



PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED 9.30 P.M.

**SPEECH BY THE PRIME MINISTER
MTIA DINNER - 24 OCTOBER**

It was with great pleasure that I accepted your invitation to join you tonight.

Your Association has for many years been a vigorous and influential voice on the issues of principal relevance to the economic management of this country.

For a long time, and I notice Mr Dixon reiterated this this morning, you have stressed the need for a strong, viable and competitive manufacturing sector as being essential to the restoration of balanced and sustained economic growth.

I agree.

I also noticed that Mr Dixon identified a range of issues that are currently the subject of consultation between the MTIA and federal and state governments.

These issues involved government purchasing, defence offsets, tariff phase-downs, imports from developing countries, the prevalence of dumping, anomalies in the CER Agreement with New Zealand, the question of non-tariff barriers and the influence of the exchange rate.

MTIA's views on these important issues have been appreciated and have been or are being taken into account in the Government's deliberations on these matters.

Throughout, these consultations have been inspired by a common belief in the need for Government and industry to work together to ensure that the conditions necessary to the maintenance and development of Australian manufacturing industry are firmly established.

In its fundamentals this means we all share an interest in securing the right conditions for durable economic recovery.

My Government's economic and industry policies are directed to this end.

The Australian economy took a severe battering over 1982 and into the early part of 1983.

Inflation eroded our international competitiveness.

Drought depressed rural incomes and the incomes of industries servicing the rural sector.

World recession cut back export markets and saw reduced resource-based and related investment.

Cost increases were coupled with declining demand and business profitability fell.

High interest rates increased the cost of servicing debt and discouraged investment.

The manufacturing sector was particularly hard hit by these developments.

Investment in the manufacturing sector fell 31 per cent during 1982-83 and is expected to continue to fall.

Employment in manufacturing fell seven and a half per cent over the same period.

Further, in 1982, manufacturing output declined to historically low levels.

The position since the end of 1982 has been rather mixed, though there are hopeful signs for the future.

Output in manufacturing remains at a low level, but there is evidence that it may have begun to rise again over a significant proportion of the sector.

Employment levels have fluctuated, but again there are definite signs of an upward trend in the economy as a whole.

Inflation has moderated and average wages have changed little.

Consumer spending has been weak though again most recent indicators suggest some improvement is underway.

Business investment remains depressed, but housing starts have risen substantially, lending for housing has increased strongly and interest rates have dropped.

You would all appreciate that it is notoriously difficult to predict turning points in an economic cycle.

It is now generally accepted nonetheless that economic activity, while patchy, has begun to pick up and is expected to recover strongly over the course of 1983-84.

Strong pressure for growth over this period is coming from:

- The ending of the drought:
 - indeed, prospects are for a record wheat harvest, which will contribute significantly to recovery in rural production, incomes and spending;
- The faster pace of world economic activity, particularly in the United States and the associated lift in demand for our exports and in the prices which we receive for them;
- The fact that business simply cannot indefinitely deplete inventories at the rates experienced recently;
- The steady increase in investor and consumer confidence since my Government assumed office.

The Economic Summit provided the broad-based community involvement necessary to ensure problems were properly identified and policy responses developed were appropriate to the needs of our society.

Since then, in the May Economic Statement and in the 1983/84 Budget, my Government has provided controlled, responsible fiscal stimulus backed by anti-inflationary monetary and prices and incomes policies.

We have placed a floor under domestic activity while private demand is weak.

Our policies see Australia well placed to capitalise on the recovery now underway both internationally and domestically.

On the forecasts presently available to the Government, economic growth is expected to strengthen progressively through the course of 1983-84 - and to yield a rise in real non-farm production through the period in the order of 5 per cent.

Employment is likely to respond more slowly, however.

Initially most of the increased production is likely to be achieved by making fuller use of the time of existing workers and improved labour productivity, but employment growth is expected to accelerate as the year progresses to give a rise of one and a half per cent over the period as a whole.

The September employment figures bear out this expectation.

Growth is occurring in the context of lower inflation than has been experienced over recent times.

Indeed, reflecting the beneficial impact on the CPI of the introduction of medicare, wages may grow through the course of 1984 at rates not much different to those of our major trading partners.

