



PRIME MINISTER

CHECK AGAINST DELIVERY

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SPEECH BY THE PRIME MINISTER
MEDIUM AND LONG TERM GROWTH STRATEGIES
SYDNEY CHAMBER OF COMMERCE - 10 NOVEMBER 1983

I am glad to be able to speak to the Chamber of Commerce of Australia's largest city at this turning point in our country's economic fortunes.

I would like to talk to you about matters that are, I think, as high in your own priorities as in those of my Government.

I am going to talk about the requirements for the return to strong long-term growth in the Australian economy.

There is now widespread agreement that Australia has turned its back on the disastrous economic decline that began in 1981, and can look forward to strong growth in production over the next year or so.

But this alone will not solve Australia's economic problems.

The effects of the stagnation, the high and rising unemployment, that have been features of Australia's economic life over the past decade, cannot be banished by one or two years of growth.

Australia needs strong growth over a long period.

Australia needs to replace the entrenched underperformance of the last decade with persistent growth in productivity, output and employment.

We must use the next year or so of declining inflation and strong growth in output, to prepare ourselves for longer-term growth.

This will require changes in attitude and approach in all parts of the community, not least in business.

But I believe that Australians, realising the huge social and economic costs of the poor recent economic performance, are ready to consider those changes.

People are, of course, much more ready to accept change directed at promoting economic growth in an environment of optimism about the future.

That is why our first task was to correct the huge macro-economic problems of inflation, declining output and declining employment which we inherited.

People are also much more ready to accept change directed at promoting economic growth if they believe that the benefits of growth are being shared equitably.

That is why the emphasis of my Government on social equity, including our commitment to an effective social welfare system based on need, which we see as being important in itself, is also an integral part of our effort to restore sustained economic growth.

I will return to the policies and the attitudes which will be necessary for sustained long-term growth.

But first let me review the evidence on the economic recovery that is now under way and which will provide an opportunity to address more fundamental problems inhibiting long-term growth in the Australian economy.

- . We are undoubtedly assisted by the United States having entered a strong recovery phase, which it seems will continue for some time yet and which has already begun to spread to other major industrialised economies.
- . This has already assisted our export performance in some metals, and will eventually boost sales of a wider range of goods and services.
- . Domestic demand has begun to pick up over recent months, with consumer spending on retail sales and motor vehicles having risen from the depressed levels of earlier this year.
- . Though there is some concern about the spread of rust, the wheat harvest seems likely to be a record and rural production and incomes are forecast to recover strongly from the drought depressed levels of the last year or so.

- . The pick-up in the housing sector is particularly impressive
 - Housing loan approvals by major lenders in the three months to August were 28 per cent higher than a year ago; and
 - Building approvals rose 12.4 per cent in the three months to September to be 22 per cent above a year ago.
- . Interest rates have been falling, even over the months in which we have been borrowing most of the funds required to finance the 1983-84 Commonwealth deficit.
- . Inflation has moderated to single digit rates, with excellent prospects for further large declines over the next year.
- . Consumer and business confidence are each strengthening.
- . The various indexes of production activity show a steady improvement over recent quarters; and
- . Employment has ceased its downward slide and there is every indication that the Budget time forecasts of a steady improvement over the course of this financial year will be realised or exceeded. The latest figures show that 82,000 new jobs were created, on a seasonally adjusted basis, between April, when we changed the course of Australian economic policy at the Summit, and October this year.

The latest survey of the tertiary sector undertaken by your own federal body showed, in the words of the Chamber, "A significant up-turn in tertiary sector trading results during the September quarter and the prospect of a further improvement in the December quarter".

The survey also indicated improved prospects for profitability and a slowdown in stock decumulation.

Other private sector surveys covering other areas in the economy are showing a similar picture.

All in all the signs are that this will be an excellent year compared with those of the recent past.

Indeed, growth through the current financial year, estimated at about 5 per cent for non-farm product and over 6 per cent in total product at the time of the Budget, and now looking better with revision of estimates of farm output, is strong by longer historical standards.

There is an even more remarkable turnaround in the trend, from decline through 1982-83 to strong expansion this year.

However, given the severity of Australia's economic problem, the prospect of one good year provides no reason for complacency.

We should also remember that the recovery, as always in the early stages, is as yet unbalanced.

Private investment is expected to be weak over the course of this year, with much of the growth being attributable to one-off influences such as the rural recovery and the turnaround in the inventory cycle.

