PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
DECISION MAKERS LUNCHEON - PERTH - 12 APRIL 1985

Ladies and Gentlemen,

Thank you for inviting me here today to address your "Decision Makers" luncheon. It is a pleasure once again to visit a State where there are so many exciting economic developments taking place.

This weeks news from the business world has focussed attention on progress towards the launching of the largest private project in Australia's history - the export phase of the Northwest Shelf. I am pleased to be able to say that the excellent co-operation between Brian Burke's government and my own, in particular through our respective Resources Ministers, Gareth Evans and David Parker, helped recently to avoid a last-minute hitch in arrangements for the project.

I am particularly looking forward to the visit over the next few days of General Secretary Hu Yaobang, which will begin here in Western Australia.

One of the matters that we will discuss here in Perth tomorrow and in the Pilbara on Sunday, is co-operation in the iron and steel industries of Australia and China. Already this co-operation has meant a great deal to Western Australia, through China's increasing purchases of Pilbara iron ore. And we are all aware of this State's interest in the on-going negotiations on the Channar and Kwinana projects.

Hu Yaobang's visit will signal a new era in Chinese-Australian relations. It is indicative of a growing relationship between our two countries that will be important for all Australia, and because of the significantly increased prospects for resource development that this relationship offers, particularly for Western Australia.

More will be said over the next few days of the strength and developing character of our relationship with China, and I do not wish to dwell on that aspect of our overall policy approach in these remarks.

Rather I wish to concentrate today on economic policy more broadly, paying attention to some critical policy questions which are now before the Government.

I do so in the knowledge that some commentators seem sceptical of the Government's ability to deliver the necessary policy responses.

I remind the doubters that the sceptics were even thicker on the ground two years ago. Yet we delivered, as promised. And we will continue to deliver.

The historic National Economic Summit began two years ago yesterday.

On that occasion, and throughout the election campaign which preceded it, I outlined the Government's approach to economic policy and economic policy making.

Our approach to economic policy was based on an integrated package of prices and incomes policy, monetary policy and fiscal policy.

Our approach to policy making was to seek to foster consensus and co-operation - and particularly to ensure that those most affected by decisions of Government were provided with sufficient information to make proper assessments of the policy options available to the Government, and their implications for individuals.

Taken together these approaches represented a radical departure from the debased currency of economic policy debate in Australia at the time.

They were greeted at the time with much hope - so dismal had Australia's economic performance become under the more traditional approach of the previous government - but much scepticism also.

Two years on, let us look at the results.

It is now a matter of record that the Labor Government's economic policies have rescued our economy from the deep recession of two years ago, while simultaneously halving inflation.

Our policies to address the problems of high unemployment and high inflation simultaneously represented a sharp departure from the disastrous "inflation first" approach of our predecessors. Not only did their approach ignore the social tragedy of continuously high unemployment. But also it failed totally in its primary goal of bringing about a sustained reduction in our inflation rate.

Perhaps the most dramatic evidence of the recovery which our policy has initiated is the 341,000 new jobs that have been created since the Summit in April 1983.
Despite a disappointing result for March, our target of 500,000 jobs in three years should be achieved ahead of schedule. And I take this opportunity to reaffirm strongly the Government's commitment to reducing unemployment and creating new jobs. Our predecessors' achievements make a very poor comparison: it took their entire term of over seven years to create 340,000 new jobs.

Australia's economic growth rate during 1983-84 was the highest annual growth rate ever recorded in Australia and the highest growth rate in that year of any OECD economy. Growth is proceeding strongly this year and the surveys indicate that private investment will lead a third year of impressive expansion in 1985-86.

The Prices and Incomes Accord was introduced as the principal means of achieving wage moderation and lower inflation. Despite the well-publicised fears of the prophets of doom that such a policy would never work, the Accord has been an outstanding success.

In two short years, Australia's rate of inflation has been reduced to just over 5 per cent: the lowest annual rate for 13 years. Real unit labour costs have fallen to levels last seen in the early seventies and profits have improved dramatically.

Figures released by the Australian Bureau of Statistics this week indicate that the number of working days lost through industrial disputes fell to the lowest level for 17 years during the 12 months to the end of January.

And this has all occurred even while Australia has experienced its strongest post-war economic upturn. Fiscal and monetary policy have been conducted responsibly, to support the broad thrust of prices and incomes policy. Our first Budget substantially cut the Budget deficit which we inherited; there will be a further reduction in 1984-85, and the Government is firmly committed to and will achieve further reductions in the Budget deficit for 1985-86.

This has required in each year a thorough review of Government expenditure priorities and programs. It has required us to take tough decisions - a number of which have been taken at some political cost.

