



PRIME MINISTER

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

**BUSINESS COUNCIL OF AUSTRALIA
CANBERRA - 29 APRIL 1987**

Sir Roderick Carnegie
Ladies and gentlemen

It is a more than usual pleasure to be with you tonight.

You can imagine it has been a rather entertaining couple of days in Parliament, observing from hour to hour an ever-changing Opposition line up.

But I have to state honestly as Prime Minister of a country which still faces a serious economic challenge that the chronic shortcomings of the Opposition are disturbing.

Their basic failure has been an incapacity to develop workable and relevant economic policies.

That failure must be of particular concern to the business community which along with the rest of the country, is incapable of getting answers to their legitimate questions about where the alternative Government stands on the absolutely central issues in the national economic debate - such as taxes, spending cuts and industrial relations.

That Opposition policy vacuum makes it all the more important that groups like the BCA continue their articulate and constructive involvement in national policy making.

Let me commend you in particular for the part you have played in encouraging the review of out-dated work practices and in opening channels of communication with universities.

We have recently received your important submission to the Government on the Budget and your report on enterprise-based wages negotiation. I want to make some specific comments about those reports later.

First let me make the general point that as Prime Minister I appreciate your contribution and, even where we have not been able to see eye to eye, I welcome your continued involvement in the public arena.

And in saying that, let me reaffirm my commitment to the process of consultation and cooperation which I believe is one of the abiding hallmarks of my Government's approach.

This process is based on my deeply held conviction that our shared destiny will be enhanced if we are prepared to share the work of getting there.

In 1987 that conviction is more, not less, relevant than when we came to office in 1983.

Next month Paul Keating will be presenting to Parliament the May Statement and, later, we will be hosting another Premiers' Conference. We see both of these events as absolutely crucial stages in the Government's overall strategy of restructuring the economy and ensuring the future prosperity of the Australian people.

The task of economic adjustment is far from over. Years of sustained effort lie ahead if as a community we are to create a kind of Australia that Australians deserve.

But that is not to say there has been no progress in the seven months since I last had the pleasure of speaking formally to the BCA. There has indeed been significant progress and tonight I want briefly to review that progress with you.

Let me begin with Australia's trading environment.

This week we are witnessing another unedifying episode in protectionism as the US and Japan argue over their market for semi-conductors.

I do not wish tonight to take sides in the dispute, or to overestimate the importance of this specific dispute to Australia's trading prospects.

But I mention it as another disturbing symptom of the spreading plague of protectionism.

Australians are already suffering enough from the failure of the major agricultural producers to lift their crippling restrictions on the trade of farm products.

I outlined a plan in Switzerland in January to bring about a reduction in those protectionist excesses. That plan has been well received.

And I have decided to send an all-party delegation of MPs to Washington next month to lobby the US Congress against its next round of proposed protectionist legislation. Mr Dawkins will be visiting Washington shortly afterwards to take our concerns directly to the Administration and to the Congress.

So in that context the semi-conductors dispute between the US and Japan illustrates again the unwillingness of two of the world's major trading nations to undertake the structural reform they so urgently need.

Poised as we are on the Pacific rim region, the most dynamic economic performer in the world, those opportunities are gigantic.

Of particular pride to me personally is the strong bilateral relationship we have developed with China. The importance of the relationship can only grow as China's impressive modernisation policies bear fruit in the decades to come - the more so if other countries resist the need to change.

The Government has also put considerable work into developing bilateral ties with other countries within the region that may emerge as major trading partners of the future.

Many of the businesses represented here tonight have built strong ties with the region. I applaud that and encourage others to do so.

For many smaller companies, however, the task of exporting must seem daunting.

The Government has in place a number of programs designed to assist small exporters. In particular, Austrade can and will provide assistance to those who wish to become involved in this task.

I have asked Austrade to establish a register of companies willing to help small exporters market complementary products abroad.

Let me again invite you, as I have on previous occasions, to look closely at your operations both to ensure you are not missing export opportunities and also to see whether you have the capacity to "give a leg up" to other Australian companies who may be too small alone to tackle the challenge of exporting.

Ladies and gentlemen,

There can be little doubt that the long and complex task of restructuring is bearing fruit.

As we predicted in the last Budget, the slowing in the economy then evident was short lived. The December quarter saw a return to strong growth in Gross Domestic Product with an increase of 1.1 per cent.

Latest estimates of the 1986-87 current account deficit are of the order of \$1 billion less than the Budget forecast of \$14³/₄ billion.

Moreover net exports are expected to contribute substantially more to growth than the 1¹/₄ percentage points forecast at Budget time.

Particularly pleasing has been the strong performance of manufacturing exports - up 30 per cent so far this financial year.

