



PRIME MINISTER

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SPEECH BY THE PRIME MINISTER, HON. R.J.L. HAWKE, AC, MP
BUSINESS COUNCIL OF AUSTRALIA - SYDNEY - 21 SEPTEMBER 1984

I would like to begin by recording my thanks to Sir Arvi Parbo for the way in which he has facilitated contact between the Government and the Business Council over the past year. I extend my best wishes to the new Chairman, Mr Bob White, and look forward to continuing close co-operation.

It is now just over a year since I addressed the first meeting of the Business Council of Australia.

The year that stands between your first and second annual meetings has been one of great achievement for your Council, and for Australia.

Already the Business Council of Australia and its members are making a constructive contribution to public policy-making and public education in the interests of improved economic performance.

And for Australia there has been clear progress on the changing of attitudes, the building of new institutions and the development of new approaches in many areas of public policy, which are necessary for sustained, strong non-inflationary growth.

Through the last year we have experienced the strongest growth in economic output since national accounts data were first collected in their present form a quarter of a century ago.

Through the last year more new jobs have been created in Australia than in any other year in our history.

Through the last year we have seen inflation and inflationary expectations fall decisively, from about 10% the average of the industrial countries, to levels that are now as low as in line with our long-term target.

Faster growth and modest wage increases within the Accord have dramatically reduced real unit labour costs. The share of national income accruing to profits is now higher than at any time for the past 10 years. The continued successful operation of the Accord will enable still further improvement in real unit labour costs because there will be no increases in award wages over the twelve months to next April. Real wages costs per unit of output are now much the same as in the late 1960's to early 1970's.

This rapid turnaround in economic activity has been accompanied by the lowest incidence of industrial disputation, as measured by working days lost, for one and a half decades.

Interest rates have fallen appreciably, contributing directly to lower business costs and improved sales and investment prospects.

Our success over the past year or so goes beyond these quantifiable effects, to greater co-operation amongst major groups in our economy, and the enhanced community confidence that has emerged from new consultative mechanisms and institutions.

Australians have accepted and responded to the message that I have been advancing, that the objectives of each of Australia's various economic groups can be realised more effectively through co-operation than through the confrontation which had become an entrenched feature of Australian life.

As a result, there is a much improved environment for addressing the difficult economic issues and choices that we must confront as a nation if we are to achieve sustained, strong non-inflationary growth.

At the centre of our achievements to date has been the new willingness of key economic groups to enter into close and frank discussion with each other and with State and Federal Governments, on the removal of barriers to our economic progress.

The continued close consultation of business, unions and State and Commonwealth Governments will be even more important to our successful assault on impediments to strengthening our long-term growth performance, than it has been to our recent economic recovery.

I acknowledge with appreciation the positive contribution the Business Council and its members have already made to the development of the Labor Government's approach to a number of key policy issues which have arisen over the last year, for example on financial deregulation, fiscal policy, and needs-based welfare.

In one important area the Council is contributing to the implementation of policy : the Affirmative Action Program. The Business Council is playing a significant role in the course of the Program through the individual efforts of its member companies who are involved in the 12 months Pilot and through its representation on the Working Party on Affirmative Action Legislation with Mr John Uhrig. I am sure the contribution of both will help the Government to adopt a realistic and workable approach to the issue.

I also greatly appreciate the contribution that the Business Council and its members have already made to discussion on matters that must be on the agenda of future policy reform if we are to realise the great ambitions which we all share for Australia. Two major examples are your recent submission on taxation to the Economic Planning Advisory Council, and your thoughtful contributions on industry policy and business taxation this afternoon.

We both understand that there will always be some issues on which our perceptions differ. In the end the Government, elected by the Australian people as final arbiter of the national interest, must take responsibility for policy decisions.

But we will always make better decisions if we have access to honest and careful advice of the kind that we have received on many issues from the Business Council.

One important feature of our consultative processes is the way in which they have been open to community scrutiny : the positions that the Business Council, other business groups, the trade union movement and the States have put to this Government have been released for public scrutiny to a far greater degree than had ever previously been the case in Australia. For its own part, the Government has exposed its preliminary thinking on major policy issues well in advance of final decisions, to facilitate wider public comment.

There are, of course, some types of information which cannot properly be placed immediately in the public sphere. But I believe that we have defined these limits more generously to the community interest in public disclosure than any previous Government.

And the policy decisions that have emerged from the consultative processes reflect concern for the wider community interests, beyond those of the groups directly represented in consultations.

There was extensive public comment on the Government's consultation with the ACTU prior to the budget. What has received less comment, but which is I am sure appreciated by most of you here today, is the large amount of time that I personally have allocated to formal and informal discussion of policy with a wide range of business groups. But it would be wrong to conclude that this close consultation with some of the stronger groups in our community means that we have disregarded other interests.

