



PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

ADDRESS BY THE PRIME MINISTER
AUSTRALIAN FINANCIAL REVIEW
POST-BUDGET DINNER - MELBOURNE - 20 AUGUST 1986

LADIES AND GENTLEMEN

THE AFR DINNER HAS NOW BECOME A SIGNIFICANT ELEMENT OF THE ANNUAL POST-BUDGET ROUND. IT HAS BECOME AN IMPORTANT PART OF THE PROCESS OF COMMUNICATING THE ESSENTIALS OF THE BUDGET TO THE WIDEST POSSIBLE AUDIENCE.

I HAVE FOUND OVER THE YEARS THAT THE ART IN MAKING THIS SPEECH IS TO FIND A PRESENTATION WHICH WILL BRING EACH OF THE SEPARATE INGREDIENTS OF THE BUDGET STRATEGY TOGETHER IN A WAY WHICH IS BOTH ELEGANT AND DIGESTIBLE, ESPECIALLY AFTER SO PLEASANT A MEAL AS THE AFR TRADITIONALLY ARRANGES.

PERHAPS IT WAS THE THOUGHT OF THAT MEAL OR PERHAPS IT WAS THE THOUGHT OF MY LOOSE PRITIKIN DIETBUT FOR WHATEVER REASON I HAVE CHOSEN TO INTRODUCE MY ADDRESS THIS YEAR WITH SOME EXTRACTS FROM NORMAN LINDSAY'S "THE MAGIC PUDDING".

SOME OF YOU WHO HAVE CHILDREN OR GRAND CHILDREN YOUNG ENOUGH TO BE READ TO MAY WELL HAVE ENCOUNTERED THIS PASSAGE RECENTLY - FOR WHICH I APOLOGISE.

BUT FOR MOST OF US, I THINK, THIS WILL BE A REFESHER COURSE.

LET ME SAY AT ONCE THAT ANALOGIES ARE INVARIABLY IMPERFECT - AND THIS ONE IS NO EXCEPTION. BUT IF YOU WILL BEAR WITH ME I THINK THAT ONE OR TWO USEFUL POINTS CAN BE MADE WITHOUT GREAT DISTORTION.

LET ME BEGIN BY REMINDING YOU THAT THE PUDDING IS CALLED ALBERT (BECAUSE, WE ARE TOLD, "IT SOOTHES HIM"). HE WAS PRONE TO BE TESTY. THE QUOTE BEGINS:

"..... A PECULIAR THING ABOUT THE PUDDIN' WAS THAT, THOUGH THEY HAD ALL HAD A GREAT MANY SLICES OF HIM, THERE WAS NO SIGN OF THE PLACE WHENCE THE SLICES HAD BEEN CUT.

'THAT'S WHERE THE MAGIC COMES IN', EXPLAINED BILL.

'THE MORE YOU EAT THE MORE YOU GETS. CUT-AN'-COME-AGAIN IS HIS NAME, AN' CUT, AN' COME AGAIN IS HIS NATURE'."

IN MANY WAYS I THINK THAT AUSTRALIANS HAVE REGARDED THE ECONOMY AS A BIT LIKE THE "PUDDING".

FOR YEARS WE HAVE BEEN EATING AWAY - LITERALLY - WITH SEEMINGLY LITTLE EFFECT ON THE ECONOMY. LIKE MAGIC, OUR INCOME HAS KEPT ON GROWING, THOUGH OF COURSE THE RATE OF GROWTH HAS DEPENDED ON ECONOMIC MANAGEMENT. AND ON THAT COUNT IT GIVES ME SOME PRIDE THAT OVER THE THREE YEARS OF OUR STEWARDSHIP GROWTH IN THE ECONOMY OVERALL HAS AVERAGED TWICE THE ANNUAL RATE THAT COULD BE MUSTERED DURING THE 7 YEARS OF OUR PREDECESSORS.

BUT AUSTRALIA HAS RECEIVED A RUDE SHOCK. THE MAGIC HAS GONE. THE WORLD HAS LET US DOWN SHARPLY. TO EXPAND OUR REAL WEALTH NOW AT THE RATES THAT WE WOULD LIKE WE WILL NEED TO MEET THE NEW REALITIES OF WORLD TRADE, MOVE INTO NEW AREAS OF ACTIVITY AND WORK HARDER IN OUR TRADITIONAL ACTIVITIES.

