



**PRIME MINISTER**

**SPEECH BY THE PRIME MINISTER  
CONFEDERATION OF AUSTRALIAN INDUSTRY  
SYDNEY - 30 AUGUST 1984**

Ladies and gentlemen

I very much appreciate this opportunity to address you tonight.

Your Forum's theme "Business Competitiveness : The Challenge of Recovery" is both timely and apt.

In this context it is appropriate to focus on the Government's macro-economic policies and performance, and on more specific policies that affect industry.

On both fronts I believe we have already made considerable progress.

Every indication suggests that the recovery is now well underway. Our policies give every reason for confidence that we can consolidate it and secure it for the medium and longer-term.

This is the Labor Government's highest priority.

It is an integral part of the program launched in March 1983 to secure sustained non-inflationary growth, to bring Australians together and to build a more equitable Australia.

The record to date has been an impressive one:

- In the year between the June quarters of 1983 and 1984 economic growth was over 10 per cent, making ours the fastest growing economy in the Western world, with the fastest recorded growth in the 25 years since quarterly national accounts have been compiled.

This has been accompanied by strong growth in employment with some 230,000 Australians finding new jobs. This pattern will be sustained during the coming year. With employment forecast to expand by  $2\frac{1}{2}$  per cent through the year, we shall by next June have seen 400,000 new jobs created since the Summit - comfortably within reach of our election promise to create half a million new jobs over three years.

The rapid turnaround in economic activity has also been accompanied by a marked reduction in inflation. Contrary to the school of economic thought that dominated Australian policy thinking before the Labor Government took office, we are succeeding in fighting unemployment and inflation at the same time.

This achievement has been made possible by the historically unique Prices and Incomes Accord struck between the Australian Labor Party and the A.C.T.U.. With the Accord in place, we have an agreed basis for wage and price restraint in a sustained economic recovery.

The progress of the past year will be continued in the year ahead. Non-farm GDP is forecast to rise by 5 per cent this year - a second year of extremely strong expansion by the standards of the past decade, and in line with our long-term requirements.

Consumer prices are also expected to rise by only 5 per cent through the current financial year, without any Medicare effect. This is down to the expected average of OECD countries after being twice the OECD average when we took office.

Reflecting these improvements in growth performance and inflation, real unit labour costs have fallen dramatically and the profit share is now higher than at any time for a decade.

Interest rates have also fallen appreciably. During the past year they have dropped a percentage point for most home loans and more for other lending activities. The bond tender announced on Budget night and closing earlier this week generated interest rates a percentage point below those of the last tender, and two and a half percentage points below those of a year ago. Lower interest rates contribute to lower costs directly, and also indirectly through their effect on the exchange rate.

It is not at all surprising, in these circumstances of continued strong growth, restraint in wages and prices, very strong productivity growth, declining interest rates, and real unit labour costs back to the levels of the late 1960's, that surveys of business intentions are now suggesting that business investment will return to growth year on year in 1984-85.

The immediate outlook then is for a strong, balanced and sustainable level of domestic economic activity. This is a basic precondition for resurgence in the business sector.

But what of the prospects for the medium and longer-term? Here the key is to be found in the theme of this Forum : in greatly strengthened and continually strengthening business competitiveness.

There are many dimensions to the enhancement of our competitiveness.

Fundamental to the achievement of such an outcome is the maintenance of the stable macro-economic environment that we have established over the past year. By sustaining the benefits resulting from lower real unit labour costs, falling interest rates and a market-related exchange rate, we contribute directly to the competitiveness of Australian business.

We know that the maintenance of a favourable macro-economic outlook will require restraint in the growth of Government outlays. We expect to continue to reduce the budget deficit in the course of economic growth and revival of private investment over the next few years. This is consistent with the Government's continued focus on the economic outlook for Australia in the medium to long-term, and with statements made by the Treasurer and myself around the time of last year's Budget.

The Government believes that continued reduction of the deficit on the pattern of this year's budget is consistent with continued implementation of reforms and new programs, which strengthen the Australian economy and society, and improve our provision for Australians in need.

It is consistent with this continued program of reform, because we are prepared to contain and reduce expenditure in areas which do not have the highest priority for the Government.

In this context, the real growth in outlays of 6.1 per cent in this year's Budget represents much more substantial overall restraint than is immediately apparent.

If we exclude the once-for-all increases associated with the Medicare reforms, this year's real growth in outlays is about 4 per cent compared with 6.7 per cent in 1983-84 and 6.3 per cent in 1982-83.

This 4 per cent itself is inflated by two considerations which are important this year, but which will be much less significant in future.

