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AUSTRALIA

PRIME MINISTER

EMBARGOED UNTIL DELIVERY CHECK AGAINST DELIVERY

AUSTRALIAN FINANCE CONFERENCE ANNUAL DINNER
CANBERRA - 4 MAY 1987

Ladies and gentlemen,

It is now nearly three years since I last had the pleasure of addressing the annual dinner of the Australian Finance Conference.

Perhaps by more than anything else, those three years have been characterised by an increasing acceptance throughout the whole nation of the fact that if governments are to succeed, they must get the economic decisions right.

When I last spoke to you in July 1984, my Government had already proven, over fifteen months in office, that it recognised and accepted the fundamental importance of the economic task it faced.

Today, we remain committed to it, confident in the knowledge that our efforts are yielding fruit.

It is not just that the majority of the community now accepts that the prime question facing the nation is indeed an economic one. What has also happened is that the evidence for the success of our policies, despite the difficulties we have endured as a nation, is now starting to accumulate.

Since we meet today at a time of crucial economic decision making, in the lead-up to the May Statement and the Premiers Conference, it is appropriate that I take this opportunity to reaffirm the fundamental principles which, through our whole time in office, we have brought to this central task of government.

At the same time, let me acknowledge the great assistance we have received from organisations such as your own.

The finance industry - along with most other parts of the national economy - has undergone significant reshaping. New competitors and the reduction of rules which previously created artificial distinctions within markets have probably made the daily task of a finance manager more challenging. But at the same time those reforms have provided significant new opportunities to a more competitive national economy.

Because economics is such a central and at the same time relatively complex task, it is not surprising that it has spawned a thousand analogies. Journalists, commentators - even politicians on rare occasions - have resorted to the analogy of allocating slices of the national cake, walking the tightrope of monetary policy, juggling rival priorities, and so on.

But to describe what we saw when we came to office in March 1983, no analogy seems more fitting that that of a jigsaw puzzle where all the pieces had been shaken out of place. We saw excessive inflation, disastrous levels of unemployment and a profoundly uncompetitive industrial structure.

It was our task, and our achievement, to rebuild that jigsaw puzzle.

Indeed, we set ourselves no less a task than the revitalisation of Australian industry to prepare it for the new challenges of our time. We put particular emphasis on innovation, on restructuring our most highly protected, least competitive industries, and on opening up Australia's trading opportunities at a time when many in the world were seeking to close them down.

We had the courage to float the dollar and to even up the playing field between competing types of financial institutions. We increased competition, especially through the admission of foreign banks.

In short, we proposed and began to implement a radical reshaping of Australia's economic structure.

Since those early days of Government however, we have had to manage a second major economic challenge - the sudden collapse in our terms of trade, which inflicted immense damage on the Australian economy.

Put simply, the decline in our export prices has by now stripped around $9 billion from our national economic capacity. Completion of the economic jigsaw puzzle was made much harder.

- The current account deficit ballooned to an unsustainable 6 per cent of GDP in 1985-86;

- Under the weight of a declining currency the rate of CPI growth expanded from a low of just over 5 per cent during 1984 to a temporary peak two years later of 9.8 per cent;

- And interest rates, which we had been bringing down in 1984 and 1985, rose again.

My message to you tonight is that despite these temporary setbacks, our macroeconomic strategy demonstrably is working. Of course, much remains to be done. But tonight, I want to report on how much progress we have achieved.

As I said in my Address to the Nation last June, the initial task we faced as a nation after the terms of trade collapse was to begin to adjust to our lowered standard of living - our lowered national economic capacity - by reducing domestic spending on goods and services, particularly consumption spending.

There was, and is, no realistic alternative to that course. It would have been unacceptable and dangerous to embark on a course of increased borrowing and spending. Equally unacceptable would have been indiscriminately slashing government spending without regard to the effects those cuts might have on needy people who depend on Government support for their well-being.

I want to underline again that this Government is not about to abandon Labor's traditional commitment to the underprivileged and the needy.

Indeed, we are determined that the rigorous disciplines we are applying to our budget will produce, as far as we can, a fairer society and one where the limited resources are fairly applied to those who need them most.

The need to reduce private consumption spending - which is around 60 per cent of GDP - also requires wage and salary earners to accept lower increases than they would have expected in easier times.

Despite the progress which has already been made in reducing real unit labour costs - 6 per cent since 1983 - continued wage restraint is still required.

In summary, two key areas of restraint needed to promote successful economic adjustment are fiscal and wage restraint.

I am aware that your Budget submission urges the Government to make a substantial contribution to allowing sustained reductions in interest rates.

Nobody is more aware than I that high interest rates bring hardship to businesses, farmers and home buyers.

But let me make it clear that no one in Government would be crazy enough to want interest rates a jot higher than is absolutely necessary.

If interest rates were expected to remain high indefinitely, the damage to business investment prospects would be unacceptable.