THIS BUDGET IS ABOUT RESTORING THE CONDITIONS THAT WILL ALLOW THE "PUDDING" TO GROW RAPIDLY AGAIN - NOT BY MAGIC, OR INITIALLY AS THE GIFT OF BENEVOLENT WORLD MARKETS, BUT BECAUSE OF OUR OWN HARD WORK.

IT IS, IN EVERY SENSE, A BUDGET OF HOPE, A BUDGET FOR THE FUTURE, A BUDGET FOR FUTURE DEVOTEES OF LINDSAY'S PUDDING.

IT IS A BUDGET WHICH HAS MET OR EXCEEDED EVERY REASONABLE EXPECTATION SET FOR IT : FAIR BUT FIRM CONTROL OVER EXPENDITURE; AND A SUBSTANTIAL CUT IN THE DEFICIT. IT IS THE BUDGET WHICH THE OPPOSITION COULD NEVER DELIVER.

ONE GOOD BUDGET WILL NOT ACHIEVE THE NECESSARY RESULTS ON ITS OWN. OTHER POLICIES - MONETARY POLICY, WAGES POLICY, INDUSTRY POLICY, - ARE ALSO IMPORTANT. SO, TOO, IS SUSTAINED FISCAL RESPONSIBILITY. EACH OF THESE WILL BE DELIVERED.

AND MAKE NO MISTAKE, WE WILL SUCCEED. WE WILL SUCCEED NOT ONLY BECAUSE WE ARE A RESPONSIBLE GOVERNMENT PREPARED TO STAY THE COURSE AND TO TAKE THE RIGHT DECISIONS REGARDLESS OF POLITICAL RISKS. WE WILL SUCCEED ALSO BECAUSE THIS LABOR GOVERNMENT HAS HAD AUSTRALIA TRAINING ON THAT COURSE FOR OVER 3 YEARS NOW.

TO SET THE SCENE, LET ME GO BACK IN TIME A LITTLE, TO THE APPARENTLY "MAGIC PUDDING" ERA. THE TREND HAS BEEN OVER THE PAST 20 YEARS FOR AUSTRALIA TO DEVOTE AN INCREASING SHARE OF GDP TO CONSUMPTION. DOMESTIC SAVING HAS FALLEN FROM AN AVERAGE OF 17.5 PER CENT OF GDP PER YEAR IN THE 10 YEARS ENDED 1973-74 TO JUST 11.4 PER CENT LAST YEAR. THE DIFFERENCE WAS TAKEN UP IN A LARGER SHARE OF GDP BEING DEVOTED TO CONSUMPTION I.E. TO SUPPORTING HIGHER CURRENT LIVING STANDARDS.

THE INVESTMENT SHARE FELL A LITTLE BETWEEN THESE PERIODS - BY ABOUT 2 PERCENTAGE POINTS. THE REMAINING GAP BETWEEN DOMESTIC SAVING AND OUR TOTAL FINANCING REQUIREMENT WAS MET BY BORROWING AN INCREASING SHARE FROM ABROAD.

IN 1985-86 AUSTRALIA SPENT ABOUT 6 PER CENT MORE THAN IT EARNED. THE DIFFERENCE WAS BORROWED OVERSEAS. THIS CAME AT A TIME WHEN THE FOREIGN CURRENCY VALUE OF OUR FOREIGN DEBT HAD ALREADY BEEN DOUBLED OVER THE PREVIOUS TWO YEARS, IN PART BECAUSE OF THE SHARP DEPRECIATION OF EARLY 1985.

WE SIMPLY CANNOT GO ON ADDING TO OUR DEBT AS FAST AS WE HAVE BEEN. WE NEED TO PEG BACK THE GROWTH OF SPENDING, TEMPORARILY, AND OVER TIME RAISE OUR EARNINGS.

ONLY THEN WILL THE "PUDDING" RESUME GROWING AT THE "MAGICAL" RATES WHICH WE REQUIRE TO FURTHER WIND BACK THE HUGE LEGACY OF UNEMPLOYMENT LEFT TO LABOR BY OUR PREDECESSORS.

THE GREAT IRONY IS THAT LABOR'S POLICIES ARE CLEARLY WORKING TO CREATE JUST THE CONDITIONS REQUIRED.