The most important task for the Government, therefore, is to broaden this recovery and sustain it into the future.

This will require action in several areas.

First, we need to ensure that all major sectors contribute appropriately to growth, so that no single sector is stretched beyond sustainable expansion, and that bottle-necks in specific areas do not retard the overall improvement.

The short lived recoveries in the past decade have all been narrowly based and too reliant on development in one or two sectors.

This was particularly true of the 1980/81 up-turn which was largely generated by resources-related investment.

Secondly, we must set our macro-economic policies to avoid the instability in interest rates, costs and prices that have aborted incipient recovery at several points in the past decade.

We are aware of the danger that the coincidence of an excessive Budget deficit with strong growth in private investment in the course of recovery could strain financial markets, raise interest rates, and threaten recovery.

This was one subject of representations by the Australian Chamber of Commerce, to myself and senior economic ministers in Canberra a month or so ago.

We believe that the early financing of the current financial year's deficit, with the Commonwealth making relatively light demands in financial markets after Christmas, allows substantial recovery of private borrowing in the first half of the New Year, to meet seasonal as well as longer-term investment needs.

In the next financial year and beyond, we intend limiting the Commonwealth's borrowing to levels that are consistent with strong growth in private investment in the course of recovery.

In preparing next year's Budget, we will have regard to the prospective increase in the private sector's need for funds and we will ensure that the borrowing requirement of the public sector is adjusted in a manner consistent with this.

It is also essential that we capitalise on the much smaller increases in consumer prices that are expected next year to entrench lower inflation levels and expectations.

We believe that the Prices and Incomes Accord, and monetary policies designed to accommodate growth but not avoidable inflation, can achieve this result.

But they will, of course, require the support of the whole community, most importantly in ensuring full compliance with the recently announced wage-setting principles of the Arbitration Commission.

At the time of the Economic Summit some work was published which showed that, to reduce unemployment even to the levels which we might have considered tolerable just a few years ago we must consistently achieve economic growth of the order of 4 to 5 per cent per annum over many years.

Our economy has not managed to achieve growth of that order consistently over a number of years for a decade.

This is a state of affairs about which none of us can be complacent.

What has caused this poor economic performance and what, therefore, can we do to rectify the situation?

Obviously I do not intend to present a blue-print tonight.

However, I would like to raise some of these matters with you and to give an indication of the Government's approach to them.

Strong, sustained economic growth, at a rate sufficient to make a substantial contribution to destroying the scourge of unemployment, requires movements in new directions across the whole range of economic policy and performance.

In the area of macro-economic policies, the new approaches which we have implemented this year are necessary also for long-term growth.

We need steady expansion of demand at rates that will support strong growth but not inflation.

We also need moderation in all income claims, within the overall constraints imposed by the growth in national productivity, and the requirement to allocate equitably the benefits of growth.

The Prices and Incomes Accord provides a framework that allow adjustment to new circumstances as they emerge.

Strong growth over long periods requires high levels of investment from home and abroad.

Australia's high rate of savings out of incomes provides a good basis for high levels of domestic investment.

Most important of all is our investment in human skills - our most valuable resource for economic growth.

My Government is committed to raising the proportion of our young people who experience higher levels of formal education, to ensuring that the content of that education is appropriate to the complex modern world, and to improving support for a wide range of training and re-training on the job.

Substantial first steps were taken along these lines in this year's Budget.

Confidence in the durability of growth, long-term stability in policies, and policies that encourage the efficient allocation of resources to their most productive uses are also important to the maintenance of high levels of investment.

Even greater departures from past approaches are required in the area of micro-economic policies.

As a society and national economy, Australia must be more careful than in the past to allocate resources to their most productive uses.

This requirement is equally important in the public and private sectors.

In the public sector, my Government has given special attention to the careful allocation of resources to high priority activities.

The restoration of Australia as a fair society cannot be achieved without public expenditure at something like the levels of the recent past.

But we can get much more economic growth, and much more social equity, from the levels of expenditure that we have inherited.

We have established new mechanisms, including the Expenditure Review Committee of Cabinet, for controlling expenditure in line with the requirements of growth and equity.

But it is not an easy matter to re-allocate resources in line with national priorities.

The political pressures to maintain ineffective patterns of expenditure are formidable.

As examples of these pressures, I need do no more than refer to the dishonest political campaigns against our reform of superannuation taxation, our proposed assets test on old-age pensions, and our decision not to commit over half a billion dollars of taxpayers' money to construction of an Alice Springs to Darwin railway before having the benefits of a careful independent economic evaluation.