But the Government will not be pushing for a premature, but ultimately counterproductive, easing in monetary policy. Experience shows that such action only delays the day when sustained reductions in interest rates are achieved.

There is some evidence that rates are beginning to fall. Ten year bond rates are down by a percentage point from their peak earlier this year. Recent Treasury note tenders have posted the lowest yields this financial year. The bank bill market has followed this trend. Bank prime rates are down by around half a point from the peak in December 1986.

Having mentioned the exchange rate and the Australian dollar in passing, let me make a comment specifically about them.

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 agains the US dollar, is in fact little changed from its level of a month ago.

On average recent currency movements have not adversely affected the competitiveness of 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.

Earlier, I said that the most important short term task was to stem the growth of domestic spending, particularly consumption spending.

Let me outline the success we are enjoying in that regard. In 1985-86, Australia's real Gross Domestic Product grew by an estimated 4.2 per cent. Domestic demand contributed 3.0 of these percentage points of growth, with consumption - private and public - accounting for 2.4 percentage points. Significantly, net exports contributed only 1.2 percentage points to growth in that period.

By contrast in the six months to the December quarter 1986 domestic demand actually fell to record a negative contribution to growth of around 1.5 percentage points in annual terms. At the same time there was a virtual doubling in the contribution to growth from net exports in only six months.

That shift towards production for export and towards lower demand for imports is one important piece of the economic jigsaw puzzle that we have locked into position already.

The pay-off is already to be seen in our current account position. Manufacturing exports are 30 per cent higher so far this financial year than a year ago. And our net services deficit, that is, our net expenditures on tourism, freight insurance and other services has fallen 21 per cent.

The current account deficit in the March quarter 1987 was almost $500 million below that of the March quarter 1986. Indeed, the improvement in the balance of payments over the past few months has been such that latest estimates of the 1986-87 current account deficit are about $1 billion less than the Budget forecast of $\$14\frac{3}{4}$ billion.

A substantial decline in Budget outlays as a proportion of GDP is expected in 1986-87. Moreover we have reduced the Budget deficit from the 5 per cent of GDP which we inherited from our predecessors to around $1\frac{1}{2}$ per cent in 1986-87.

I would add that that is an achievement which virtually no other comparable country has matched over the period.

A further demonstration of the Government's commitment to fiscal restraint will be provided on Wednesday week when the Treasurer announces a package of savings measures to the Parliament.

This statement, in advance of the usual Budget date, has been chosen to give our savings measures maximum impact in 1987-88 so that we can continue our efforts to reduce the deficit as a proportion of GDP. It is intended to show clearly that this government is serious about the painstaking task of reviewing its expenditure.

Many of the cuts the Treasurer will announce could involve short term political costs for the Government. But we have never allowed fears of temporary unpopularity to deter us from making tough but necessary decisions.

As everyone knows, I contemplated calling an early election which I am certain, and all the available statistics indicate, we would have won. Indeed the continuing chaos in the Opposition ranks makes me certain we would have won an increased majority.

However, I resisted the tempation to grab at short-term political advantage for this reason: to do so would have been inconsistent with our long-term strategy to restructure the economy.

I repeat what I said in my Address to the Nation last June : I would rather risk electoral defeat than implement policies which would prevent successful economic adjustment.

We have accepted the responsibility of ensuring that welfare payments do not go indiscriminately where they are not needed.

I don't suppose there is a single person here from the business community who has any doubt about the correctness, and the validity, of that approach to ensure that no-one gets something to which they are not entitled. We will do our job there.

But I trust that there will be a symmetry of attitude in the business community.

By this I mean I hope there will be an equal acceptance in the business community of the decisions that we have taken to ensure those who are better off also don't get something they don't need.

I hope the clarity of vision which nearly everyone in the business community has about the need to crack down on the welfare cheats will be matched by a clarity of vision about the inappropriateness of providing Government assistance through the tax system to those who don't need it.

In particular, I hope we will see - indeed we are already seeing - significant diminution in the nonsense and the hypocrisy that has been expressed about the assets test and the Fringe Benefits Tax.

After the May Statement we will be again playing host to the Premiers.

There has already been some public comment about the Premiers' Conference and I do not wish to engage in much public debate about it now.

The reality is that the total Public Sector Borrowing Requirement must decline as a share of GDP - not simply the Commonwealth's share of it, as has so frequently been the case in recent years.

To return to the economic jigsaw, let me return to that very important piece namely the role of wage and salary increases.

Widespread community acceptance of the new two-tiered structure of wage fixing demonstrates the continuing relevance to Australia's changing economic circumstances both of the consultative mechanism of the Accord, and of our centralised wage fixing arrangements.

The new system provides for overall wage restraint while allowing some flexibility at the workplace. In other words, the decision addresses Australia's economic difficulties at both the macro-economic level, where there is a need for continued labour cost restraint, and at the micro-economic level, where Australian industry needs to become more competitive and productive.