Such an outcome is a good start to restoring Australia to prosperity.

However, it would not of itself be sufficient to ensure a durable recovery.

Australia's openness to the world's financial and trading markets enables us to participate in the benefits which flow from access to world-wide markets and the attendant gains from greater specialisation in production and exchange.

We enjoy, as a consequence, higher real living standards than would otherwise be within our reach.

However, it also leaves us open, to some extent, to the world's economic cycle.

The United States is in a strong recovery phase at present, having posted very rapid growth in its domestic production in each quarter of this year to date.

Other major economies including the United Kingdom, Germany and Japan have also picked up, albeit more slowly.

Sentiment is firming that this is the beginning of a durable recovery in world activity levels, the major reservation being some concern about the potential level of world interest rates.

Were the expected world recovery to falter, our own growth performance would necessarily be affected.

The task which my Government has set itself is to maximise Australia's potential to participate in the world's economic recovery and to ensure that growth is sustained from within our economy - and, most especially, from within the private sector of our economy - as well as from external sources.

While relevant to the immediate needs of the nation, therefore, our policies are also firmly set within a medium term context.

We eschew the discredited and simplistic 'fight inflation first' strategy of our predecessors.

Yet we nonetheless realise that control of inflation is one of the factors vital to our long term recovery.

Inflation abatement will help to preserve our international competitiveness, wind back inflationary expectations and moderate expenditure, thus discouraging pressures on interest rates.

To this end our monetary and exchange rate policies are being administered flexibly, bearing in mind the need to support private sector activity while not accommodating avoidable inflationary pressures.

Our overall stance is one directed at improving Australia's competitiveness over the medium and longer term.

Short-term changes in international conditions may force fluctuations in our competitiveness.

Producers should take some comfort, however, from our commitment to continue fighting inflation and unemployment at the same time.

This means we will avoid holding the exchange rate at artificially high levels.

We aim to see monetary growth at a level consistent with ensuring that it is neither financing avoidable inflation, nor restraining feasible non-inflationary growth.

These policies support, and in turn are supported by our prices and incomes policy.

That policy, which has received wide support, underlines the need both for incomes restraint and for it to be exercised universally.

The recent National Wage Case decision struck the necessary balance between short and longer term economic and industrial relations considerations.

The Commission's firm stance is what is needed at this stage and the Government will continue to lend its weight to the task of ensuring compliance with its principles.

The Government will not stand idly by in the face of some recent threats to this system.

The Government strongly believes that the new system of centralised wage fixation provides a firmer basis for a more rapid economic recovery without accelerating inflation than would be possible under any alternative system.

Your industry perhaps more than any other would well understand the potential economic vandalism inherent in the alternative philosophy, touted in some quarters, of allowing wages to be determined by the free play of market forces.

The advantages of two years of real wage stability and industrial peace within the new system are so great that there is a real national interest involved in seeing the system work.

It is also our announced intention to curtail the current level of direct Government stimulus to the economy as private sector activity picks up.

Not to do so would risk unnecessary competition for resources, especially on financial markets.

Of course, reducing that stimulus will not be easy.

In our first Budget we nonetheless managed to cut more than half a billion dollars from the prospective deficit which we inherited.

We did this while making some progress in reordering budgetary priorities, including measures to improve the welfare of the genuinely needy.

In future Budgets we will continue to sustain, and, to the extent appropriate, extend that reordering.

However, we will do so within the context of firm overall control over expenditure.

An overriding major concern in this endeavour will be to achieve greater fairness and equity in our tax and welfare systems.

We want to ensure that the benefits of economic growth and recovery are passed on equitably through the Australian community.

A start was made in our last Budget and in the May Statement, including in respect of asset testing of pensions, revisions to housing assistance arrangements and lump sum superannuation payments.

For the most part the essential fairness of the proposed changes has been widely recognised, especially as the Government has indicated its willingness to consult with those affected and to make such changes as might be necessary to remedy unintended side-effects.

The basic fact facing social welfare policy-makers today is that if the Government is to raise significantly the general level of benefits to all who need them, then the special and unnecessary privileges of some must be reduced.