To make this point, I need only refer to what has been done by this Government in only 18 months to assist the genuinely needy in our community, who are not represented directly by business groups or unions. The substantial increases in real pensions, benefits and services to the most needy groups in our society, including pensioners with children, pensioner renters, the single unemployed, beneficiaries of public housing and the aboriginal community, contrast with real decline in the previous seven years.

The strong employment growth which has accompanied the implementation of our economic strategy has made a substantial contribution to the alleviation of the most important single cause of poverty in our society - to the alleviation of both hidden and open unemployment. There is a long way to go, and our emphasis on lifting long-term growth performance is directed very much to continuing the recent progress.

The same point can be made by reference to the solutions to entrenched industry problems that have emerged from our consultative processes. They have yielded substantial benefits for the wider economy and society.

The major financial deregulation that we have been implementing over the past year has been accompanied by intense consultation by the Treasurer, Paul Keating, and myself, with relevant business and union groups. There is widespread agreement that the greatest beneficiaries are the many users of financial services, and the whole community through the contribution that the financial reforms will make to overall growth performances.

Similarly, the Steel Industry Plan emerged from John Button's intense consultations with business, unions, State Governments and steel users, all with direct interests in the health of the industry. All of these groups agree that the Plan has dramatically enhanced their own positions, through improving the competitiveness of the industry. But I believe that the careful choice of appropriate policy instruments in the Steel Industry Plan has brought major benefits to the whole community, through the provision of steel at lower prices and in a more competitive environment than was the case under the regime of import quotas which the Plan replaced.

I believe that the new approach to motor vehicle policy announced by John Button earlier this year will be similarly successful - encouraging more competitive industry, providing more secure employment and investment opportunities for those directly engaged in motor vehicle production, and better vehicles at lower prices for consumers than would have been available under the arrangements which we had inherited.

With iron ore, an innovative integration of trade and industrial relations policies, formally embodied in the Iron Ore Industry Consultative Council, the opening of which I attended in Karratha last month, is helping to restore dynamism to a major Australian industry and region.

In the troubled coal industry, last Friday, the Minister for Resources and Energy, Senator Peter Walsh, presided over a meeting of the Australian Coal Consultative Council. The meeting arose out of the crisis precipitated by the announcement of major retrenchments by companies operating on the South Coast of New South Wales.

Fortunately, we have been able to avoid the confrontation which is currently stalling economic recovery in Britain.

The meeting was characterised by the willingness of all parties to examine rationally the causes of problems, and the opportunities for strengthening the industry.

The Commonwealth Government, for its part, is willing to examine with an open mind all aspects of its own policies which bear upon the fortunes of the industry.

There are good reasons why the consultative processes which we have sponsored, and to which the Business Council and its members are contributing so much, have been yielding favourable results not only for the parties most immediately involved, but for the economy as a whole.

There are always many possible responses to an industry problem, often with vastly different implications for the wider community, even when they confer similar short-term benefits on one or other of the most interested parties. Each of us carries commitments to particular policy responses into any discussion of an industry problem. If the discussion is conducted in an atmosphere of confrontation, we are each confined in our initial positions, and in the process together we close off some superior options.

But in an atmosphere of co-operation and honest consultation, a wider range of possibilities is open to us. We can each take a longer-term view of issues. In this environment, we recognise more clearly a reality which should be obvious to us all, but which is obscured in the heat of confrontation. And this is the reality that a lasting, stable and secure solution - a solution that will be free from recurring industrial or political challenge - must be satisfactory for the wider community as well as for each of the central parties.

This Government's decisions on economic policy have been guided by commitments to consultation and consensus, to the equitable distribution of the benefits of economic growth, and to the achievement of sustained, strong non-inflationary growth. I have always seen these three commitments as inter-related parts of the one great program.

No progress can be made on any one of the three without support from the others.

Without sustained, non-inflationary growth, there can be no lasting progress towards any other objective.

Without sustained growth, high and rising unemployment must increase the number of our people without employment and living in poverty. Without sustained growth there will be insufficient resources to provide adequately for Australians in need.

But equally, only an Australian society that is broadly united on the great national goals, and which is seen by most of its citizens as a fair society, will embrace the changes which are necessary for sustained growth.

It is a particular task of national leadership, and one that I as Prime Minister am happy to accept, to influence the attitudes of the Australian community on a range of issues that are important to growth.

I think that Australians understand much more clearly now that eighteen months ago, that we can achieve strong growth over long periods only if we put our resources to their most productive uses. I think that it is now more clearly understood that productive use of our resources requires acceptance of new ways of doing things, structural change in our economy, rapidly changing patterns of foreign trade, and high levels of investment from home and abroad.

These changes in community attitudes, together with the confidence engendered by a year of strong economic performance, allow us to work together to sustain the recovery, and systematically to work at removing impediments to economic progress.

