



PRIME MINISTER

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SESQUI CENTENARY SEMINAR
SOUTH AUSTRALIAN EXPORTERS ASSOCIATION
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I am indeed pleased to be able to address you today and to open this sesqui-centenary seminar.

This address is particularly significant because it occurs at a time when Australia will need to rely more than ever on the productiveness and inventiveness of our exporters and those competing against imports.

The theme of your seminar is well chosen: "Australian Exporters - where to?". But with just a little reflection I think that the answer will be simple enough: "Just about everywhere!".

I say that because Australia's current combination of unit labour costs and exchange rate means that Australian exporters are highly competitive in virtually all of our major markets - indeed more competitive, on average, than we have been for at least twenty years.

Labor intends to preserve that competitive edge. Labor has been putting policies in place over the past three and a half years to wake up complacent Australian industry and give it the chance denied it by the Coalition. Labor's policies provide a timely foundation on which to build a response to the new demands of world trade.

In many ways this group is the one most aware of both the reasons for Australia's improved competitiveness and of the reasons behind our present straitened national economic circumstances.

Exporters, in particular, have benefited from the dramatic decline in the real cost of employing labour which has occurred under the Accord. Real unit labour costs have fallen by 7 per cent during the past three years - an achievement which few industrialised countries have matched at any time.

Exporters too, have appreciated the benefits of the more harmonious industrial relations environment achieved under the Accord - an environment which has produced the lowest levels of industrial disputation in 18 years and has significantly enhanced our reliability as a supplier. This fact was readily acknowledged by Japanese political and industrial leaders during my recent visit.

Exporters stand also to benefit greatly from our clear sighted decision to free the exchange rate from artificial restraints, to eschew the Coalition's policy to hold the dollar artificially high and instead to let exporters compete fairly on world markets.

But exporters are only too painfully aware of the sharp falls in the international prices paid for some of our major commodities over the past year or so.

Measured against a basket of world currencies metals prices, on average, fell 17 per cent over 1985-86, and non-food agricultural products by 15 per cent. In just the June quarter wheat prices fell 23 per cent in US dollar terms, and have fallen still further since.

As you know Australia's exports are dominated by agricultural commodities, minerals and metals.

Over the long term, the real prices which we receive for these products have been declining, especially relative to the prices we pay for imports.

From time to time prices for one or other of these commodity groups have fallen sharply.

But rarely in Australia's recent history have the prices for virtually all major commodity groups fallen sharply together.

Now is such a time.

The goods that we export now purchase far fewer imports. To cover the gap we have been borrowing heavily from overseas. We simply cannot go on living on even more credit.

That is just another way of saying that Australia's capacity to maintain living standards has declined, temporarily at least.

In the year to March, 3 per cent was cut from the growth of our national economic capacity because of adverse movements in the terms of trade. In money terms Australia has lost \$6500 million of its national income since late 1984. There has been a further fall since.

It would be heartening to think that, in fairly quick time, prices will move back in our favour and the problem solve itself.

But while prospects are looking better for some commodities, that is not likely to be true generally.

The world's agricultural surpluses and the subsidy practices of the US and the EEC hang like a pall over those markets, probably for years to come.

Many minerals and metals are in chronic oversupply - partly because of the induced expansion of capacity during the last abortive so called "resources boom" and partly because of the changing technology of production of manufactures.

Australia has not caused these world-wide conditions. Australia, under Labor, is far better equipped now to respond to those conditions than three years ago.

But Australians have a major task ahead.

We need to renew our efforts to secure markets for our traditional exports. We need dramatically to improve our share of world trade in manufactures and services. Of course, we also need to obtain a larger share of our home market.

The trick will be to secure those adjustments at least cost and to maximize the long-term gains.

Next week's Budget is an investment in our future and that of our children.

It gives me no joy to have to foreshadow a tough Budget. But there is no other responsible or fair course open to a Government dedicated to maximising long-term job prospects.

Maximum expenditure restraint is necessary and will be delivered. A reduction in the Budget deficit is necessary and will be delivered.