The two tiered wage system will place a heavy responsibility on all the industrial relations players to ensure that it delivers the desired wage outcomes.

Ultimately it is for the Commission to ensure that any claims made under the second tier are genuine and are not aimed at circumventing the intent of the wage principles.

I and other members of my Government have made it clear to both these parties that Australia requires them to act responsibly in this matter. The Government will not tolerate agreements which do not comply with the principles.

The arrangements in the second tier also represent a challenge to improve productivity in the Australian workplace.

Last September I called a meeting of the peak employer groups and the ACTU to discuss work and management practices. I was encouraged by the fact that all those parties accepted the need to remove restrictive work and management practices and to promote work place reforms designed to lift Australia's productive potential.

The importance of this commitment must not be underrated. Australia's future living standards will depend on how productively we work together.

If we cannot compete with the best technologies and best working methods abroad we will permanently fail to reach our national potential. The cost will be felt in fewer jobs, lower standards for those in jobs and a reduced ability to care for the disadvantaged. There are encouraging signs of real progress being made. But because more needs to be done I again call on all parties to redouble their efforts.

The constructive approach which has typified progress on the productivity front has sprung from the new atmosphere of co-operation in industrial relations - a co-operation which has also produced the sustained wage restraint of the past four years.

Previous periods of shrinking national income have usually been accompanied by massive job losses. Consider, for example, that in the last year of the Fraser/Howard Government, unemployment increased by two hundred and fifty thousand.

By contrast some 3/4 million new jobs have been created since Labor came to office - including some 147,000 over the past year.

As predicted, the March quarter CPI - at 1.9 per cent, on average - was significantly below the levels of late 1986. As the impact of past depreciations continues to pass through the pricing system we expect further reductions in the rate of inflation during 1987 and into 1988.

The present gap between Australia's inflation rate and that of our major trading partners will be considerably smaller in a year's time. Lower inflation will signal another important piece of Australia's economic jigsaw falling into place.

Of course a crucial element in Australia's capacity to pay our way in the world in the medium term will be an appropriate level of business investment.

The boom in non-residential construction in recent times has been well timed to permit the Australian hospitality industry and other service industries to take full advantage of their substantially improved competitive position. It is pleasing also to note the sharp lift in manufacturing investment, especially in plant and equipment, which has taken place.

Nevertheless we clearly need to do more here. This Government's policies have been consistent, well articulated and constructive. We are doing what can be done to rectify the financial and structural imbalances inherited from our predecessors and exacerbated by our reduced terms of trade.

On any reasonable judgement those policies are succeeding. It is time for men and women of foresight to back Australia and take the investment decisions which only they can take.

Ladies and gentlemen

I want to leave you with some thoughts and some evidence about the comparative ability of Labor and our conservative predecessors to manage the nation's economic challenge.

As you would remember, the previous Government had to manage a significant decline in the terms of trade between the June quarter of 1976 and the December quarter of 1977.

Though some improvement took place in the following quarters, the previous government over their first four years had to fashion economic policies to cope with a net decline of 7.3 per cent in the terms of trade. But they failed to see the writing on the wall. They failed to set in train the necessary policies to restructure the Australian economy and revitalise Australian industry.

The fruits of their economic management over that period were real GDP growth of 13.4 per cent and employment growth of 4 per cent - about ¼ million jobs.

By contrast the decline in the terms of trade during Labor's period has been much sharper and more protracted. The net fall over the first four years of this Government is expected to be of the order of 17 or 18 per cent - more than twice that of our predecessors over the same period of time.

How has Labor managed? Real GDP seems set to rise by some 19 or 20 per cent over our four years in office - 40 to 50 per cent more than in their first four years - and employment growth under my Government has been three times what it was under them.

So this Government has produced more growth and more jobs in the first four years despite more than double the fall in the terms of trade.

Even more conclusively we have achieved it in a world environment which has been less conducive to export sales.

Real GDP growth in OECD countries rose 16.2 per cent over those Fraser/Howard years but, on current forecasts, only 13.4 per cent during our first four years.

Ladies and gentlemen,

It would be remiss of me if I failed to give you some thoughts about current events in Parliament House.

I don't want to turn this dinner into a partisan event. But I have to say, as Prime Minister of a country which still faces a profound economic challenge, that it is disturbing that the business community - and the rest of the community for that matter - cannot get clear answers to legitimate questions about the alternative Government's policies on taxes, spending cuts and wages policy.

I have said throughout that we will not be distracted from the central task of Government by the divisions and diversions of the Opposition.

That central task lies before us. We have a clear goal and a clear strategy to reach it.

We must continue to restructure the economy.

We must continue to govern with fairness and compassion.

We must continue to provide stability and strength in government.

And we must continue to govern for the long-term future even at the expense of copping some of the flak for decisions which do not please everyone along the way.

We are doing that and we are determined to continue that mission.

That way, Australia will emerge from its difficulties with renewed strength, renewed competitiveness, and renewed confidence to build a prosperous future.

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