The drastic reductions in expectations about inflation as measured by the GDP deflator, of about two and a half percentage points between February this year when the forward estimates were prepared and the completion of work on the Budget, meant that a number of commitments entered in money terms early in the year were larger than would be necessary in more normal circumstances. Similarly, debt servicing commitments are set in the short term in nominal terms, and thus real terms equivalents are raised for a while by sudden and large reductions in inflation.

Further, the strong growth in outlays through 1982-83 and 1983-84 would have carried through into significant growth in real outlays in 1984-85, even if there were no growth in expenditures from the level of June 1984.

Thus it will be clear that a very substantial degree of expenditure restraint is reflected in this year's appropriations.

Following the experience of two Budgets, I am firmly of the view that we must review our traditional procedures of Budget formation with a view to utilising fully the opportunities for financing any new programs while continuing substantially to reduce the Budget deficit.

When Budget decisions are taken on the eve of or even after the commencement of a new financial year, a Government's options for securing major savings without disruption and waste are severely truncated. In future Budgets, we must seek to extend the lead times both in preparation of the expenditure side of the Budget, and in implementing expenditure decisions.

As regards the size of future deficits it should also be recognised that it is possible to make substantial reductions by holding the growth in Government expenditure below the growth trend of the economy in the years ahead.

At the same time it is widely recognised including by the Government that reform is necessary to promote the equity and efficiency of the taxation system. The Government will be receptive to the views which emerge from community discussion of these issues.

But let me put one issue to rest. We do not believe that taxation reform will be to Australia's advantage if it involves overall increases in taxation as distinct from greater efficiency and equity in the system. The Labor Government does not believe that higher overall levels of taxation are necessary for substantial reductions in the deficit, for improved equity, or for enhanced efficiency of our economic system.

The changes announced in the Budget reflect this assumption and will, I believe, be helpful to the maintenance of business competitiveness: the extension of the time allowed for installation of equipment qualifying for the investment allowance; the opportunities for company groups to consolidate their accounts for taxation purposes; the faster depreciation of income-earning non-residential buildings; and the capacity to write off expenditure on mineral exploration against income from any source.

The Government knows that there are still weaknesses in the old Australian corporate income tax arrangements. We are aware of some business views that even faster depreciation than under the arrangements introduced in 1982 would be conducive to high levels of investment and economic growth.

But the Government is also aware of the budgetary costs of further measures along these lines. We believe that further community analysis and discussion is required before we are in a position finally to settle our view on appropriate long-term corporate income taxation arrangements to support high levels of sustained growth.

Sound macro-economic policies are fundamental to improved Australian competitiveness and sustained growth but they must be supplemented in other ways.

Ultimately our success will also depend on the employment of our human and natural resources in their most productive uses; on our application of the best technology, sometimes by developing new technology ourselves, and sometimes by absorbing it from abroad; on high levels of investment from home and abroad; on our making effective use of opportunities for profitable international trade, especially in our Western Pacific region where economies are expanding more rapidly than any in the world; and above all by working together - Commonwealth and State Governments, unions, and business - to find solutions to the problems which inevitably arise in the pursuit of growth.

In building a more dynamic, outward-looking and competitive industrial base, we are particularly fortunate in Australia's geographic location in the most dynamic region of the world economy. This proximity makes it much easier to establish an appropriate trading role for ourselves, based on our resource endowments and competitive advantages.

The success we are having in developing the China Iron and Steel Initiative is a case in point. In spite of considerable public scepticism at the time of the announcement, and pronouncements that it would come to nothing, runs are already on board and many more are in prospect. Already this year we have secured an agreement on economic and technical co-operation in this field.

We have also secured a number of most useful contracts for the delivery to China of Australian iron ore, manganese and steel products. And all this, as I say, is just the beginning. What is already a valuable trade, is going to become vastly more important.

My regional trade initiative has also produced valuable results. The round of consultations it has engendered on issues likely to be involved in any new round of multilateral trade negotiations, has been greatly appreciated by all countries concerned.

For Australia, access to world markets is not a luxury to be pursued as an afterthought to domestic economic policy. We need such access if our industries are to offset the disadvantages of small local markets.

I should like to think such a proposition was simply stating the obvious. Historically, however, the approaches adopted to industry development in Australia would seem to suggest otherwise. Preoccupied with the notion and accepting the limitations of the small Australian market, most Australian Governments have, at the behest of both industry and labour, moved to create conditions of self-sufficiency in the local market place. They have sought to shield those within it from external competitive pressures.

The protective measures they adopted wrought large costs in our society in terms of higher prices, severe misallocation of resources, and a loss of dynamism and potential for growth. Importantly they also deflected attention from the possibilities emerging in the world around us, and reduced what capacity we may have had to pursue such possibilities.

The preconditions for the emergence of truly competitive Australian industries were being stifled.