In the period immediately ahead, the greatest priority must be to sustain the recovery. We must strike the right balance between maintaining adequate growth in demand, and avoiding excessive pressures in financial markets, while keeping inflation on a downward path through the continued successful operation of the Prices and Incomes Accord.

Virtually all observers now agree that we found the right fiscal and monetary policy mix in the last financial year.

We believe that we have found the right policy settings again this year.

We are expecting a larger private sector contribution to growth this year through increased consumption and investment, and so judge it appropriate to moderate the extent of fiscal stimulus. But we have avoided winding back the fiscal stimulus so rapidly that recovery is undermined.

The July retail sales figures announced yesterday, and the revisions to earlier data, suggest that the growth in consumption is at least in line with the expectations that we developed in the course of preparing the Budget. But we are leaving nothing to chance, and look forward to further strengthening of private consumption from November, as the tax cuts and increased social security payments begin to influence spending patterns.

The continued growth in demand associated with expansion of non-farm product by about 5 per cent this financial year, together with continued wage moderation within the Prices and Incomes Accord, and lower inflationary expectations and interest rates, should support the higher levels of private investment anticipated in the Budget.

Several key features of the Budget were designed to maintain the momentum of private investment growth that has been indicated in the statistics since early this year: the large reduction in the budget deficit, from 4.3 per cent to 3.3 per cent of GDP, supported by the States' agreement in the Premiers' Conference and Loans Council to restraints on their own borrowing; and the tax cuts in support of the Accord.

Again leaving nothing to chance, we believe that the budget's business taxation package will help to sustain the recovery in private investment. In these matters, we have had both short and long-term objectives in mind. Each of the budget initiatives is consistent with our views on long-term business taxation reform: the company group taxation initiative; the more rapid depreciation for income producing non-residential buildings; the deductibility of minerals exploration expenditure against income from any source; and the partial and temporary extension of the installation period for plant and equipment.

As I have said on several occasions, we will further examine business taxation arrangements in the context of a taxation reform package.

The continued strengthening of investment oriented towards production for the domestic market now seems likely to be joined late in the financial year by the return of investment activity in the resources sector. CRA's Channar iron ore joint venture with China, the Portland and Bunbury aluminium smelters and the Bunbury power station, and the export phase of the Northwest Shelf Project, have all emerged as substantial near-term prospects over the past month or so.

I believe that there are excellent prospects for continued good economic performance through the current financial year - a view that I am pleased to know is shared by many of you here today.

This second year of strong growth with moderating inflation, amidst increasing community understanding of the requirements of long-term growth, and continued strengthening of Australia's consultative mechanisms and institutions, provides an ideal environment to intensify our efforts to reform policy and institutions in many areas important to long-term economic performance.

I wish to refer specifically to the general regulatory environment, Federal-State financial relations and tax reform, trade, and the relationship of our education system and training programs to the demands of the labour market. This is by no means an exhaustive list, but it includes some of the main areas that have been the subject of widespread public discussion, such as taxation reform, and others on which Government policy development is at an advanced stage.

I am convinced that after eighty four years of Federation, we have accumulated an excessive and often irrelevant and obstructive body of laws and regulations. We seek your assistance in removing from this accumulation as many as possible of those laws and regulations which serve no clear and useful purpose. We see the removal of unnecessary regulation as contributing significantly to improved economic growth performance.

I am inviting the ACTU and the Business Council to nominate representatives to work with Government officials on priorities in the reform of business regulation.

We will examine critically the whole range of business regulation, most importantly with a view to assessing its contribution to long-term growth performance.

We will maintain regulation which, upon careful analysis, clearly promotes economic efficiency, or which is clearly an effective means of achieving more equitable income distribution.

And we will abandon regulation which fails these tests.

Our reforms in the financial sector illustrate our approach and demonstrate our commitment to the abandonment of unnecessary regulation.

Where regulatory-reform is required, we will ensure that change is gradual when this is necessary to avoid placing excessive adjustment burdens on individuals and groups affected by change. And consistently with our whole approach to economic management, we will consult closely with representatives of groups that are affected by change.

In many areas, reform to promote economic growth will require not increased or reduced regulation, but changes in the policy instruments that are used, and in policy settings.

This has been the experience with our major sectoral reforms in manufacturing industry. It is consistent with the approach that is emerging within the Australian Manufacturing Council and the Economic Planning Advisory Council.

Obviously Federal-State financial relations and the taxation system are on any reform agenda. They are closely inter-related. I hope that a review of the division between the Commonwealth and the States of taxation revenues and taxation powers through the year ahead will lead to reduced reliance by the States on some of their more economically distorting taxes.

