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PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
MELBOURNE CHAMBER OF COMMERCE
MELBOURNE - 29 OCTOBER 1984

I very much appreciate this opportunity to address you today.

Some of you may be aware that your invitation to me was made some time ago and that I was unable to accept at the time.

The delay has meant that I am able to report further evidence of strengthened economic performance. With the passing of time, the strength and extent of economic recovery is becoming increasingly apparent. At the same time, there is increasing evidence of decisive progress in the decade-long fight against inflation.

Today I want to talk to you about a number of aspects of the economic recovery which are vitally important to the well-being of all Australians.

I want to talk to you about our general strategy for sustained, strong non-inflationary growth.

I want to talk to you about employment.

I want to talk to you about industrial disputes.

I want to talk to you about how we have been keeping wages growth within the capacity of the economy, and about the other side of this coin, real unit labour costs to business and the profits share of total incomes.

I want to talk to you about inflation and interest rates.

I want to talk to you about housing.

I want to talk to you about the tax cuts which come into effect this week, and about broader taxation reform.

I want to talk to you about all these things that are absolutely vital to all Australians.

You don't hear much about most of these issues from the other side of politics these days.

When did you last hear Mr Peacock and Mr Howard talk about growth, and inflation, and interest rates, and housing, and employment and unemployment, and the profits share of total incomes?

Obviously they are not very comfortable on these subjects.

But they know quite a lot about them.

After all, Mr Howard was Treasurer and Mr Peacock was Minister for Industrial Relations at the onset of the great wages explosion of 1980 and 1981, which destroyed the profitability of Australian business and set the scene for the subsequent recession.

Mr Howard knows quite a lot about inflation. He could be considered something of an expert, since he created inflation rates that were well into double digits and twice the world average.

Mr Howard should know a good deal about unemployment. He was Treasurer when a quarter of a million Australian's jobs disappeared in the year before my Government took office.

Mr Howard was Treasurer when interest rates rose to record highs and housing activity slumped to record lows a couple of years ago.

Mr Peacock, Mr Howard and Mr Sinclair hold all sorts of records for industrial confrontation, wages explosions, high inflation and interest rates, housing slumps and growth in unemployment, not to mention the \$9.6 billion budget deficit that they tried to hide from the Australian people.

But don't be fooled.

Just because they won't talk about the special expertise they accumulated in seven years in government, it doesn't mean that they would not apply their expertise if, by some accident, they were ever to form a government again.

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A Peacock-Howard-Sinclair government would give us the stagnation, the inflation and the recession all over again.

They would wheel out the same old failed policies.

Only a bit messier, a bit more damaging, because, after all, those that are left in their ranks are really the second eleven of the last conservative government. I do not intend to be deterred by their silence from addressing the issues that matter most to all Australians.

I want to tell you what the Labor Government has achieved on the issues that most affect the standards of life of all Australians.

This Government is proud of its record on these matters.

This Government, and I as Prime Minister, can look the Australian people in the eye and say that we have delivered the economic recovery that we promised.

And because from the beginning of our period in Government we have been preparing and building not for one or two years of economic recovery, but for a long era of strong non-inflationary growth, we face the future with anticipation, pride and confidence.

When the Labor Government took office early last year, the economy was in deep recession, and Australia's political and economic life was characterised by destructive confrontation. The policies of the outgoing Government offered no way forward.

Economic growth was negative, the unemployment rate had risen to levels not seen since the 1930's Depression and our inflation rate was around twice that of our trading partners.

That was only twenty months ago.

The transformation in the economy's fortunes since that time can only be described as dramatic. The progress so far has created real opportunities for the first time for a decade, to entrench sustained strong non-inflationary growth in Australian economic life.

As I promised the Australian people in February 1983, immediately after taking office the Government convened the National Economic Summit Conference - an event unique in Australia's history. That initiative made manifest the Government's commitment to a new approach to economic policy.