The Government's achievements in monetary policy and financial deregulation have been well regarded by the business and financial community. The monetary projection, revised mid-year in line with revised expectations of real growth, was achieved in 1983-84 - for the first time in years. We have set the financial sector on a path to greater competition and innovation - a path which, perhaps paradoxically, has made it impossible to interpret movements in the aggregates.
In short this Government has a solid record of delivering on economic policy. We have consistently stated our intentions clearly - and then delivered, as promised.

Domestic demand has risen strongly in recent months. The evidence indicates that consumer spending and business investment are set to expand further in the months ahead - and in each case, to exceed the Budget forecasts.

But the signs are also that a high proportion of this demand is being met from imports rather than domestic sources.

For this reason, and also depressed world commodity prices, the current account deficit has risen sharply.

The recent depreciation of the dollar provides both an opportunity to correct this position, in time, and a challenge to the achievement of sustained growth in domestic production and employment.

Depreciation initially implies an unavoidable reduction in national income and wealth, measured in world prices. All parties will need to share, in some degree, in the initial process of adjustment - a process which nevertheless must also ensure that resources are channelled towards producers who have become competitive against overseas suppliers.
If the competitive advantage is maintained and the required redirection of effort achieved, depreciation will also provide an opportunity to achieve substantially higher incomes and employment in the longer term.

Part of the process to redirect resources will involve higher domestic prices of a range of imported - and in varying degrees, exportable and perhaps import-competing - goods. These price adjustments themselves are not a threat to economic recovery. Indeed they are the most effective means of achieving faster growth in many industries - not just exporters but also domestic manufacturers in competition with imports - and correcting our rapidly expanding current account deficit.

But therein also lies the "challenge" presented by the depreciation. We have to prevent this initial rise in consumer prices from initiating a destructive inflationary spiral. The Government is actively addressing this task.

After the 1976 devaluation the then Government slammed on the fiscal and monetary brakes in an effort to prevent such a spiral. Ultimately they were unsuccessful because their approach did not pay adequate heed to Australia's traditions and institutions.

The Labor Government is no less resolute in its determination to prevent any sustained surge in inflation. But while fiscal and monetary policy are and will continue to be firmly anti-inflationary, we do not believe that it is necessary or appropriate to use these instruments in ways that stop growth. Our main anti-inflationary thrust will come from the prices and incomes policy that has served us so well over the past two years.

That policy recognises that none of our economic policies operates in a vacuum. Economic policies are not like chemical reactions that take place according to formulae. They are implemented in a world where individuals and groups other than the Government are deeply affected by them.

The Government is working within the co-operative framework of the Prices and Incomes Accord to consider options and to seek agreement to measures which will preserve to the maximum extent feasible the potential employment gains from depreciation.

Many commentators have suggested that wage indexation adjustments be discounted for the component of inflation that is directly attributable to depreciation. We have that option under examination - but it is not the only option available.

Decisions on how the Government responds to the inflationary effects of depreciation on costs through wage indexation are not formally required for a little time yet. It seems likely, for example, that the direct impact of depreciation on the CPI in the March and June quarters - and thus the amount in contention at the time of the next wage case - is likely to be relatively small. But let there be no doubt that measures will be taken, as necessary, to prevent the emergence of a debilitating inflationary spiral.

This is because the gains from depreciation are worth preserving. There are potentially many tens of thousands of jobs, and perhaps a hundred thousand jobs, in addition to the on-going employment growth that we were already expecting before the depreciation, which could be directly created over the next few years if we can maintain the now enhanced competitiveness of Australian suppliers. A renewed inflationary spiral would not only put these jobs at risk. It could also undermine recovery itself.

I have every confidence that this new challenge to providing jobs and economic security will be worked out within the framework of the Accord.

A related question is the Government's approach to the mooted "productivity" case later this year.

We have always acknowledged, as do the Principles of the Conciliation and Arbitration Commission, that there would come a time when it was appropriate for Australians in jobs to share in the recovery through improvements in standards, in addition to sharing through greater security of employment.

As I emphasised on national television on Wednesday night, our first concern is to ensure that we preserve the strong employment growth with moderate inflation that has characterised the Labor Government's period in office.

Any productivity increase must be of a size and timing that is consistent with these objectives.

Within the centralised wage fixation system, the A.C.T.U. and business groups will present their own perspectives to the Arbitration Commission on how any entitlement to improved conditions should be calculated.

The Government's approach will be to work towards an outcome that is consistent with our shared objective of sustained growth with low inflation.

Our second major policy challenge at the moment is fiscal policy.