We are determined to resist pressures for irresponsible public expenditure.

But we will be assisted greatly if we have the support of bodies like this Chamber in our commitment to efficient and equitable patterns in public expenditure.

Efficient allocation of resources to their most productive uses in the private sector depends on government regulatory policies as well as upon attitudes within the private sector itself.

We recognise that there are many features of the regulatory environment that has developed in Australia that inhibit growth.

Our general approach is to let markets do their job where they are working efficiently, but to intervene where this is necessary to correct market failure, or to achieve some clear equity objective.

We will soon be receiving the Report of the Martin Committee, which is examining the system of regulation of financial markets in the light of my Government's social and economic objectives.

We expect that there is scope for reform of the financial system, to promote growth at the same time as enhancing progress towards our objective of building a more equitable Australia.

It is widely accepted that the taxation system we inherited often discourages the allocation of resources to their most productive uses, at the same time as it distributes the burden of taxation inequitably.

The taxation changes in the May Economic Statement and the Budget represent progress towards a more efficient and equitable taxation system.

We have been seeking further reforms which would promote efficient resource allocation and growth, for example through the rationalisation of distorting levies and charges in the resources sector.

At this stage we are also seeking, through EPAC, to put together the data base relevant to further consideration of these issues.

With the benefit of this information, the Government will consider feasible options on further taxation reform.

We all have doubts about whether past industry policies are appropriate in current circumstances.

As a nation, our prospects for growth will be enhanced the more we commit our resources to industries which are more productive, relative to other industries, in Australia than in other countries.

Our growth opportunities are enhanced by our location in the Western Pacific, the most dynamic region of the contemporary world economy.

But we will be able to use these opportunities only if our economy is open to high levels of international trade.

This gives special relevance to the ongoing debate in Australia about the appropriateness of the existing levels and pattern of protection.

We are committed to maintaining current levels of protection while the economy remains in recession.

But we look forward to opportunities for gradually reducing protection in a future environment of confidence in sustained growth.

In this context, it is sometimes overlooked that for our most highly protected industries, which are protected by quotas on imports, effective protection can be reduced by rationalisation of domestic production to raise productivity and reduce costs, even if there is no increase in the volume of imports.

For example, we believe that there is considerable scope for cost reduction along these lines in the motor vehicle industry, to make domestic production much more competitive relative to imports.

My Government has no ideological objection to becoming directly involved in efforts to encourage more efficient patterns of production in industries which have been receiving high levels of government assistance, in order to realise potential for clear gains in efficiency.

More generally, our industry policies will be designed to promote the expansion of our most productive industries, and strong growth in productivity in all our industries.

Importantly this means making effective use of new technologies, whether developed in Australia or absorbed from abroad.

Sustained economic growth will require the progressive adoption of such technologies both by new and existing industries.

The effectiveness with which we apply new technology will determine the efficiency of Australian industry, its competitive performance and its capacity to grow.

For Australia small business has an especially important role to play.

The Chamber's recent creation of the Small Business Association of New South Wales is a timely recognition of this.

We rely upon small businesses for a great deal of the innovative and enterpenerial talent so necessary to our economic growth.

As such, they are a major source of new jobs - particularly in the tertiary sector.

Australia needs a strong, viable and diverse small business sector.

This was recognised at the national Economic Summit in Canberra and small business is now represented on EPAC.

The realization of Australia's potential for sustained strong growth will require many groups in our society to accept faster rates of change than they have in the recent past : structural change in the economy; changes in technology; changes in the location and content of work.

This will be possible only if there is broad consensus in Australia about the desirability of change.

This broad consensus can be achieved only in the context of policies designed to achieve an equitable distribution of the benefits of growth.

This broad consensus can be achieved only if there is close consultation at all levels of our society about the effects of change.

The Government has promoted consultation through the National Economic Summit Conference and the Economic Planning Advisory Council, and through a wide range of less formal consultations with business, workers and community groups, including on occasions like this.

We are keen to promote consultation, for example on the introduction of new technology, at all levels in the work place.

The Labor Government sees these concerns for social equity and consultation as necessary parts of a better Australian society.

They are also integral parts of our ambition to sustain economic growth in Australia.

My Government aims to restore Australia to the front rank of the world's economies.

We have been putting appropriate policies into place and now look to all Australians to rise to the challenge.
