AUSTRALIA

PRIME MINISTER

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

CONFEDERATION OF AUSTRALIAN INDUSTRY
CANBERRA - 27 NOVEMBER 1986

Ladies and gentlemen.

I must start by thanking you, Ken, for your words of welcome tonight. Since this is your last official function before handing over the presidency, it's appropriate that I place on record my Government's profound respect for and appreciation of your work for the CAI. Under your presidency, the Confederation of Australian Industry has made a significant contribution to the economic debate in this country.

And let me add a personal note, since Ken and I go back a long way. In fact we shared a memorable Duke of Edinburgh award which took us to Canada in 1962. So, Ken, 24 years on: thank you and good luck.

Ladies and gentlemen,

We're now in the last week of November, and with the end of the year in sight this seemed a good time and an excellent audience for a review of the economy and a look forward to the prospects awaiting us in 1987.

This is no ordinary end-of-year stocktake - because 1986 has been no ordinary year.

For all of us, those of us in industry, those of us in business, those of us in government, it has been a year of very great difficulty - certainly, in terms of economic management, in terms of international adversity, in terms of adjustment to changed circumstances, perhaps the most difficult and turbulent for many years.

And to the ordinary Australian citizen in the workplace, in the home, on the farm, some of the events of the year must have seemed strange and even threatening - because so much of what has been happening has no recent precedent in Australian experience.

Unfamiliar forces have flowed in from overseas one after the other in a turbulent procession which dramatically speeded up the process of economic change in Australia.

1986 was the year in which the trans-Atlantic agricultural trade war turned white-hot - at the expense of Australian farmers.

It was the year in which OPEC's discipline finally cracked and oil prices plummeted to their lowest levels in 13 years - bringing prices of related commodities important to Australia down with them.

It was the year in which the great international currency battle being waged between the United States and Japan moved sharply further against Japanese producers - turning the screws still tighter on our exporters of coal and iron ore.

These, and other international forces together produced a sharp fall in Australia's terms of trade, after an already bad year in 1985.

It has to be conceded too that the ability of the community to grasp the nature of the changes we were undergoing was probably hampered by the unfamiliar nature of the technical language used to explain it.

Complex economic notions like current account deficits and terms of trade and J-curves hardly come trippingly off the tongue.

But the result of all these external factors was all too clear: our nation's real income dropped by about $6 billion.

No economy could emerge unscathed from such a battering.

And no responsible government could step aside and avoid the need for tough decisions imposed upon a country and an economy such as ours by so massive a loss of national income.

As a Government we accepted the unpalatable but necessary disciplines in wage fixing, monetary policy and in the Budget.

Most importantly of all, with a determination unmatched in Australia's peace-time history, we set about the task of reorienting the nation's economic institutions and fostering the growth of dynamic, outward-looking industries which can take on the world's best and win.

But let me emphasise that this has not been a task we set about, only in 1986.

From Day One - from March 1983 - we recognised that the only path which could guarantee the future prosperity, stability and competitiveness of the Australian economy was to open ourselves to the opportunities and the pressures of a deregulated trading and financial environment.

So over the past three and a half years we have set ourselves the task of reforming and restructuring Australia's economic institutions and the framework within which they operate.

As we draw near to the close of 1986, we have real cause for pride that these great tasks of reform we set ourselves have begun to bear fruit.

We had our difficulties in 1986, but we also recorded something of a triumph.

We had our economic problems, but the Australian people responded magnificently to them.

In short, the sacrifices that were forced on the nation have not been in vain. I believe there is a new spirit abroad in Australia.

- A new determination to look critically at the way we have done things in the past, so as to find ways of doing them better;

- A new willingness to seize opportunities and make the most of them for Australia; and

- Most hearteningly, a new recognition that all of us - business, governments, wage earners - have to do with less for a time in order to spread fairly the burden of adjustment now and to set the best basis for secure economic growth.

And that is why I say tonight that we can enter 1987 with cautious optimism.

The foundations have been laid over the past three and a half years. Now with the sharp realignment of the currency, we are able to emerge from a period of turbulence into a period of renewed competitiveness. Barring unforeseen external factors, and, I must stress, given continued restraint, Australia can restore its long term economic stability and prosperity.