When the economy was in deep recession, it was appropriate to provide a strong fiscal stimulus to the private sector. But, from our earliest days in Government, we have emphasised that this stimulus had to be reduced as private sector activity picked up. Thus, during the recent election campaign I pledged the Government to a "trilogy" of major fiscal commitments, including:

- Further reductions in the Commonwealth's Budget deficit in money terms in 1985-86 and as a proportion of GDP over the life of the current Parliament;

- No increase in tax revenue as a proportion of GDP in 1985-86 and over the life of the Parliament;

- A reduction in expenditure as a proportion of GDP in 1985-86 and the life of the Parliament.

These unprecedented commitments - endorsed by Cabinet - are the measure of the Labor Government's determination to pursue a sound fiscal policy.

With the depreciation of the dollar, and prospects for stronger growth and employment then previously anticipated, the Government will be seeking to achieve maximum reductions in outlays in 1985/86.

Targets for these reductions in outlays were laid down immediately following the election - to meet our trilogy commitments, including a substantial reduction of the deficit in money terms.

The depreciation may have the immediate effect of increasing revenue more than it raises the cost of maintaining priority programs.

None of this increase in net revenue, if it occurs, will be used to increase Government outlays.

The Government will ensure that expenditure cuts are large enough to achieve established outlays targets.

The whole of any increased budgetary flexibility following the depreciation will be applied to strengthening the economy's prospects for even stronger private sector growth in output and employment with low inflation.

The Government will decide on the most effective means of achieving this result when the full extent of the post-depreciation improvement in the budgetary outlook is known.

The Government took steps as early as last December to ensure that adequate time can be given to this task by advancing the expenditure review process somewhat compared with the usual Budget timetable. This was intended also to enable us to determine whether some measures can usefully be implemented earlier than the normal timetable would have allowed, so that the full-year effect of the expenditure saving measures are available in 1985-86.

I expect that the Government will be in a position to announce some of these measures in time to yield full-year savings for the next financial year.

As I have said on other occasions, some of these decisions will undoubtedly be unpopular in some quarters.

The Government recognises, however, that this is inevitable, if it is to respond to a broadly-shared view that fiscal discipline is required if the fruits of sustained strong economic growth are to be available for all Australians in the future.

Fiscal restraint is, of course, required at all levels of Government. If current agreements were extended beyond 1984-85, Commonwealth tax sharing payments to States would rise by 16 per cent in 1985-36. Payments to local Government authorities would rise almost 20 per cent. It would be entirely inappropriate to extend such arrangements. These matters will be discussed at the forthcoming Premiers Conference, when new arrangements for general revenue assistance to States will also be considered.

There has been much ill-informed commentary to the effect that the Government has "gone soft" on monetary policy.

Nothing could be further from the truth.

The decision to suspend the M3 monetary projection was taken not to cloak loose policy, but after a full reappraisal of the informational content of M3.

It was taken because the very process of financial deregulation which is so warmly and so widely applauded has also distorted the growth of M3 and other aggregates, and will continue to do so in the period ahead of us. Their reliability as indicators of monetary policy has been sharply reduced.

The irony is that, even while applauding deregulation, some commentators are not prepared to make proper allowance for the uncertainties which are introduced when interpreting the monetary aggregates.

Interest rates have moved up since the turn of the year, and often now exceed the levels of a year ago, which is hardly suggestive of excessive monetary ease.

So let us be clear. Monetary policy is being - and will continue to be - administered firmly, to support the Government's objective of non-inflationary growth.

In the context of business anxiety about monetary policy this year, I must admit to some feeling of fellowship with the Chairman of the United States' Federal Reserve System. When we discussed monetary policy in Washington in February, Paul Volcker described the criticism that the United States' authorities received when distortion of monetary measurement in the wake of financial deregulation caused them to suspend monetary targetting.

I will be satisfied if the inflationary scene in Australia following this step is in line with the United States experience!

The achievement of sustained non-inflationary growth - growth at a pace sufficient to create jobs and to gradually reduce unemployment over time - has been my Government's objective since coming to Office.

Our package of policies to date - prices and incomes policy, monetary policy, fiscal policy, and industry policy - has been highly successful.

The sceptics of two years ago have been shown to be wrong.

Inflation is down and employment has expanded impressively. Industrial disputation has been dramatically reduced.

Profitability has been restored and real unit labour costs reduced. Consumer demand is buoyant. Depreciation can provide a real fillip to domestic manufacturing. Particularly heartening is the improving picture for business investment.

The conditions are coming into place which will permit sustained economic recovery. This is what we were elected to do. All Australians can be well satisfied with what we are achieving together.

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