Demographic trends underline this inescapable reality.

The number of Australian's dependent on a pension as a proportion of those in the work force is growing and going to continue growing - fifty years from now the number of working age Australians for each person over 65 will drop to about three : approximately half the present number.

Further the long-term and desirable trend is towards a more mobile labour force.

These realities must be accommodated.

They find a particular application in the present debate about lump-sum superannuation.

My Government shares and would want to encourage the view that individuals should make provision for their retirement income.

But the Government also strongly believes that remuneration in the form of a superannuation lump sum should be taxed on a basis which is consistent with other forms of remuneration.

There is no inconsistency in this.

Unless this is done, others will have to bear greater burdens in order to ensure that essential revenue is maintained.

There is nothing draconian about the measures we have taken.

For the most part, tax is not paid when money goes into a superannuation fund nor is the investment income earned by the fund on such money taxed.

Rather tax is deferred until the benefits are paid out of the fund.

This leaves larger amounts accumulating in the fund and brings in larger amounts of fund earnings which ultimately emerge as larger benefits than can be obtained through other forms of saving.

More specific recommendations by the Commonwealth task force on occupational superannuation are also receiving careful consideration.

We have already acted to implement approved deposit funds as a means of facilitating preservation of superannuation entitlements and are looking at recommended improvements in the vesting, preservation and portability of superannuation benefits.

We appreciate that further changes in this area could have a major impact on existing superannuation funds.

It is important therefore that industry representatives as well as the ACTU play a major role as the Government explores possible options in this area.

Mr Wills,

Crucial to Australia's long-term economic outlook must be the maintenance of an efficient, highly competitive manufacturing sector.

My Government is dedicated to establishing conditions that would see enhanced efficiency in Australian industry.

Unless investment in industry is stepped up and productivity increased Australia's future economic prospects must be bleak.

The restoration of non-inflationary growth in the economy should materially improve the outlook for the manufacturing sector.

This is particularly the case for the metals products group with its heavy dependence on investment and consumer durables demand.

But although a revival in the general level of economic activity is obviously crucial to improved manufacturing performance, it will not by itself solve the sector's deep-seated problems.

The achievement of increased competitiveness in the longer-term, and the associated enhancement of profitability and employment, will necessitate high levels of investment, the application of new technology to production processes, and an increasing export orientation, over large areas of manufacturing industry.

The effectiveness with which we apply new technology will determine not only the efficiency of our industry, its competitive performance and its capacity to grow, but also whether we can reverse the deterioration in our living standards.

While cyclical factors explain part of the manufacturing sector's current difficulties, a large component is structural and reflects the entrenchment of low productivity and inappropriate production patterns in many industries.

For this reason, the development and application of new technology must be embraced as one of our driving forces.

There is, whether we like it or not, no escaping the fact that innovation is essential to our nation's future well-being, not only in industries producing new products, but also throughout established industries, such as the metals products group.

Other countries, particularly in our own region, are actively seizing new technology opportunities.

If we are to benefit fully from our location in this dynamic growth region, it is incumbent upon us to develop and adopt new technologies - new products and processes.

There will undoubtedly be problems adjusting to the changes involved.

Consultation with those affected will be necessary.

Particular attention will have to be paid to their needs.

But the long-term interests of all Australians dictates that we venture upon an adaptive course.

We must pursue positive, forward-looking policies, rather than the negative, re-active ones that have so often characterised our response to the challenge of change in the past.

My Government has announced specific measures to assist the development of new industries, including to remedy deficiencies in the availability of venture capital.

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 and through applying advanced technologies.

We have similarly announced the establishment of the car industry council which will look at ways of increasing the industry's efficiency and productivity with the aim of improving our competitiveness on both domestic and export markets.

In summary, therefore, my Government's policies provide a coherent and comprehensive framework within which the Australian economy can go forward with confidence.

There are very encouraging signs of recovery in domestic economic activity, which these policies are designed to nurture, strengthen and broaden.

It will be for each of us, however, to accept our share of the responsibility to take Australia forward and to make the most, collectively, of the opportunities which are open to us.