Let me share with you some of our specific assessments for the future which underlie this cautious optimism.

High interest rates and budgetary restraint have been necessary for some 18 months now to slow the pace of domestic demand - and thus the demand for imports - and to support the currency.

As a consequence we have throttled back what was the main engine for economic growth in our first three years - domestic investment and, particularly, consumption.

Although it will pick up as time passes, domestic demand overall is likely to remain subdued until well into 1987.

In its place the external sector is likely to take over as the main generator of growth in the coming year.

It is widely anticipated in financial markets that, barring a further and unforeseen collapse in commodity prices or world trade, our monthly balance of payments deficit has peaked at the $1.7 billion October figure.

Of course that is not to say that a dramatic improvement is expected overnight. Indeed, a major reduction in the external deficit is likely to require a prolonged period - possibly some years if commodity prices remain adverse.

And, of course, there will be the usual monthly variations for seasonal and other transient reasons.

The important thing, however, is that the process of adjustment has certainly begun - and definite progress is expected by mid-1987.

One symptom is the balance of payments statistics. I won't burden you with a mass of numbers but some of the indicators are instructive. For example:

. excluding imports of civil aircraft - which will fall substantially in 1987 - and fuel, there has been a significant fall in the volume of imported goods in the September quarter for the third quarter in a row; a further fall seems to have occurred in October;

. Total manufacturing exports in the September quarter were 7.2 per cent higher than last quarter;

. Tourist visas to Australia issued in the September quarter were 27 per cent up on a year earlier. No wonder, therefore, that our deficit on tourism so far this financial year is some 30 per cent less than a year earlier.

Just as powerful a pointer to the future, however, is the anecdotal evidence which is starting to accumulate.

Surveys of manufacturers in both NSW and Victoria report significantly improved prospects for exports and for import replacement. And I can confirm from my own experience in talking to a wide range of business people - in large and small concerns alike - that there is a growing recognition of those prospects and a growing willingness to take advantage of them.

The Financial Review carried a front page story two weeks ago reporting an upsurge in inquiries in both Sydney and Melbourne for industrial sites - to be used not for warehousing, as has so often been the case in the past, but for new manufacturing activity - including, it is said, by enterprises which had previously located their production offshore.

Other reports have attested to the unprecedented competitiveness of Australian consultancy services and computer software industry, among others.

Investment by the manufacturing sector rose by almost one third in real terms over the last two financial years and, according to survey data, seems likely to be broadly maintained in real terms this financial year - and I note that MTIA members in particular are quite optimistic about the investment outlook.

That upsurge, together with the use of previously excess capacity, is underpinning manufacturing exports for the immediate future.

Beyond that, however, Australia will need more entrepreneurs willing to chance their arm on investment to produce and market quality products. The Australian economy has attained an unprecedented competitiveness; investors have thus been presented with an unprecedented incentive to convert these favourable circumstances into sales contracts.

I know that many businesses, including a significant number represented here tonight, are planning increased investment. You must of course evaluate those plans responsibly. But let me say simply that the times demand, and will reward, a little risk-taking and flair and confidence in the economic future of Australia.

Of course interest rates are an important element of the investment calculus - especially for smaller firms.

For some time now monetary policy has had to remain tight so as to support the currency and keep the lid on domestic demand.

A firm monetary policy will remain a central element of our policy stance for as long as it takes to achieve the necessary adjustments. A premature easing of monetary policy - which would bring renewed pressure on the currency and all that that entails for business confidence, inflation and, ultimately, interest rates - cannot responsibly be entertained.

But, nonetheless, our overall policy has been pitched so as to allow interest rates to decline, over time, from their recent high levels.

There are three central reasons for that.

First, the 1986-87 Budget dramatically continues the consistent efforts by this government, realised in each of our four Budgets, progressively to cut the deficit as a proportion of GDP.

In this Budget it is 1.4 per cent, compared with the 5 per cent inherited from our predecessors and the OECD's projection of 3.4 per cent for the United States.

This is an indispensable element in our strategy to reduce Australia's need to supplement domestic saving with funds from abroad.

Importantly also, the Budget has sharply reduced the Commonwealth's need to borrow and can thus ease interest rate pressures directly.