THE EVIDENCE IS CLEAR. REAL UNIT LABOUR COSTS HAVE FALLEN 7 PER CENT IN JUST 3 YEARS. WITH THE DOLLAR ALSO LOWER OUR INTERNATIONAL COMPETITIVENESS IS THE BEST IN 20 YEARS. PROFITS ARE UP, STRIKES ARE DOWN. STARTING FROM THE INFAMOUS \$9.6 BILLION LEGACY OF MR HOWARD, WE PROGRESSIVELY REDUCED THE DEFICIT IN OUR FIRST THREE BUDETS.

OUR RECORD OF DOMESTIC ECONOMIC ACHIEVEMENT IS WELL APPRECIATED. LESS WELL UNDERSTOOD IS OUR PERFORMANCE IN WORLD TRADE.

EXPORT VOLUMES ARE SHARPLY UP - BY 7.4 PER CENT IN 1985-86. MOREOVER OVER THE LAST SIX MONTHS THE VOLUME OF IMPORTS HAS DROPPED DRAMATICALLY - AT A RATE OF 10 PER CENT PER ANNUM. BUT PROGRESS TO DATE IN CUTTING OUR CURRENT ACCOUNT DEFICIT HAS BEEN SWAMPED BY THE SHARP FALL IN THE WORLD PRICES OF MANY OF OUR PRIMARY EXPORTING COMMODITIES.

THAT IS A NEW ELEMENT WHICH REQUIRES A NEW RESPONSE. SOME \$4 $\frac{1}{4}$ BILLION WAS ADDED TO THE CURRENT ACCOUNT DEFICIT FOR THIS REASON IN 1985-86.

THE REDUCTION IN OUR TERMS OF TRADE IS SO LARGE THAT IT IS NOW COSTING US AROUND \$6 BILLION A YEAR. WITH LITTLE PROSPECT OF AN EARLY SHARP REVERSAL OF THESE PRICE FALLS, POLICY HAS HAD TO INITIATE YET FURTHER ADJUSTMENTS.

THIS BUDGET HAS DONE SO.

ONE OPTION WOULD HAVE BEEN TO ALLOW NATURE TO TAKE ITS COURSE - BECAUSE THE ECONOMY WILL ADJUST ONE WAY OR ANOTHER. BUT THAT WOULD HAVE RISKED HIGH INTEREST RATES, AN UNSTABLE CURRENCY, GREAT BUSINESS UNCERTAINTY AND - MOST LIKELY - PROLONGED RECESSION AND A SUSTAINED PERIOD OF SHARPLY HIGHER UNEMPLOYMENT.

THAT IS NOT THE COURSE WE HAVE CHOSEN WITH THIS BUDGET.

THIS BUDGET - AND ITS ASSOCIATED POLICIES - IS SET TO SMOOTH THE ADJUSTMENT PATH. IT GUIDES AUSTRALIA THROUGH THE TRANSITION PERIOD IN A WAY WHICH WILL MAXIMIZE OUR LONG-TERM GROWTH POTENTIAL.

IN OTHER WORDS THIS BUDGET IS ULTIMATELY AN INVESTMENT IN JOBS GROWTH - SECURE JOBS, PERMANENT JOBS. IT IS A BUDGET TO PROVIDE CONFIDENCE AND CERTAINTY : CONFIDENCE AND CERTAINTY THAT THIS IS A GOVERNMENT WHICH KNOWS WHAT IS REQUIRED AND WILL DELIVER.

CENTRAL TO THE BUDGET IS FIRM BUT FAIR RESTRAINT ON OUTLAYS.

AT 6.9 PER CENT, THE GROWTH IN NOMINAL OUTLAYS IS LOWER THAN THE OUTCOME IN ANY YEAR SINCE 1968-69. THE BUDGET PROVIDES FOR NO GROWTH IN REAL TERMS IN 1986-87, COMPARED TO AN AVERAGE RISE OVER THE PAST DECADE OF 3.2 PER CENT.

STARTING FROM THE INHERITANCE BEQUEATHED US BY OUR PROFLIGATE PREDECESSORS AND REFLECTED IN OUR FIRST BUDGET, LABOR HAS CONSISTENTLY PRUNED BACK THE GROWTH OF PUBLIC SECTOR OUTLAYS IN EACH SUCCESSIVE BUDGET.

