2

PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

EXTRACT FROM REMARKS BY THE PRIME MINISTER
AUSTRALIAN MINING INDUSTRY COUNCIL DINNER
CANBERRA - 1 MAY 1986

Before turning to some matters specific to this industry, I wish to devote some brief remarks to one or two issues in the current debate on economic policy generally.

There is no denying that the March quarter CPI, which showed a rise of 2.3 per cent in the quarter and 9.2 per cent over the year, came as something of a disappointment to the Government. But that is not the same as saying that it has led us to markedly revise our expectations of inflation.

A number of transitory factors were at work in the March quarter which suggest that the economy is not set on a new upward trend in inflation. These transitory factors include a delayed adjustment of motor vehicle prices following the depreciations of 1985 and an apparent rise in the average of petrol prices in the quarter, largely due to the effects of an industrial dispute in Melbourne early in the quarter.

Most importantly, powerful forces remain at work to pull down our inflation rate in the period ahead.

The initial inflationary effect of depreciation is likely to wane over coming quarters.

Moreover, under the terms of the renegotiated Accord, the Government has argued for a 2 per cent discount from wages indexation in the national wage case now before the Conciliation and Arbitration Commission. That discount will ensure that the higher costs of the imported goods component of the CPI in 1985 do not become built into our domestic costs structure. This, in turn, will limit the longer-term inflationary potential of the depreciation and will thus help to preserve the substantial improvement in our competitiveness which has been achieved.

I would add that the payment of the current wage case decision seems likely to be delayed longer than usual while the Commission hears a number of related matters.

That in itself will provide an additional, though admittedly unplanned, circuit breaker. I applaud the union movement for its restraint while these proceedings are in train and urge all parties to continue to abide by both the letter and the intent of our approach to centralised wages fixation.

It is quite mischievous of some commentators who note the proposed size of the proposed productivity award and add all of the 3 per cent to their estimate of wages growth in 1986 to generate seemingly horrendous estimates of possible wages growth. The reality is that, under the terms of the Accord, payments will be spread over two years, with different industries paying the award at different times, depending on their circumstances. In fact the impact on aggregate labour costs in 1986 is likely to be relatively small.

The timing of these payments is also very much delayed as compared with the preferred position of the ACTU around the middle of last year. This delay was agreed to by the ACTU explicitly so as to provide a further mechanism to absorb the effects of depreciation without adding to domestic costs.

As a result the productivity payment is not expected to add to aggregate inflation over the life of Accord II.

These general downward pressures on inflation will be reinforced in the period ahead by the lagged impact of lower petrol prices, which we expect to ratchet inflation down by more than 1 percentage point over the next year or so. The Government's decisions on the handling of lower world crude oil prices strike a balance between the need, on the one hand, to fund necessary public services while, on the other, to pass on to consumers to the maximum extent possible the decline in crude oil prices. The alternative of a massively larger budget deficit simply could not be countenanced.

All told the Government confidently expects that the annual inflation rate has peaked in the March quarter and that a significant fall is in prospect, starting with the current (June) quarter.

Taken together with continued firm compliance with centralised wages fixation these imply that the very substantial improvement in our competitiveness (based on comparative wage movements) can be substantially preserved over the life of Accord II.

This leads me naturally to another area of contention at present, namely the pace at which we can expect an improvement to occur in our balance of payments.

As you know I have just returned from a visit to the United States and Europe in which I sought to raise the level of awareness of Australia's position as a non-subsidizing exporter of agricultural products caught in a potentially very costly artificial trade war betweeen the USA and the EEC.

While no one should harbour unrealistic expectations of how quickly these policies will be changed, I was pleased to see develop - in all capitals : a deeper appreciation of the large costs imposed on efficient producers such as Australia of the EEC/US conflict for world markets; and an undertaking to do the best that can realistically be done to ensure that Australian producers are not bloodied in the cross fire.

The latter included specific assurances in some key areas that the EC and the US will act in a way to ensure that Australia will be able to preserve its access to traditional markets and that surplus stocks will not be disposed of in a way which disrupts markets.

I was also pleased to receive high level support for the notion that the crisis in world agricultural trade is so acute that the time has come for discussions on agriculture to assume a key role in the new round of negotiations about the rules which govern world trade (the so called MTN Round).

Because of the significance of rural exports, these assurances are vital to Australia - not just the rural sector.

More generally Australia's balance of payments deficit has been judged by the world to be unsustainably large. This was a major factor leading to the large depreciation of the $A in 1985, a depreciation which contains within it the potential progressively to reduce that deficit - certainly as a share of GDP.

As many commentators have noted our progress in reducing that deficit to date has been small. But then, as so many of you here tonight know at first hand, Australia has had a very large monkey on its back; a monkey in the form of a deterioration in our terms of trade which was far sharper than expected; but which by the closing months of 1985 would have added almost $4 billion to our annual current account deficit.

But even though we've shouldered the monkey, there are encouraging signs that the necessary improvement in our current account is underway. In seasonally adjusted terms, the merchandise trade deficit for the three months ending March was only a little over half that for the previous three months. Again allowing for seasonal factors, imports in March of goods and services most directly sensitive to the pace of domestic activity and changes in the relative costs of imports were some 16 per cent below the level of three months before.

I would expect that more discernible evidence of improvement will become increasingly apparent as time passes.

Having said that I recognise that minerals exporters face a particularly difficult trading environment because of excess supply in many areas. This is an environment which may become more difficult in the short-term if lower oil prices impact too heavily on the prices of energy-related commodities, but which may also be lightened a little in the medium to longer-term as economic activity worldwide picks up, including as a consequence of the lower level of oil prices.

Even so it is pleasing to note that, notwithstanding the difficulties, there have been some encouraging developments in your industry. For example on the latest AMIC data : profits rose by about $\frac{1}{3}$ in 1984/85 in the non-petroleum minerals industry; and the latest mining production index shows record production levels for the December quarter, with substantial gains in 1985 for coal, zinc, gold and diamonds.

Before I leave this topic I would add that, in my discussions abroad, I found considerable support for the notion that world growth can be maximized at present by greater co-ordination of the economic policies of national Governments.

It was particularly noted that responsibly expansionary policies in countries blessed with both low inflation and a favourable balance of payments would hasten the process of external adjustment of countries in balance of payments deficit, and thus could contribute to a more stable international trading environment. In my discussions I indicated the support of the Australian Government for co-ordinated action of this kind.

GENERAL POLICY APPROACH

The expected progressive improvement in our net sales of goods and services abroad over the course of 1986-87 is expected to provide a significant stimulus to domestic employment and activity in that year.

The task of general economic policy will be to both permit and support that development by ensuring appropriate moderation in the pace of domestic demand, after the frenetic pace of 1985.

The upshot is that we continue to expect respectable growth of non-farm GDP in 1986-87, though somewhat lower than the average of more than in our first three years.

Fiscal restraint again will be required in 1986/87 to ease the public sector's call on domestic savings and to directly assist the adjustment of our external accounts. Our objective is to bring in a deficit below the level required by the trilogy.

Indeed the intention is to conduct fiscal policy in a way which will also permit an easing of monetary policy, so as to enable Australian interest rates to decline at least in line with world trends and thus to support as high a level of business investment as possible.

Of course the Accord will remain the centre piece of policy. The Accord has produced not only realistic outcomes for wages but also a startling improvement in the levels of industrial disputation.

****