Second, these policies, overall, will give a breathing space for the current account deficit to improve. The less we need to borrow abroad, each month, to fund this deficit, the smaller the premium above world interest rates we will need to offer potential lenders.

Third is the outlook for inflation. The increase in the CPI in the September quarter, at 2.6 per cent, was the highest in the history of this Government. It reflected the conjunction of a number of disparate events: the lagged impact on the prices of imports following earlier depreciations; unseasonally higher fresh food prices related to floods and other disasters; and the irregular impact of higher government charges.

Similar forces will be at work in the December quarter to keep the CPI increase again at an above average level. But, with the currency stronger, and with continued wage moderation, inflation is likely to moderate in 1987.

While the Government has created the conditions conducive to lower interest rates, the timing of these movements will depend on a complex of market forces, expectations and sentiment - and, particularly, on the pace at which the current account improves. Some downward adjustments have occurred already. But it would be irresponsible - and possibly counterproductive - for me to speculate in any detail on when further falls might happen.

Let me turn now to wages, which will also will be an important determinant of how quickly inflation moderates.

The Government remains committed to seeking labor cost outcomes for 1986-87 which are in line with our budgetary forecast and which are broadly comparable to those of our trading partners subsequently.

Crucial to the delivery of such outcomes will be a realistic system of industrial relations and wage fixing - one which is fair, flexible, predictable and capable of respecting both the public interest and the private interest of the parties to any dispute.

In this context we have this week argued before the Conciliation and Arbitration Commission that the system of wage fixing determined in the last national wage case should be revamped.

We believe the two-tiered framework will provide scope for protection for lower income groups, incentives for skills and training, restructuring for improved efficiency and a degree of enterprise or industry bargaining.

But, most importantly, it will also give Australia its best chance both to preserve its new competitiveness by continued wage restraint and to bring inflation gradually back down in line with our trading partners.

Of course the Commonwealth is insisting the Commission's procedures ensure the new system works as intended. In particular the Commonwealth wants a commitment by unions to no extra claims. The Commission must also ensure that access to the second tier is governed by clearly defined principles and is subject to Commission oversight.

We have also made it clear to the Commission that the arrangements laid down by the last National Wage Case decision on superannuation have not worked well. We argue in this case for the superannuation campaign to cease. In its place we believe superannuation should be gradually phased-in under an award, consistent with the capacity of the economy to pay. The likely impact of the progress of superannuation should also be taken into account by the Commission in determining the total labour costs outcome under the new system.

The overall package we believe offers new life to centralised wage fixing.

We are pleased that the Government and the Confederation of Australian Industry see eye to eye on the role of the centralised system.

I heartily endorse the recent remarks of David Nolan, Director of the CAI Industrial Council, when he castigated those critics of the industrial relations system who "believe that the mere existence of industrial tribunals makes things worse rather than improves them".

The CAI's comment, tellingly entitled "Escapist Fantasies", said it was a positive danger for these critics to conjure up imaginary industrial relations systems that have little resemblance to reality but that are promoted to employers as solutions to their problems.

According to the CAI, these critics of our industrial relations system

> "advocate massive change with its commensurate risk of massive dislocation, without providing any clear idea as to how this change will be brought about nor any evidence that it will in the end be better for employers"
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> "The likelihood" the CAI says " is that to attempt the changes our would-be reformers would plunge employers into an industrial morass of unknown depth."

That is not the path chosen by this Government. We accept that our present system can do with improvement - and we will be announcing refinements to the legislative structure early in the New Year in response to the recommendations of the Hancock Report. These will be positive and constructive reforms which will win widespread community support.

That is a far cry from suggesting that the entire framework should be dismantled immediately, which is what our political opponents claim they will do. They say they will 'unshackle' Australia's workers - a policy which would in fact destabilise the partners to Australia's tried and true system of industrial relations, and would have dire consequences for the entire economy.

But what can you expect from inflexible ideologues who lack the practical experience of the real world of industrial relations?

Our approach, by contrast, seeks the co-operation of all the industrial relations partners. It was in this spirit that last September I called a special meeting of the CAI, the BCA and the ACTU to discuss ways to give greater momentum to the search to improve work and management practices.