Without that reform the entire trading system, including Australian traders, can only suffer.

The Japanese and the American Governments are both well aware of our concerns on this issue. Only this afternoon I received from the Japanese Prime Minister Mr Nakasone a letter, written just before his departure for talks with President Reagan, in which he expressed his Government's commitment to address the issues seriously.

The 6.5% decline of the \$US on world currency markets against the yen over the past month is a signal of the extent of adjustment required.

The yen and the US dollar are both heavily weighted in Australia's trade and financial transactions.

The weakness of the US currency has greatly reduced the significance of movements of that currency as an indicator of changes in the average value of the Australian dollar.

Greater attention needs to be focussed - by markets, by policy makers, by potential exporters - on the trade weighted value of our currency. The value of the \$A measured in TWI terms, although it has risen significantly against the US dollar, is in fact little changed from its level of a month ago.

On average these developments do not adversely affect Australian producers - though they do reduce the profitability of those exporters who sell in markets quoted in US dollars and who compete against producers in the United States.

Both the United States and Japan seek greater currency stability. But both parties will need to back that sentiment with domestic policies - macro-economic, industrial and trade - which are conducive to stability.

In the absence of those measures, the potential trade-related dangers for Australia are considerable.

On one hand, the easiest way for Japan to meet US pressures on market access would be to transfer existing market share from less valued trading partners; and on the other, the easiest way for the US to reduce imports is through protectionist legislation.

Australians would suffer from both of these alternatives and we will continue to resist them strongly.

As well as urging others to reduce protection this Government has applied those lessons to our own domestic institutions and attitudes as well.

That has created new pressures on Australia's businesses to seek out and exploit new export markets - and not just pressures but opportunities as well.

Tourism has also stepped up markedly. The net foreign deficit on travel has fallen 49 per cent.

The net services deficit, which covers freight and insurance in addition to travel, has fallen by 21 per cent.

Weaker than forecast consumption growth - a desirable development in present circumstances - has also greatly assisted this turnaround in the current account.

Interpretation of the trend in the current account is likely to become more difficult over coming months as the seasonal increase in the deficit begins to inflate the monthly statistics.

But the underlying improvement in the current account is now well established and is expected to continue in 1987-88.

As for GDP growth overall, it appears likely to be rather weaker for 1986-87 as a whole than we forecast at Budget time, essentially because of the slower growth of consumption.

Employment growth has however exceeded our expectations.

In the nine months to March employment has grown by 1.2 per cent. This means a further 82,000 jobs, bringing the total number of jobs created under my Government to 760,000.

More than any other statistic, the robustness of employment growth this year demonstrates the underlying strength of the economy and the success of the Government's economic policies.

But I don't want to weigh you down this evening with statistics. The important point is what lies behind those figures - namely, a new and absolutely critical set of attitudes which now pervades the nation.

There is a dramatically increasing awareness of the need to export and, more generally, to make and market competitively priced, quality products.

There is an awareness of the need for continued wage restraint.

There is an awareness of the need to re-examine past ways of doing things and an awareness of the need to address our industrial issues constructively.

Through the Australian Made campaign, there is a growing awareness of the need to support domestic rather than imported goods - though let me add there is still room for more Australian companies to adopt the green and gold kangaroo symbol to identify their products as Australian-made.

Capitalising on these new attitudes is a task for all of us - business, government, trade unions and the wider community.

Nowhere is this more apparent than in the area of wage setting and industrial relations and it is to that subject to which I wish to turn now.

This is the area which the BCA addressed recently in its report "Towards an Enterprise-Based Industrial Relations System".

I think we can all agree with your concluding comment that "what we want is a better way of working for the benefit of our industries, their employees and for all Australians".

Similarly, we are on broadly common ground in seeking flexibility and cooperation to enhance efficiency at the workplace and greater employee participation in the workplace.

However having said that I must register my disagreement with your central long-term aspiration - totally enterprise-based agreements on wages.

Australian economic history teaches us that unregulated bargaining would inject increased inflation into the economy via a wages explosion and would massively erode the position of those workers unable to bargain successfully.

The current system has, thanks to the generally magnificent cooperation of the trade union movement, delivered wage outcomes whose macro-economic benefits I believe cannot be questioned by anyone in this audience - a 6% fall in real unit labor costs over the last four years.

But committed as we are to that centralised system, we are also determined to make whatever sensible reforms are necessary to ensure it remains a relevant and useful element of the national economy.

The Government will shortly be introducing into Parliament a new Industrial Relations Bill based on the Hancock inquiry which will contain a number of reforms to enhance the centralised system.

In drafting these reforms, our approach has been one of consultation and consensus - the very style of approach we wish to encourage and foster in industrial relations.

