra claims is unprecedented.

The willingness of the A.C.T.U. and almost all unions to commit themselves in this way is unprecedented in Australian industrial relations.

That such powerful unions as the A.M.W.F.S.U. are willing to enter such commitments is a cause for considerable confidence in the new arrangements.

Inevitably there will be problems, but the advantages of two years of real wage stability and industrial peace within the new system are so great, that all parties have a great incentive to find solutions.

We have indicated our resolve and seek the continued co-operation of all parties in making the new system work.

Both my Government and the A.C.T.U. will be doing everything within our respective powers to ensure compliance by all unions.

It has always been our view that restraint cannot be limited to wage and salary earners.

The Economic Summit declared that restraint in income claims should be shared by all, including non-wage incomes.

In seeking to have this declaration implemented, I have been impressed by the attitude of larger companies and the degree to which they have indicated their support for restraint.

The Summit, of course, was the first demonstration of what has since become a hallmark of my Government. That is our approach to consultation, co-operation and joint endeavour.

One formalised manifestation of this approach is our establishment of the Economic Planning Advisory Council.

This Council has just concluded its second meeting.

Discussion ranged over a number of matters, including the conduct of policy from the perspective of ensuring long term recovery.

As time passes we would expect this body to provide a major forum for discussion and information exchange between the Government and the community generally.

My Government is concerned to restore conditions of fairness and equity to Australian society.

This is an important objective in itself for a Labor Government.

In addition, we believe that this is essential to community support for the structural change in the economy that is a necessary part of sustained economic growth.

There is no doubt that the general taxpayer is bearing significant burdens in supporting Government expenditure - in supporting assistance to those affected by the recession and to other needy people in the community.

If we are to have the taxpayers' support in that expenditure, then two major things must be achieved.

One is that expenditure must be seen to be efficient and to reach those for whom it is intended.

This is particularly true of social welfare expenditures, where the needy must be helped.

Abuse of the system and hand-outs to those not truly in need must be avoided wherever possible.

We have tackled inequities in the pension system, with the revised income test arrangements for pensioners over 70 and the proposed re-introduction of the assets test.

The explicit aim has been to enable welfare expenditure to be directed to those individuals most in need.

We have been concerned to remove fundamental inequities in both the tax and pension systems.

We stand ready to consult and discuss these measures with those affected.

The details of the assets test on pensions are, for example, still being worked out and we are consulting widely before taking final decisions.

The second necessary task is to ensure that the tax system is fair and seen to be fair.

In this area we recognise the need for a thorough review of Australia's taxation system.

I am convinced more needs to be done to widen the revenue base and improve taxation efficiency and equity.

The economic planning advisory council has begun a review of the previous studies concerning the revenue base.



This is an area where we shall be consulting widely.

While giving considerable weight to stability and continuity in policy we shall be carefully reviewing the alternatives.

We have already moved in some areas to make the taxation system both more efficient and more equitable.

This is illustrated by the measures we have introduced on taxation of superannuation lump sums, tax avoidance, section 26(A), sales tax and excise anomalies, indexation of excise rates and removal of some anomalous tax expenditures.

Our concern is to establish a tax and welfare system appropriate to the long-term needs of Australia.

This has a counterpart in what my Government aims to achieve in the area of industry policy.

It is essential for Australian industry greatly to improve its efficiency.

The entrenchment of low productivity and inappropriate production patterns in many parts of the economy is a matter of deep concern.

The need for adaptation by traditional industries is compelling and a growing role for new technology-based industries must be recognised.

The development of new products and processes is a pressing priority.

The steel industry assistance package stands as a model for the manner in which it balances employment considerations with recognition of the need for workers and business in that industry to enhance its competitive position through investment in new technologies.

Similarly the establishment of the Car Industry Council to look at ways of increasing the industry's efficiency and productivity with the aim of improving its competitiveness on both domestic and export markets is another significant indicator of the Government's interest in the rationalisation of our industry structures.

These then are the major elements in the Government's approach to moving the economy forward.

The Government has put in place policies which will promote a sustained recovery that ultimately will peg back unemployment and maintain and enhance the living standards of all Australians.

You would all appreciate how much progress has been made in the brief time my Government has been in office.

When I suggested eight months ago to CEDA that a Labor Government's economic policies would be directed towards the improvement of real Australian living standards by creating the circumstances for real economic growth you may have been a little sceptical.

I am sure you would all now agree that the comprehensive range of policies put in place are both appropriate to that objective and already proving effective in its realisation.

Ultimate success crucially depends however on the continued co-operation of all Australians.

The challenge back in February was not a challenge for the Government alone, but for the entire Australian community.

This continues to be the challenge today.

As a nation we must dedicate ourselves to the task.

My Government is providing the necessary leadership and policies.

What we continue to need is the continued co-operation of all Australians in matching up to the challenge we all face together as Australians.

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