I do not think it is possible to overstate the importance of the spirit of co-operation engendered by the Summit and the crucial contribution that it has made towards achieving sustainable economic recovery. In particular:

- . The process begun by the Summit and carried forward through EPAC has seen an unprecedented degree of information sharing and exchanging of ideas about feasible solutions to the twin evils of unemployment and inflation;
- . This process has been the concrete expression of the Government's commitment to consultation and consensus; and
- . It has helped to forge a new spirit of common purpose and a conviction that - together - we can overcome our difficulties.

The linchpin of the Government's macroeconomic strategy has been the Prices and Incomes Policy based squarely on the Accord with the ACTU. That policy has been outstandingly successful in constraining wage and price pressures.

Despite the worst claims of some of our critics, there has been almost universal compliance with the wage fixing principles laid down by the Arbitration Commission, reflecting in no small measure the restraint and commitment of virtually all of the trade union movement to the centralised wage fixation system.

A further measure of the success of the Accord is the sharp reduction in industrial disputation. The number of working days lost, in the last year is the lowest since 1969. And the mechanisms of the Accord can be expected to be instrumental in holding award wages growth below 3 per cent through the current financial year. Measured against Australia's history, and by any standards, this is an extraordinary outcome in the second year of strong economic recovery.

The change since early 1983 in Australian industrial disputation, in wage outcomes, in the profit share of total income - and in the prospects for all of these - is nothing short of phenomenal. It is being recognised well beyond our shores. Already it is being reflected in stronger demand for our mineral exports. It is a major cause of our greatly improved performance in all spheres of national life. It is the single greatest difference between life and policy under my Government, and life and policy under the Liberal National Parties.

With the Labor Government, Australia has left behind the debilitating confrontation and division of the past. The gains, measured in terms of productivity and competitiveness, are for everyone to share.

Wage moderation within the Prices and Incomes Accord has allowed us to use fiscal policy to stimulate economic recovery. We have done this by increasing resources to housing and other activities central to economic recovery - while cutting unnecessary expenditure, cutting taxes and re-ordering budgetary priorities.

Our Budgets have given special attention to alleviating the hardship and the distress of the unemployed and the disadvantaged.

We provided substantial funding for the Community Employment Program and for the Community Youth Support Scheme to assist the unemployed. Medicare now provides basic medical care for all Australians. There have also been 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, and the Aboriginal community. Our efforts to improve the living standards of these groups stand in stark contrast to the real decline in funding which occurred in the previous seven years.

At the same time, we have made a major investment through our fiscal policy to strengthening and supporting our Prices and Incomes Policy. Chief among such elements has been the tax cut in the 1984-85 Budget and improvements in the social wage. That has been a major investment in the sustainability of economic recovery.

The setting of our fiscal and monetary policies has been and will continue to be an important factor in ensuring that the recovery continues to broaden and strengthen.

In particular, restraint in the growth of public sector borrowing will be essential to limit pressures in financial markets as the private sector recovery broadens and increases momentum.

In the last Budget we achieved a substantial reduction in the deficit.

In conjunction with the restraint which States, at the Loan Council earlier this year, agreed to exercise under the new system of global borrowing limits for public authorities, this means that the public sector borrowing requirement as a proportion of GDP is falling, substantially in 1984/85. Further reductions will be achieved in later years.

The Incomes Policy and the fiscal stance have been supported by an appropriately firm monetary policy which has, nonetheless, permitted significant declines in interest rates, in line with reduced inflationary expectations.

1983/84 was the first time in years that any Government achieved its monetary projection.

And we have adopted a conditional monetary projection for 1984/85 that will continue to provide for strong economic growth while accommodating no more than the minimal cost and price increases that might flow from the effective operation of the Prices and Incomes Accord.

As the Summit bore witness, an important element of the Government's overall policy approach has been the consultative mechanisms including the formal Advisory Councils - from EPAC through to industry specific Councils - as well as a wide range of informal contacts.

Consultation has been a two way process. Through it the Government has benefitted from a wide range of views. Equally, it fosters greater community understanding and acceptance of Government policies.

The correctness of our general economic strategy has been confirmed by the clear message of economic recovery in economic indicators across the board.