MOREOVER IT IS NOT SIMPLY BUDGET NIGHT BRAVADO. LABOR HAS AN OUTSTANDING RECORD OF DELIVERING ON BUDGET PROMISES.

THE ABSOLUTE VALUE OF OUR BUDGET OUTLAYS FORECAST ERRORS HAS BEEN ONLY 0.5 PER CENT OVER OUR FIRST THREE BUDGETS. COMPARE THAT WITH THE 2.1 PER CENT NOTCHED UP OVER THE LAST THREE OF OUR PREDECESSORS.

WHAT CREDIBILITY HAVE HOWARD'S EMPTY PROMISES TO CONTAIN BUDGET OUTLAYS WHEN VIEWED AGAINST THIS RECORD?

WHERE ARE HIS ALTERNATIVE SPENDING CUTS? JUST TAKE ONE TYPICAL EXAMPLE : HIS MEDICARE PROPOSAL WILL COST THE BUDGET, NOT REDUCE THE DEFICIT.

BRINGING OUTLAYS GROWTH TO A STANDSTILL IN REAL TERMS HAS NOT BEEN AN EASY TASK : UNLIKE ALBERT THIS "PUDDING" SHOWS THE MARKS.

WE HAVE SOUGHT TO APPORTION CUTS FAIRLY, WITH LEAST BURDEN BORNE BY THOSE LEAST CAPABLE OF SUPPORTING IT.

GROSS SAVINGS TOTALLING WELL OVER \$3 BILLION HAVE BEEN ACHIEVED SINCE JANUARY 1985, WITH CUTS IN ALL FUNCTIONAL AREAS.

GROWTH IN THE DEFENCE ALLOCATION AND OVERSEAS AID SPENDING HAVE EACH BEEN CUT SIGNIFICANTLY.

INEVITABLY SIGNIFICANT CUTS HAVE BEEN REQUIRED IN THE HEALTH, EDUCATION AND SOCIAL SECURITY AREAS. IN THE LATTER CASE MAXIMUM EMPHASIS HAS BEEN PUT ON TIGHTENING UP ELIGIBILITY CONDITIONS AND ADMINISTRATION TO DENY BENEFITS TO THE NON-NEEDY, CHEATS OR THOSE OTHERWISE NOT ENTITLED TO THEM.

THE RESIDUAL LOAD TO BE BORNE TEMPORARILY BY PENSIONERS COULD NOT BE AVOIDED. IT HAS BEEN DELIBERATELY KEPT VERY MUCH LIGHTER THAN THAT TO BE BORNE BY WAGE EARNERS, WHO CLEARLY ARE BETTER PLACED.

EVEN ALLOWING FOR THE REDUCTIONS ACHIEVED, THE SHARE OF OUTLAYS DEVOTED TO SOCIAL SECURITY AND WELFARE PAYMENTS IS EXPECTED TO RISE BY 0.4 PERCENTAGE POINTS TO 27.8 PER CENT IN 1986-87. THE SHARES OF OTHER ELEMENTS OF THE SOCIAL WAGE ARE BROADLY UNCHANGED.

BEFORE I LEAVE THE OUTLAYS SIDE OF THE BUDGET THERE IS ONE ELEMENT OF THE PUBLIC SECTOR THAT DOES REMIND ME VERY MUCH OF THE "MAGIC PUDDING". THAT IS PUBLIC SECTOR STAFFING. IF PREVIOUS EFFORTS ARE ANY GUIDE THE MORE YOU TRY TO CUT 'EM THE MORE THEY GROW.

THE FLAW IN PREVIOUS EFFORTS HAS BEEN THAT STAFF CONTROLS HAVE ONLY BEEN EFFICACIOUS IN THE SHORT-TERM. THIS GOVERNMENT IS DEVELOPING A NUMBER OF REFORMS TO STREAMLINE AND RATIONALISE PUBLIC SERVICE PROCEDURES AND STAFFING WHICH WILL PRODUCE SUSTAINED RESULTS.

AN EARNEST OF THESE INTENTIONS HAS BEEN INCORPORATED IN THE BUDGET. STAFF NUMBERS ARE TO BE CUT BY 2000 OVER THE COURSE OF 1986-87. DEPARTMENTS WILL BE REQUIRED TO PRODUCE AN "EFFICIENCY DIVIDEND" EACH YEAR, SOMEWHAT AKIN TO INCREASED PRODUCTIVITY IN THE PRIVATE SECTOR. I WILL BE ANNOUNCING THE GOVERNMENT'S MEASURES TO ASSIST IN ACHIEVING THESE GOALS LATER IN SEPTEMBER.