On the matter of sanctions, which I know to be of crucial concern to the business community, I can assure you that the new legislation will ensure the effective operation of the industrial relations system, and will include appropriate penalty provisions and means of redress.

After proper consideration of the Bill I am sure that generally both unions and employers will recognise its inherent good sense and equity.

A further example of the centralised system's capacity for flexibility is provided by the new two-tier structure.

This structure effectively provides one of the goals urged in your report - bargaining over productivity issues at industry or enterprise level - while permitting aggregate wage outcomes to be kept within responsible bounds.

It is the responsibility of all parties to ensure that the system works properly to the maximum benefit of Australia.

It has therefore been a little disappointing recently to observe that agreements have been reached which do not comply with the principles laid down by the Commission.

The business sector cannot have it both ways.

Business cannot at once call on the Government to seek modest wage outcomes while acquiescing in significantly higher outcomes at plant level.

The Commonwealth will be opposing in the appropriate forums any agreements which are inconsistent with the Commission's principles.

Firms which breach the wages principles can expect to have the closest of scrutiny applied to them by the Prices Surveillance Authority.

Ladies and gentlemen,

The Government is determined to preserve and build upon the economic gains we have made so far.

We can confidently expect inflation to decline over the course of the coming year or so, given continued wage restraint and currency stability.

Interest rates have already begun to decline, partly in anticipation of further responsible fiscal measures and lower inflation and partly because of greater overseas interest in \$A assets.

The Government is determined to preserve and build upon these gains.

The forthcoming May Statement and Premiers' Conference will be important building blocks in the Government's strategy.

I have said on a number of occasions now our approach will be tough but we will not be abandoning our commitment to fairness in expenditure restraint.

There will be significant cuts in our own outlays in the Statement and we will adopt a similarly hard-headed approach in the ensuing Premiers' Conference and Loan Council.

The BCA has recommended we achieve a Budget deficit of \$1.5 to \$2 billion in 1987-88.

It is still too early in the Budget cycle to have precise estimates of revenue and, therefore, of the deficit which will emerge.

But given our record there should be no doubt about the Government's determination to provide a significant cut in both the Budget deficit and the total Public Sector Borrowing Requirement as a share of GDP.

In the May Statement, spending cuts will be spread across a number of portfolios. Although the Commonwealth is looking closely at its asset holdings to effect rationalisations where prudent, the major focus of our attention is on general recurrent outlays.

There will, for example, be further measures to weed out welfare cheats and ensure that social security benefits go only to those who are entitled to them.

A more wide ranging examination of welfare outlays has also been necessary, producing some measures which, in earlier times, may not have been contemplated.

But we will not be wielding the knife indiscriminately.

Instead we will be seeking, as we have sought in the past, to implement durable, structural reforms which achieve budget savings but which also bring about more effective and fairer delivery of Government services.

The collapse in our terms of trade since the end of 1984 has stripped some \$9 billion dollars from our national economic capacity. To distribute a loss of this magnitude equitably and to maintain employment growth has been no easy task.

But we have faced this task with firm resolve and we are succeeding.

The Government is getting the economic fundamentals right. Private enterprise now must exercise its responsibilities.

Australia needs entrepreneurs with drive and new ideas to create new products and new markets.

We need research and development, expenditure on which now qualifies for an extremely generous tax deduction of 150 per cent.

We need investment which has, indeed, already begun to pick up, especially in manufacturing.

Over the next year several factors will create unprecedented opportunities for investment to strengthen further. These include:

- . A gradual easing in interest rates as the task of adjustment is progressively removed from monetary policy;
- . A resumption of economic growth;
- . A slowing in the rate of increase of prices of imported investment goods; and
- . A wider perception of the opportunities emerging for Australia to expand into new export markets thanks to, among other factors, the depreciation of the dollar.

So we enter the crucial next stage in our strategy of reconstruction with some cautious optimism that the economic future is brighter than the months and years we have just passed through.

The worst is behind us.

As you are aware I decided earlier this month not to call an early election.

The disarray among the Opposition parties provided an enormous temptation to go to the voters early. It would certainly have been a successful political move. But it would also have been inconsistent with our long-term strategy to improve the economy.

That strategy means we must take the hard decisions. We are taking them.

It means we must act with fairness and compassion. We are doing that.

Our strategy means we must govern for the future even at the expense of some short-term flak for unpopular decisions along the way. We are acting accordingly.

Our strategy, finally, means that we must together promote the nation's best chances of prosperity. We most certainly are doing that.

And we look for your continued assistance in this shared task of reconstruction - our task for today and, importantly, our responsibility to future generations of Australians.