Economic output has recovered dramatically, with GDP growing 10 per cent through the course of 1983/84, the fastest annual result since National Accounts have been kept in a comparable form, and the strongest performance in that year of any advanced country.

Part of this growth is attributable to the breaking of the drought and the consequent bounce-back of the rural sector. In addition, world economic activity began to pick up in 1983-84, particularly in the United States.

But those factors do not fully explain the rapid growth in non-farm product, which rose by 8.3 per cent over 1983-84; nor do they explain the strong underlying growth now running through the economy; nor the substantial progress which has been made towards achieving sustained growth.

They do not explain the pace of the expansion in housing activity, and they do not explain the lift in business investment which the latest National Account Estimates and investment surveys reveal.

The reasons for these are to be found in economic policies which have cut inflation, restored profitability, reduced uncertainty, boosted confidence and cut interest rates.

Inflation has been dramatically reduced - in the last six months the underlying rate of inflation has been only half of what it was in the six months prior to our being elected. The annual rate now of 6.1 per cent is the lowest inflation rate for more than a decade. Equally important, however, is that inflationary expectations have been substantially reduced. In this, the circuit-breaker to wage inflation provided through the Accord and the Medicare effect on the CPI has been crucially important.

As a result, we now expect no movement in award wages until April 1985. These lower inflationary expectations have enabled our fiscal stimulus to increase real activity rather than prices.

There has been a real improvement in employment as well as in output. Over 260,000 new jobs were created from the Summit in April 1983 to September this year, and the Government is well on its way to achieving the target of 500,000 new jobs in three years.

The unemployment rate has fallen to 8.8 per cent, down from 10.2 per cent in April 1983.

Importantly for business, and for new job prospects, real unit labour costs have fallen dramatically and are now at the levels of the late 1960's and early 1970's. I would add that the measure of labour costs to which I am referring is based on the National Accounts Estimate of wages, salaries and supplements. It therefore includes an estimate of most on-costs.

Reflecting the restrained growth of unit costs, the profit share has risen to its highest level in the last 10 years. That summary measure - also based on the National Accounts - is being confirmed almost daily by profit reports of individual companies.

Interest rates have fallen across the board, from housing loan rates which are down by up to 1 per cent; through larger falls in yields on official securities; to a drop of up to 2 3/4 per cent in the prime overdraft rate.

The Government's economic policies, together with the success of the First Home Owners Scheme, have led to a dramatic recovery in the housing sector. Commencements in 1983/84 were 30 per cent above the 1982/83 level, and in the first half of 1984 ran well ahead of our announced target of an annual rate of 130 to 135 thousand.

The latest forecasts predict even higher commencements in 1984/85. Indeed the industry is expected to be performing at close to its capacity. The lift in this sector not only directly provides jobs and alleviates the housing needs of many, but also contributes to strengthened demand for a wide range of goods as households establish themselves.

With that record already behind us, it is not surprising that confidence in the community is at a high level. Consumer surveys continue to show optimism at record high levels, while surveys of business indicate that trading conditions and profitability have improved in recent quarters and firm expectations of further improvements over coming months.

The survey results have been borne out by a turnaround in business investment, which increased in the March and June quarters after 3 successive quarterly declines. Business itself expects further growth in investment through 1984/85, an expectation that has been assisted by our specific actions in the Budget to encourage such investment. These include the introduction of company group taxation; lifting the depreciation rate for commercial buildings from 2 1/2 per cent per annum to 4 per cent per annum; and an extension by one year of the time for the eligibility of plant ordered before 1 July 1985 under the terms of the investment allowance.

While working towards these clear achievements in reducing inflation, expanding employment and providing the basis for a sustainable recovery, the Government has from the very beginning given high priority to issues relevant to raising Australia's long term growth performance.

One area of concern is the burden that excessive and often irrelevant and obstructive laws and regulations imposes on the economy and on the operations of businesses. We see the removal of unnecessary regulation as contributing significantly to improved economic growth performance. The Australian Chamber of Commerce is one of several national business organisations which have pledged their assistance to the Government in its efforts to remove unnecessary regulation.