The Labor Government has sought to redress this situation. Already we have shifted the terms of the debate away from an unproductive emphasis on the free trade vs. protection issue, and instead focussed attention where it belongs - namely on the conditions of competitiveness of Australian industry.

The best means of coming to terms with competition is to improve Australian industry's own competitiveness by restructuring and investing and retraining to reduce costs.

Import replacement, like export expansion, is a thoroughly good thing if it is the result of improved competitiveness. But import replacement which requires increased protection because it is not supported by improved competitiveness, imposes costs on other industries and the whole economy, slows growth, and costs us jobs that we desperately need.

I am an optimist about our capacity to lower costs, replace imports and expand exports in a wide range of industries, including manufacturing, through improved competitiveness and without increased protection.

I am heartened, for example, by the strong, positive response of workers and business to the Steel Industry Plan. The Plan involved a major liberalisation of trade with the removal of a range of temporary import quotas imposed by the Fraser Government.

Through co-operation between Commonwealth and State Governments, unions and business in this sector we have been able greatly to lower costs, strengthen competitiveness, and improve the position in domestic markets, alongside the reductions in protection.

Jobs and investments in the steel industry are infinitely more secure now than they were when we came to office. The industry is moving towards a position in which it can realistically look to expansion through exports. And the steel-using industries of Australia, which themselves provide so many jobs, have been provided with relatively lower cost steel, and with better service in a more competitive environment.

The approach the Government took to restructuring of the Australian steel industry was one manifestation of a growing recognition that the achievement of a competitive Australian industry base is going to require a recognition by all concerned of the need for quite thorough-going structural adjustment in many parts of Australian industry.

- . Industry needs to be more outward looking, actively seeking out new products and markets;
- . Industry needs to be more willing to adopt new, more efficient means of production, often characterised by new technology;
- . Industry also needs to be aware of opportunities provided by our indigenous research and development, and by the use of better trained and skilled workforce.

These desirable features are relatively easy to describe; what is more difficult is to put in place policies which will bring them about.

I, for one, certainly do not subscribe to the view that increased Government involvement in the running of all aspects of the economy will necessarily lead to a better run, more dynamic industry; nor do I believe that the provision of additional assistance is necessarily the answer. But neither is an unfettered free market approach likely in today's complex world to provide effective, equitable solutions to all problems.

In an economy such as Australia's, the best solution will be a mix of Government involvement and the forces of competition. Government's concern should be with the broader community and social consequences of change, while the forces of competition should provide the signals to which industry, in the free play of the market place, will adapt.

The Labor Government has made very clear its view that changes in this area, while desirable and inevitable, should be gradual. As a community we need to cushion the impact on those who will be adversely affected by change.

But it is not as if we are now faced with an entirely novel situation. In the post-war period Australian industry has undergone a massive transformation.

With this experience behind us, and an economic recovery which is now providing additional job opportunities for Australians, we can be more confident of our ability to address the structural changes required to make our economy more open and more competitive.

The Australian Labor Government has advocated an approach to industry policy based on consultation and discussion with those involved in a particular industry. We have formalised this process by establishing industry councils under the aegis of the Australian Manufacturing Council.

- This enables all parties to share information about a particular industry, including its prospects and the problems it faces. It also enables the marshalling of support for any structural changes deemed necessary.

Policy decisions taken in such circumstances should be well-informed of the circumstances facing a particular industry. An approach of this kind is in no way arbitrary; nor does it carry any risk of alien solutions being superimposed from above. It is also an approach likely to produce soundly-based rather than lowest common denominator responses to an industry's contemporary needs.

This approach has been reinforced through the establishment of more general consultative mechanisms such as EPAC. In that forum, information on economic policy and longer term industry trends can be exchanged. Such information is important, contributing as it does to decisions by employers, employees and Government that will draw on a common understanding of the future and of the likely implications of alternative approaches.

I have already referred to the Steel Industry Plan. The Government's motor vehicle policy is another good example of our approach.



For decades the motor vehicle industry was plagued by Government reactions to short-term crises. In spite of rising levels of protection that industry's performance continued to deteriorate. This was costly not only to the consumer, but also to the industry since continually changing Government policies did not promote an environment for appropriate planning and investment.

It was against this background that the Labor Government established a Car Industry Council comprising representatives from the various sectors of the industry. The work of the council and its report provided the Government much needed information about the nature and extent of the ills affecting the industry.

Almost as importantly, it also provided a forum for discussion between participants from industry, unions and Government. I believe that this laid the foundation for a greater understanding of the industry's problems than had hitherto been achieved.

As a result of this process of consultation the Government was able to introduce an industry plan which will promote the development of a more efficient car industry with long-term job security as a consequence.

The industry has been given a period of time to adjust to phased reductions in the level of protection currently provided. Incentives to develop export markets and for research and design activity have also been provided.