I have made it clear that we do not see tax reform as a means of raising the overall level of taxation. But there is widespread agreement within the Australian community that we do not collect taxation revenue through the most equitable and efficient means. The instruments through which the community contributes a given amount of revenue is a matter of considerable importance, even when there is no change in the overall level of taxation. Every hiker knows that the same weight can feel much lighter if it is carried in a more sensible way.

One theme of our program of reform is that sustained strong growth requires Australia to make more complete use of opportunities for profitable international trade, especially within our own Western Pacific neighbourhood, the most dynamic region of the world economy.

At a Government level, we have launched several initiatives which are greatly expanding commercial opportunities. The success we are having in developing co-operation with China on iron and steel, and more broadly, is one important example.

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

We are establishing an Australian Co-operation Committee to provide advice to Government on economic relations with countries in our region.

On these matters, I should record my appreciation of the advice and assistance of a very great Australian, Sir John Crawford, both before and after the time I became Prime Minister.

We have been careful to ensure that our domestic industry policy decisions are consistent with our international trade policy. This is supported by the widespread understanding that has developed within the community, that increased protection does not provide efficient long-term solutions to industry problems.

In the development of closer trade ties with our region, as in most areas of economic life, Government can do no more than provide a framework of expanded opportunities. It augurs well for Australia's economic prospects that the private sector is providing strong support for our efforts to expand Australia's Western Pacific links. Never before have Australians been so active in seeking opportunities for international business co-operation, and this is being rewarded with expansion of trade and investment.

I believe that nothing is more important to the strengthening of our long-term growth performance than the expansion of our efforts in training, re-training and education. This is an area of special Government responsibility, but here, too, we welcome guidance from business, the trade unions and the wider community. Total expenditure on training and education has been expanded considerably in the recent budget, with special emphasis on increased participation in relevant education.

But necessary as these quantitative improvements are, we attach even more importance to the relevance and quality of education. These are matters in which reform is inevitably slow. But there can be no doubt about our determination steadily to make progress.

The Kirby Committee is currently reviewing the whole range of Government training programs. And we have established the Kermer Committee to review the quality of Australian education, with a special concern to improve the relevance of the education process to employment and future economic opportunities.

At the same time, the Commonwealth Tertiary Education Commission, under its new Chairman, Hugh Hudson, is examining similar issues in higher education.

The receipt of the Hancock Committee Report will provide an opportunity to review longstanding Australian labour market institutions. Here, as elsewhere, we will be guided by observable realities, and not by an a priori presumption that regulation in itself is either good or bad.

This is an area in which I have had unique opportunities to observe the realities. This experience leads me to caution against simple and glib proposals for radical reform. Proponents of radical deregulation must be able to explain the Australia wage explosion of 1982-82, when the centralised wage-setting arrangements were in suspension. They must be able to explain why real wages growth is currently so high in Britain, with higher unemployment, less growth in employment, and less official labour market regulation than in Australia.

None of this argues against intelligent assessment of the Australian system with a view to improving further on the good recent experience.

We can only maintain community support for long-term structural reform in these and other areas if we are able to sustain our strong macro-economic performance.

We recognise that we must further reduce the Commonwealth budget deficit as private investment continues to strengthen in 1985-86 and beyond. Consistently with our commitment not to increase the overall level of taxation in the course of taxation reform, we will achieve this result by restraining outlays growth.

We will continue to implement monetary policy to support continued strong growth without accommodating inflationary pressures. In the aftermath of the floating of the dollar last year, we can be confident of delivering on this commitment.

And above all else, we will continue to promote understanding amongst the relevant parties on rates of wage increases that are consistent with strong growth without resurgence of inflation.

There will come a time when continued strong growth will justify some improvement in employment conditions beyond wage indexation.

In this regard, judgements about the appropriate time and scale of any productivity increases must depend on the durability and strength of the recovery, and above all on developments in the labour market.

Obviously, the stronger the growth in employment, and the larger and more rapid the decline in unemployment, the better the case for productivity adjustments in one form or another. I would want to see lower unemployment before we took substantial steps in this direction, but obviously this is a matter for discussion amongst the parties when we all have better information much closer to the event, and eventually for resolution before the Commission.

Mr Chairman,

It is a measure of our achievements in the past eighteen months that the economic policy agenda is dominated by long-term issues of economic growth and economic reform.

And I use the term "our" in a genuinely plural sense.

It is the achievement of this Government that we have provided the right direction at the right time. But our current improved position is as much the achievement of the business and farming communities, the trade union movement, the Australian Federation through the Premiers' Conference and the whole Australian community.

The economic and political stability of these past eighteen months have allowed the whole Australian people to lift its sights to the great future which is now within our reach.

I look forward to working with you for many years ahead, in placing Australia firmly on a new path of sustained, strong non-inflationary growth.

I am glad of the good company of the Business Council in this great venture for Australia.