TAX REFORM REMAINS CENTRAL TO THIS GOVERNMENT'S AGENDA. PERSONAL TAX CUTS WILL BE DELIVERED ON 1 DECEMBER, WITH THE FINAL TRANCHE ON 1 JULY 1987. THIS COMMITMENT WILL BE EMBEDDED IN LEGISLATION FOR PASSAGE IN THE CURRENT SESSION.

EVEN AFTER ALLOWING FOR THE GREATER CONTRIBUTION TO HEALTH CARE FUNDING WHICH OUR CIRCUMSTANCES NOW REQUIRE FROM THE MEDICARE LEVY, ORDINARY WAGE EARNERS WILL RECEIVE A TAX CUT FROM 1 DECEMBER OF ABOUT \$6 P.W. THE VALUE OF THE TAX CUTS BY 1987-88 WILL BE 3 TIMES THE ADDITIONAL REVENUE RAISED IN THE TAX PACKAGE.

THERE ARE NO NEW DIRECT IMPOSTS ON BUSINESS IN THIS BUDGET. HOWEVER ONE SIGNIFICANT ANOMOLY HAS BEEN CORRECTED. ABOUT 5 PER CENT OF COMPANIES, TYPICALLY AMONGST THE LARGEST, HAVE HAD A TAX ADVANTAGE NOT AVAILABLE TO OTHER COMPANIES AND CERTAINLY NOT AVAILABLE TO ORDINARY WAGE EARNERS. THE ADVANTAGE HAS ARISEN BECAUSE OF THE ACCOUNTING PERIODS THEY HAVE ADOPTED.

IN VIEW OF THE GENERAL NEED FOR RESTRAINT AND TO ACHIEVE GREATER EQUITY BETWEEN TAXPAYERS THESE COMPANIES HAVE NOW BEEN REQUESTED TO MOVE, PROGRESSIVELY, ONTO THE COMMON TAX REGIME.

THIS GOVERNMENT HAS ACCEPTED AN UNPRECEDENTED DEGREE OF FISCAL PLANNING DISCIPLINE, REPRESENTED BY THE FISCAL TRILOGY.

CONSISTENT WITH THOSE COMMITMENTS OUTLAYS HAVE DECLINED AS A PROPORTION OF GDP IN EACH OF THE 1985-86 AND THE 1986-87 BUDGETS.

FURTHER THE BUDGET DEFICIT IN 1986-87 IS LESS THAN HALF THE GDP SHARE OF 1984-85 AND ONE-THIRD OF THE 4.2 PER CENT POSTED IN 1983-84 (EVEN AFTER SUBSTANTIAL EXPENDITURE PRUNING BY THE INCOMING LABOR GOVERNMENT). IT IS HALF WHAT WOULD HAVE RESULTED THIS YEAR IF WE HAD NOT ACTED TO CURB SPENDING AND SUPPLEMENT REVENUE.

AGGREGATE TAXATION RECEIPTS IN 1985-86 WERE SLIGHTLY LESS THAN THE BUDGET NIGHT ESTIMATE. HAD NOMINAL GDP MET EXPECTATIONS THE TRILOGY LIMIT WOULD HAVE BEEN SATISFIED NOT ONLY ON BUDGET NIGHT BUT ALSO AS AN OUTCOME. IN THE EVENT THE PLANNED LIMIT HAS BEEN EXCEEDED.

IT REMAINS OUR OBJECTIVE TO REDUCE TAX RECEIPTS TO 25 PER CENT OF GDP, THE "TRILOGY LIMIT". HOWEVER, HAVING EXERCISED REMARKABLE EXPENDITURE RESTRAINT, IT IS CLEAR THAT THE GREATER PRIORITY IS TO REDUCE THE BUDGET DEFICIT IN 1986-87. ACCORDINGLY ADDITIONAL TAX REVENUE HAS BEEN SOUGHT.