At the same time, the Government has designated the motor vehicle industry for the purposes of the labour adjustment training arrangements scheme. This will provide re-training assistance for retrenched workers.

Although it is too early to claim success for the plan, there have already been some early indications that the plan has provided the requisite environment for investment in the industry.

Ford has indicated that it will spend more than \$48 million to install an aluminium casting machinery centre in Geelong. Toyota has announced its intention to invest some \$250 million over the next five years. The announcement by GMH to re-badge the Nissan Pulsar is also encouraging and represents a movement towards the called-for reduction in the number of models.

While it is a practical, and indeed the only sensible way of proceeding, to deal with structural change on an industry-by-industry basis, it remains legitimate to consider where we are heading with the emphasis we place on ensuring the conditions of Australian competitiveness.

There are indeed views put to the Government from time to time about what would be a desirable pattern for the future growth of Australian industry. But we as a Government are not in the business of "picking winners". Our concern is rather with seeking improvements in Australia's long-term economic growth performance through improved competitiveness and greater use of opportunities for international trade. There can be no doubt that Australia should be seeking to reap the benefits of specialisation in those areas wherein we have a marked comparative advantage.

Alongside expansion of industries based on our natural resources, we should be prepared to take advantage of the opportunities provided by our trading partners as they gradually upgrade their import needs towards more skill-intensive products and services

- Our industry must adopt an aggressive, competitive stance to capture these new markets as they develop.

Trade in services should be of particular interest - although we have scarcely yet begun to scratch the surface of the possibilities.

The Government is particularly mindful that the pursuit of such possibilities - indeed the whole process of structural change - will have consequences for the distribution of incomes.

This makes especially important the adoption of fair taxation and social security arrangements, and strong growth in employment.

Above all, as recognised clearly by the Labor Government, there is a continuing need for labour market programs both to provide additional job opportunities for those who are disadvantaged, and to ensure that Australian workers are equipped with the experience and skills to match the new opportunities.

Total expenditure on labour market and related employment and training programs will be \$1.1 billion this year, double the provision for 1982-83. We also have the Kirby Committee currently reviewing the whole gamut of Government training programs and, side by side with this, have recently announced a long-term funding program involving substantial increases in Commonwealth assistance for schools, and made provisions for an additional 30,000 places at universities, colleges and TAFE's by 1987.

Equally importantly the Government has also initiated reviews of the quality of education at all levels. We are most concerned to improve the relevance of the education process to employment opportunities and to the future needs of industry.

Indeed we regard the recussitation of our education institutions as a sound and vital investment in our future, complementing our policies to restructure Australia's industrial base.

The Government has been heartened by the growing acceptance of what it is trying to achieve through its industry policies. That support is now widespread, among both employers and employees.

The awareness this implies contributes importantly to the climate among decision-makers at the industry level which will make possible the improvement in conditions so necessary for competitive Australian industry structures.

This awareness hinges on a recognition of the benefits of the consultative process; through such a process we avoid the risk of a directionless and confusing policy vacuum.

Any such vacuum would mean an inevitable return to the futile and debilitating patterns of confrontation of the past. None of us want that.

Indeed the historically low levels of industrial disputation registered over the last year have given our nation a real chance to realise its full productive potential. This is the visible demonstration of the benefits of a true "consensus" approach.

Consultation also allows all parties to share information and reach agreement on a course of action - it is an integral part of a purposeful, co-operative approach to industrial change.

The consulative mechanisms we have established are also a fundamental part of the Accord. As such they make a major contribution to continuing recovery and to the maintenance of price and wage stability. None of us can afford a return to the divisive patterns of the past.

Instead, what we need to do is to build on the consensus approach to national economic development issues commenced at the National Economic Summit Conference last year.

In this regard, a sound approach to the framework for future industry development is crucial. Rather than playing King Canute, we should all recognise and accept the need for adaptability in industrial structures and policies so that industry can withstand changes in its circumstances, and respond positively to these.

Importantly, this means moving to integrate manufacturing policy with external policies, especially trade.

To the extent we succeed in this, in creating the conditions for an expanding, export-oriented manufacturing and service sector, we shall have a basis for providing employment growth and satisfying career opportunities for future generations.

We look to the Confederation of Australian Industry to help in the task of addressing these issues.

I thank the CAI, and particularly its President Mr Don Hughes, for the very constructive and forthcoming support they gave at the Economic Summit and since then in EPAC. While of course we would not expect always to agree on all issues, nevertheless it has been a matter of great satisfaction to me and the Labor Government that you have been prepared to co-operate so consistently and so constructively to the greater good of our country.

With the support of bodies such as the CAI, I am sure we shall not only secure the necessary community understanding of the issues involved, but will also successfully meet the great challenge they present.

The task is not an easy one, but, for Australia, we must succeed together.

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