For ultimately we need not just wage restraint but better productivity if we are to preserve the improvement in our competitive position made possible by the substantial real depreciation of the currency.

The CAI was a willing and effective participant at that meeting, which was notable for the co-operative spirit in which all parties addressed the issues. Let me take this opportunity to thank you, Ken, and your organisation, for the substantial contribution you made.

The work begun at that meeting is being carried forward by a working party of the Advisory Committee on Prices and Incomes. But of course, the success of the initiative will be determined at the work place and industry levels.

All Australians will be the poorer if these opportunities are lost.

On a related matter let me also commend CAI for the very practical support it has given to the Australian Traineeship Scheme. Progress so far has been slower than expected, principally because we want to get it right before it is finally implemented.

But this scheme presents the exciting possibility that the young of this country will at last begin to receive, systematically, the kind of training they so richly deserve and so sorely need if we are fully to realise our national potential.

The CAI has also made valuable contributions of its wisdom and resources to the Business Regulation Review Unit, which we set up as part of our continuing effort to eliminate unnecessary red tape.

Finally, on a night on which I have again outlined both the need for and the community's acceptance of restraint, I must also remind price setters of their corresponding obligation to exercise restraint.

The Government's approach to prices surveillance to date has been selective, focusing on areas where effective competitive disciplines are absent or where pricing behaviour has pervasive effects. In these cases the PSA Act requires it to bear in mind profitability, investment and employment.

But, more generally, business needs to consider carefully its pricing behaviour. Workers, quite legitimately, find it difficult to accept the need for wage restraint if prices increase faster than costs. I repeat my call for all firms to adhere to the PSA's voluntary pricing guidelines. Blatant breaches carry with them the risk that such behaviour will become the subject of public scrutiny.

In the same context I repeat the Government's earlier call, in response to the real wage cuts accepted by employees, for restraint in executive remuneration.

Ladies and Gentlemen

The essence of this Government's approach has been to engage all sections of the Australian community in a co-operative venture to set this country on the road to prosperity.

That approach proved invaluable in our first three years and has now steered us through the turbulence of 1986.

As a Government we are confident that we have the means to achieve stability, to restore economic growth, to enhance incentive and to share the burdens and the benefits of restructuring.

We are confident too that our approach stands in the sharpest contrast to that of our political opponents. Their policies - or at least those that they have agreed to share with the rest of the nation - promise a return to the instability and disharmony which characterised their years in office before 1983.

Their best offer seems to be self-interested tax policies, short-sighted industrial doctrines, and another round of massive unemployment increases which the community simply cannot afford.

I have a deep conviction that the Australian people will refuse to squander the achievements which we have made together, by returning to the instability and disruption offered by our opponents.

And I especially invite this business audience to consider carefully the real consequences of their proposals.

Ladies and Gentlemen,

The resolution of the tremendous difficulties imposed on us by the events of 1986 will be a slow and - at times - painful process. We will be hampered by the continuing slow deterioration of some commodity prices and the natural lags as an economy gears up to meet a radically different set of business circumstances.

And I stress that the cautiously optimistic assessment I have given tonight still involves further sacrifices and further effort from the entire Australian community.

- We are determined as I have said to restrict our growth in labour costs in line with our diminished economic capacity.

- Interest rates and unemployment, though they are likely to improve in time, are still likely to remain a matter of concern for the Government.

- The process of restructuring, wherein lies Australia's ultimate hope for economic prosperity and stability, will be a task for our nation well into the next decade.

In my address to you at your last annual dinner, I concluded with these words:

"Let there be no doubt of this Government's determination to continue to manage the Australian economy to enable all Australians to prosper and realise their aspirations in the 1980s, the 1990s and beyond."

I re-affirm that determination tonight.

For the events of 1986 have served only to reinforce my conviction that Australia will attain the prosperity we seek.

Australians have worked hard in 1986 for the cause of economic reconstruction.

They made sacrifices in the interests of building secure economic growth.

In short they displayed their maturity and their willingness to readjust, and it is those qualities which provide the firmest possible foundations for my confidence tonight in reaffirming to you that we will prevail in our task.

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