Meeting these commitments may to cost us political popularity in the short term. When you inherit a budget framework within which 70 per cent of outlays are locked in by indexation and similar arrangements obviously your range of savings options is limited. By contrast, at the start of the Fraser Government the "lock-in" factor was only 59 per cent.

As a result of our inheritance we have had to take decisions that in better times we would not have been forced to make. It would have been simpler to have dodged those decisions. It would also have jeopardized the long-term economic health of this country and the ultimate well-being of thousands of ordinary Australians.

We have taken these decisions because we believe they are the right decisions. But in doing so we have also ensured that no section of the community has had to carry an unfair share of the necessary sacrifices.

Without those collective sacrifices Australia could only begin to pay its way again in the world by massively lower investment and massively increasing unemployment.

A lower Budget deficit directly reduces the need of the economy as a whole to borrow abroad.

It eases pressures for an upward spiral of interest rates and helps to create an environment for greater exchange rate stability.

It thus helps to underpin investor confidence and encourages the employment creating investment which ultimately has to provide the basis of the revival of our trading performance.

There is no doubt that the growth of economic activity and employment will be slower, for a time, because of the need to cope with our new external circumstances.

Few would doubt, too, that it will take a little time for the benefits of the measures which we have to take to become apparent.

But there is also no doubt that the course which we have charted for Australia will bear fruit.

One reason for my optimism is my faith in the talents, dedication and inventiveness of Australians working together in common cause.

For that I have, not least, the evidence of the past three years. Australians working together have transformed our economy from the depths of recession to growth sufficient to provide new jobs for 630,000 Australians.

But, just as fundamentally, I have the evidence of the basic restructuring of the Australian economy which Labor began three years ago.

From the start Labor has encouraged a more outward-looking manufacturing sector.

Labor introduced the 150 per cent tax write-off for industrial research and development and the Grants for Industry Research and Development Scheme.

Labor reformed our national export marketing effort and instituted Austrade.

In sharp contrast to the rhetoric of our predecessors, Labor has begun to reduce the regulatory burden on business.

More recently, of course, Labor has announced a further package of measures to promote exports. Importantly for exporters in this State, this package includes a number of studies into transport handling and related infrastructure costs.

And these measures have gone hand in hand with an outstanding record in reducing business costs, boosting business profitability and providing jobs.

Where would Australia be now if Labor's policies had not prepared the ground so well?

As to the maintenance of Australia's enhanced competitiveness, the sheer size of the depreciation of the Australian dollar since January 1985, together with the wage restraint achieved over the past three years, provide solid grounds for confidence on this score.

But the depreciation itself has become a source of inflation in Australia, with our inflation rate standing at nearly three times the OECD average.

The Accord has delivered a truly remarkable degree of aggregate wage flexibility over the past three years.

Compliance with the centralised system of wages fixation has been outstanding. In fact, the latest statistics put earnings drift over the year to May at a meagre 1 1/4 per cent, a truly remarkable result at a time of rapid employment growth.

Award wages will increase by only 2.3 per cent in 1986. This includes acceptance of a 2 per cent discount for the effects of depreciation in 1985 and some deferral until next year of the wage adjustment which would otherwise have occurred in the second half of 1986.

Labor will continue to seek wages outcomes appropriate to the economic circumstances.

It is inevitable that this will require in 1987 wage rises significantly less than inflation.

I would like to spend a little time contrasting Labor's strategy for economic adjustment with the snake oil being peddled by Mr Howard and his colleagues. Mr Howard has promised zero Commonwealth outlays growth for 3 years and a balanced Budget in the third year.

How does he intend to deliver on these promises? Very badly, if his other promises are any guide.

He has promised a veritable litany of tax relief measures which would cost the Budget around \$1.8 billion: and this does not include the cost of income splitting, which could add \$2.7 billion.

Nor has Mr Howard been backward in coming forward with extra spending promises.

He is an ardent critic of the level of welfare spending, but has repeated his promise to repeal the Assets Test. The Coalition has made specific promises of additional defence spending, a \$500 million rural package, construction of an Alice Springs to Darwin railway and a pork barrel full of other spending promises. Conservatively the cost of these promises is \$1.2 billion.

Mr Howard's hypocrisy and sheer dishonesty is most clearly demonstrated in the cost of these promises: a deficit blowout of \$3 billion, even without income splitting.