TAX RECEIPTS WILL TEND TO FALL NATURALLY BY AROUND 1 PER CENT OF GDP IN 1987-88. THIS WILL OCCUR BECAUSE THE TAX CUTS PROPOSED FOR 1 JULY WILL PROCEED ON TIME. HOWEVER THE DECISION ABOUT THE TAX SHARE OF GDP IN THE 1987-88 BUDGET WILL BE TAKEN IN THE LIGHT OF CIRCUMSTANCES AT THAT TIME.

I WOULD ADD THAT THE ACOLADE FOR THE HIGHEST TAXING GOVERNMENT IN AUSTRALIA RESTS PROPERLY WITH MR HOWARD. ADJUSTING FOR CHANGES IN THE METHOD OF FINANCING HEALTH EXPENDITURE, TAX RECEIPTS ARE 24.6 PER CENT OF GDP IN 1986-87. THAT IS LESS THAN MR HOWARD'S RECORD OF 24.7 PER CENT IN 1981-82.

IF I CAN RETURN TO THE "MAGIC PUDDING" FOR A MINUTE YOU MAY REMEMBER ALBERT'S USUAL ATTIRE. HE TRAVELS WITH HIS BOWL UPON HIS HEAD : ITS PRACTICAL; IT PROTECTS HIM FROM ATTACK.

I SENSE IN SOME COMMENTATORS A DESIRE TO FIND A BOWL TO CRAWL UNDER, TO WAIT FOR THIS PERIOD IN AUSTRALIA'S DEVELOPMENT TO PASS.

THIS GOVERNMENT DOES NOT SHARE THAT VIEW. WE KNOW WHAT IS NEEDED TO TACKLE AUSTRALIA'S PROBLEMS HEAD ON AND LEAD AUSTRALIA THROUGH THEM.

ECONOMIC GROWTH WILL BE SLOWER IN 1986-87 BECAUSE OF THE STEPS WHICH HAVE TO BE TAKEN. THE ENGINE OF GROWTH IN OUR ECONOMY WILL PASS FROM DOMESTIC DEMAND TO THE EXTERNAL SECTOR, AND ESPECIALLY TO EFFICIENT IMPORT REPLACEMENT. BUT GROWTH WILL OCCUR, AT ABOUT THE AVERAGE OF OUR MAJOR TRADING PARTNERS.

I NOTE THAT SOME COMMENTATORS HAVE EXPRESSED SOME SCEPTICISM ABOUT THAT FORECAST.

LET ME DWELL FOR A SHORT TIME ON SOME OF THE COMPONENTS OF THAT FORECAST.

PRIVATE CONSUMPTION IS FORECAST TO GROW BY ONLY 1.2 PER CENT REAL IN 1986-87, THE LOWEST INCREASE IN ANY YEAR SINCE 1956-57. IN LARGE PART THIS REFLECTS THE QUITE SLOW RISE IN REAL HOUSEHOLD DISPOSABLE INCOME WHICH IS EXPECTED.

IN LINE WITH THE MOST RECENT ABS SURVEY, REAL BUSINESS INVESTMENT IS EXPECTED TO DECLINE.

OVERALL FINAL PRIVATE DEMAND IS EXPECTED TO RISE BY ONLY $\frac{1}{2}$ PER CENT IN 1986-87 - HARDLY AN EXCITING PROSPECT.

THE MAJOR SOURCE OF GROWTH IN 1986-87 IS EXPECTED TO BE NET EXPORTS. THIS COMPONENT IS FORECAST TO CONTRIBUTE $1\frac{3}{4}$ PERCENTAGE POINTS TO GROWTH THIS YEAR, AFTER ADDING $1\frac{1}{4}$ PERCENTAGE POINTS TO GROWTH LAST YEAR.

IT IS IMPORTANT TO LOOK AT THE COMPONENTS OF THAT TRADE PERFORMANCE.

IT IS BASED, FIRSTLY, ON GROWTH IN EXPORT VOLUMES OF AROUND $2\frac{1}{2}$ PER CENT IN 1986-87. THIS COMPARES WITH 7.4 PER CENT IN 1985-86. BUT, MOST IMPORTANTLY, IT IS IN LINE WITH EXPECTED GROWTH OF GDP IN OUR MAJOR TRADING PARTNERS OF $2\frac{1}{2}$ PER CENT. IN OTHER WORDS THE FORECAST DOES NOT ASSUME ANY INCREASE IN OUR MARKET SHARE, DESPITE THE MASSIVE IMPROVEMENT IN THE COMPETITIVENESS OF OUR EXPORTS.