I believe that this Government is the first to have begun tackling deregulation in an effective manner.

The major financial deregulation we have been implementing over the past year is benefitting the many users of financial services and the whole community through the contribution of financial reforms to overall growth.

The Steel Industry Plan and the approach to the Motor Vehicles announced by John Button earlier this year provide a realistic basis for improving the performance and efficiency of Australian industry in these areas. They are an integral part of our strategy for ensuring sustained, long-term economic growth.

Looking to the future, there is every reason to expect that strong economic growth will continue.

The Budget forecasts indicate continued strong growth in activity at around 4 to 5 per cent, further gains in employment of over 2 per cent through 1984/85, and lower underlying rates of inflation.

There has been nothing since the Budget to cause us to revise that broad assessment in any way downwards. Rather the opposite - indeed, revised forecasts of the farm sector by the Bureau of Agricultural Economics suggest an upwards revision to farm GDP: and private investment and consumption both appear to be performing as well as or better than anticipated in the Budget.

In the three months to August retail sales rose by 1.7 per cent compared with the previous three months and it seems likely that private consumption spending will show strong growth in the September quarter.

I know that some concern has been expressed that the timing of the election may prejudice the growth of retail sales. You should remember that some powerful countervailing pressures will be operating. From next week, tax cuts will be increasing everyone's take home pay. For the great majority the increase will be \$7.60 per week. Increases in pensions and benefits will also mean higher disposable incomes.

Single rates of pension and benefits will increase by \$2.50 a week, which represents an increase in real terms beyond that required for indexation. The rate of rent assistance will rise by \$5.00 a week, or 50 per cent, while supplements for children will increase by \$2.00 a week, bringing the total increase in child supplements since we came into office to 40 per cent.

This is happening at a time of year when spending always tends to be high and when, furthermore, consumer confidence is at record levels. Retail sales should reflect the combined benefit of all these factors.

To maintain the recovery and to establish sustained non-inflationary growth, we must address a range of difficult issues.

We will continue to reduce the budget deficit as private investment expands strongly - as it will do - next year, and beyond, in the course of economic recovery.

In this area, our record as responsible fiscal managers stands for all to see.

We delivered a final 1983/84 Budget deficit of under \$3 billion, substantially lower than the inherited prospective deficit of \$9.5 billion, and the 1983/84 Budget estimate of \$3.4 billion.

In the 1984/85 Budget we reduced the deficit by a further \$1200 million, as compared with 1983/84.

Let there be no doubt, under my Government the deficit will be reduced further next year.

We believe the only long-term way to reduce deficits is through growth in the economy, coupled with firm control over Government spending.

We do not believe that there is any scope for reducing the budget deficit by increased taxation.

I give you the categorical assurance that there will be no overall increase in the tax burden, next year or through our next term in office.

But while avoiding any increase in the overall level of taxation, we will not let down the Australian people, who believe that the whole taxation system is in need of a thorough overhaul.

We all know that the burden of taxation at the moment is distributed unfairly.

And we all know that there are features of the Australian taxation system that inhibit production, investment and employment.

What is needed is not a quick political fix, but a careful review in full consultation with the Australian community.

My Government is proud of the economic recovery of these past twenty months.

But we recognise that these are only the beginnings of our struggle to achieve the great ambitions we share for Australia.

Australia needs and deserves not one or two years, but a generation near the top of the world league table of economic growth.

Australia needs and deserves not only higher employment and lower unemployment, but a return to full employment.

Australia needs and deserves not a period of lower inflation, but permanently low inflation.

Australia needs and deserves a Government that is conscientious in allocating part of the fruits of national economic growth to genuinely needy Australians.

These are the great ambitions we all share for Australia.

And now, after a decade of despair, Australians justifiably are daring to hope that they can realise these great ambitions.

The Australian Government is working to realise these hopes and ambitions.

I look forward to your continued support in this great venture for Australia.