Where will Mr Howard get the \$3 billion needed just to hold the deficit at last year's level? And where will he get the extra \$5750 million needed to bring down a balanced Budget in 3 years' time?

Mr Howard is suffering from a \$9 billion credibility gap. There is a certain symmetry between that and the \$9.6 billion budget deficit legacy which he handed over to Labor in 1983.

Mr Howard's wages policy is no less deceitful than his fiscal policy. He wants to deregulate the labour market - allegedly to give Australia greater real wage flexibility.

I am astonished by Mr Howard's ignorance of recent economic history, in which he was a key player. As Treasurer in the early 1980s, he presided over a system of decentralised wage fixing. The result was industrial chaos and double digit wages growth during a time when the economy could scarcely afford it.

The Accord has delivered the lowest real unit labour costs and the lowest level of industrial disputation for nearly two decades. It has manifestly delivered both real wage flexibility and jobs growth.

For a present-day experiment with a deregulated labour market we need only look at the UK. In spite of unemployment in excess of 13 per cent, and in spite of Mrs Thatcher's anti-union campaign, British unions have secured real wage increases averaging 3.5 per cent per annum over the past 3 years.

Contrast that with an average annual fall in real wages in Australia of 1.7 per cent over the same period. Instead of learning from these experiments, Mr Howard has promised Australia a thousand Mudginberri's - a return to the confrontation and divisiveness that marked his inauspicious stint in Government.

Mr Howard has dishonest and empty rhetoric.

Labor has the policies to lead Australia through the external difficulties imposed upon us. And I am pleased to note the growing number of companies taking up the export challenge in response to the boost in Australia's competitiveness.

My colleague John Brown recently attended the ceremony marking the completion of the White Industries Construction Project in Singapore involving the building of some 15,000 home units.

In the development and project management field, the Adelaide based enterprise Pak Poy and Kneebone is involved in several major overseas projects including the Manila Light Rail Transit System and the \$3 billion Bintulu Regional Centre in Malaysia. This company has formed a joint venture partnership with a US company in order to increase its activities in the US urban and resort development market.

I see that another of your local companies here in Adelaide, Visions Systems Limited, has won a contract to supply an electronic surveillance system as part of the United States space shuttle program.

Several companies which have broken into the difficult Japanese market include Dunlop Sheridan with their bed lines, Solahart with hot water services, and each of Ramla, Tessa and Sebel in furniture products.

I recently had the pleasure of visiting Nucleus Limited in Sydney - a company which has carved out for itself a niche in international markets, where it has been able to successfully market high technology medical equipment, heart pacemakers and the so-called "bionic ear". Last year this company exported around 90 per cent of its production.

And Neville Wran's favourite wine - Rosemount Chardonnay - is set to make it big with other Rosemount varieties on the US West Coast. The first shipment left for San Francisco just last week.

There are many other examples I could cite covering a broad range of products and services from Pop Art sculptures to computer hardware and software, to laser technology and pharmaceutical products. Perhaps one of the most unusual examples I have heard of recently is the success of a Sydney company, Dinkum Dogs, in exporting hot dog heating machines to the US.

As diverse and unusual as these examples might be, I suggest they all have one factor in common - a dedicated and dynamic management and staff, committed to seeking out new challenges and successes.

Already there are signs that these individual efforts are beginning to have the desired aggregate impact. Real exports rose 14 per cent in the year to March 1986 and the real growth of imports slowed to less than 1 per cent. Most significantly real imports seem actually to have declined in the early part of 1986. Unfortunately the impact of this on our balance of payments has been masked by the continued deterioration in our terms of trade over the period.

Australians have repeatedly demonstrated a capacity to work together during difficult times. The great economic recovery and national reconciliation that pulled this country out of the deep recession of the early 1980s is recent testimony to that capacity.

The difficulties we face today are different to those of a few years ago. But our sense of national purpose is undiminished.

My Government's policies will ensure that the large boost to the international competitiveness of Australian industry is maintained. I am confident that you, as exporters, will take full advantage of the opportunities to build on our existing successes on world markets and thereby help Australia to trade its way out of its current difficulties.