ON THE IMPORTS SIDE THE FORECAST IMPLIES A REAL FALL OF $6\frac{1}{2}$ PER CENT. BUT WHO WOULD SERIOUSLY QUESTION THAT ESTIMATE IN VIEW NOT ONLY OF THE SLOW GROWTH OF DOMESTIC DEMAND BUT ALSO THE FACT THAT IMPORTS DECLINED AT AN ANNUAL RATE OF 10 PER CENT IN THE FIRST HALF OF 1986? AND WHO WOULD DENY THAT OUR IMPORT-COMPETING SUPPLIERS WILL BE BETTER GEARED UP IN 1986-87 TO TAKE ADVANTAGE OF THE SUBSTANTIAL INCREASE IN THEIR COMPETITIVENESS WHICH OCCURRED OVER THE COURSE OF 1985-86 (TO SAY NOTHING OF THE FURTHER IMPROVEMENT SINCE JUNE)?

THE FORECASTS IMPLY THAT EMPLOYMENT WILL RISE SIGNIFICANTLY OVER THE COURSE OF 1986-87, THOUGH PROBABLY NOT BY ENOUGH TO PREVENT A RISE IN THE AVERAGE UNEMPLOYMENT RATE.

OBVIOUSLY IT WOULD HAVE BEEN PREFERABLE TO AVOID EVEN A TEMPORARY RISE IN UNEMPLOYMENT. BUT THAT CANNOT REALISTICALLY BE ACHIEVED IF WE WANT TO SUSTAIN THE MAXIMUM RATE OF JOBS GROWTH IN 1987-88, 1988 89 AND BEYOND. AND OUR OBJECTIVE IS NO LESS THAN THAT.

WHILE IMPORT AND EXPORT VOLUMES ARE EACH EXPECTED TO MOVE TOWARDS LOWERING THE CURRENT ACCOUNT DEFICIT THE LIKELIHOOD IS THAT ADVERSE TERMS OF TRADE EFFECTS WILL AGAIN PREDOMINATE IN 1986-87.

AS A RESULT, LITTLE CHANGE IS EXPECTED IN THE CURRENT ACCOUNT DEFICIT AS A PROPORTION OF GDP, TAKING THE YEAR AS A WHOLE.

BUT MOST IMPORTANTLY WE WILL EMERGE FROM 1986-87 IN FAR BETTER SHAPE TO REBUILD OUR GROWTH PERFORMANCE INTO 1987-88 AND BEYOND.

INFLATION WILL BE COMING DOWN.

THE GOVERNMENT WILL BE PURSUING WAGE OUTCOMES WHICH WILL PERMIT A FURTHER DECLINE IN REAL UNIT LABOUR COSTS IN 1986-87.

THIS WILL REQUIRE A 2 PER CENT DISCOUNT AT THE NEXT NATIONAL WAGE CASE.

BEYOND THAT WE WILL SEEK A FURTHER DOWNWARD ADJUSTMENT AT THE NEXT CASE IF THAT IS REQUIRED.

THAT IS NOT TO IMPLY THAT AUSTRALIA'S PRESENT DIFFICULTIES ARE ATTRIBUTABLE TO LABOUR COSTS : CLEARLY THEY ARE NOT. RATHER IT IS SIMPLY ACKNOWLEDGES THE REALITY THAT UNLESS LABOUR BEARS ITS NECESSARY SHARE OF THE BURDEN OF ONGOING RESTRAINT WE WILL PUT AT RISK THE MAGNIFICENT JOBS GROWTH WHICH HAS ALREADY OCCURRED OVER THE PAST THREE YEARS AND WHICH POTENTIALLY IS STILL BEFORE US.

I WOULD ADD THAT THERE HAVE BEEN SOME EXTRAORDINARY ASSERTIONS MADE ABOUT WAGES POLICY OVER THE PAST 24 HOURS.

ONE SUGGESTION WAS THAT WE SHOULD LEARN FROM THE EXPERIENCE OF THE UNITED STATES AND THE UNITED KINGDOM IN OBTAINING MODEST WAGES OUTCOMES.

I HAVE OFTEN NOTED THE INAPPROPRIATENESS OF ATTEMPTING TO TRANSPLANT TO AUSTRALIA ARRANGEMENTS WHICH WORK IN FOREIGN INDUSTRIAL RELATIONS ENVIRONMENTS.

OUR HISTORY SHOWS CLEARLY THE VALUE TO US OF OUR CENTRALISED WAGES SYSTEM. THE BREAKDOWN OF THE SYSTEM TOWARDS THE END OF THE HOWARD ERA PRODUCED THE HIGHLY UNDISCIPLINED 16 PER CENT ANNUAL INCREASE IN EARNINGS, IN 1982. AND IT WAS THIS SYSTEM WHICH HAS PRODUCED A REAL WAGE CUT OF 5 PER CENT OVER THE PAST 3 YEARS - A CUT OF 5 PER CENT IN AUSTRALIA WHICH COMPARES WITH A FALL OF 1 PER CENT IN THE US AND A RISE OF 10 PER CENT IN THE UK.

AGAINST THAT BACKGROUND THIS IS HARDLY THE TIME TO BE ABANDONING SO WELL TRIED AND SUCCESSFUL A SYSTEM OF WAGES FIXATION.

INTEREST RATES HAVE RECENTLY RISEN RELATIVE TO WORLD LEVELS IN ORDER TO PROVIDE SOME STABILITY TO THE CURRENCY.

CLEARLY THIS BUDGET REDUCES THE DEFICIT BY OVER \$2 BILLION. THE NET BOND SELLING TASK IS ZERO. THE DIRECT CLAIM ON THE FINANCIAL MARKETS HAS THUS BEEN SHARPLY REDUCED.

THIS BUDGET IS INTENDED TO PROVIDE SCOPE TO SHIFT THE BURDEN OF POLICY AWAY FROM MONETARY POLICY.

IT WILL HELP TO TAKE PRESSURE OFF INTEREST RATES AND CONTRIBUTE TO GREATER STABILITY OF THE CURRENCY.

IN THESE WAYS AND BY PROVIDING CONFIDENCE THAT POLICIES ARE IN PLACE TO COPE WITH OUR EXTERNALLY IMPOSED DIFFICULTIES, THE BUDGET WILL PROVIDE A SOUND BASIS FOR LONG-TERM INVESTMENT DECISIONS AS THE YEAR PASSES.

LADIES AND GENTLEMEN

I BEGAN THIS ADDRESS WITH THE "MAGIC PUDDING" AND I WOULD LIKE TO END THERE AS WELL.

YOU MAY REMEMBER THAT THE PUDDING WAS PRONE TO RUNNING AWAY.

ON ONE OCCASION BILL BARNACLE SAID:

"YOU HAVE TO BE AS SMART AS PAINT TO KEEP THIS PUDDIN' IN ORDER. HE'S THAT ARTFUL A LAWYER COULDN'T MANAGE HIM".

THERE HAVE BEEN TIMES OVER THE PAST FEW MONTHS WHEN I COULD EASILY HAVE APPLIED THAT QUOTATION TO THE AUSTRALIAN ECONOMY.

I GUESS WE HAVE MANAGED TO ACHIEVE SO MUCH TO PUT OUR ECONOMY IN ORDER BECAUSE THERE IS MORE THAN THE ART OF THE LAWYER SPREAD LIBERALLY THROUGH THIS GOVERNMENT.

WE PROMISED GROWTH, JOBS AND WAGES MODERATION IN 1983 - AND WE DELIVERED.

ON BEHALF OF THE GOVERNMENT I PROMISED IN MY ADDRESS TO THE NATION EXPENDITURE RESTRAINT, SPREAD FAIRLY, AND A RESPONSIBLE APPROACH TO INCOMES POLICY - AND WE HAVE DELIVERED.

I GIVE YOU AGAIN MY SOLEMN PLEDGE. THIS GOVERNMENT IS GUIDED BY THE NEED TO DO THE BEST FOR ALL AUSTRALIA. THIS GOVERNMENT IS THE ONE GOVERNMENT WHICH WILL DO WHATEVER REALISTICALLY CAN BE DONE TO SECURE LONG TERM GROWTH IN JOBS AND WITH THAT GROWTH IN AUSTRALIA'S WEALTH AND LIVING STANDARDS.

THIS BUDGET IS A FURTHER SUBSTANTIAL INSTALMENT ON THAT COMMITMENT.

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