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AUSTRALIA

PRIME MINISTER

CHECK AGAINST DELIVERY EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER
CONFEDERATION OF AUSTRALIAN INDUSTRY
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Brian Ettelston
Daryl George
Bill Blair

First let me say how pleased I am to be able to address you here tonight.

In the various capacities of my working life I have had a long association with the CAI. Many personal friends are here tonight.

So it is always a pleasure to address you.

As you know I was in New Zealand over the weekend to discuss a range of matters, including the review of CER scheduled for next year.

Prime Minister Lange and I have set a broad ranging agenda for the review, consistent with the expressed wishes of business organisations on both sides of the Tasman.

On the Sunday, David Lange and I went fishing off the Bay of Islands. Despite the variable weather and rough seas it was a good day's fishing - but the New Zealand fish did seem determined to cooperate more with David than with me.

Thinking back on it, I now realise that our fishing trip was somewhat analogous to the current predicament of the Australian economy - and New Zealand's for that matter.

There we were out on the high seas buffetted by forces beyond our control. But we both stuck to the task, and made steady progress at it - undaunted by the fact that the press boat, perhaps typically, threatened on a couple occasions to inundate us.

So, too, Labor's management of the Australian economy has been steadfast and determined during times of great uncertainty.

Australia's economy has been buffetted by a complex array of forces over the four and a half years that my Government has had responsibility for economic management in Australia.

We all know the chronology. Before we came to office Australia was in the doldrums of recession in 1982-83; we then recovered rapidly in a period of strong growth over 1984 and 1985; we were in danger of being swamped by the massive terms of trade collapse which followed; but we weathered this storm with significant rates of economic growth.

The seas began to calm for a period because the signs of successful adjustment had begun to emerge clearly, especially over the course of this year.

But last month, Wall Street "fell out of bed", and brought a new set of tensions which stem particularly from the inadequacies of the economic policies of the world's largest economies.

Through all of this the Government has concentrated on the task at hand, read the seas correctly and got on with the job, fair weather or foul.

That's the essence of the message I want to put tonight.

The fall in the value of the shares listed on the world's major stock exchanges has certainly been unprecedented.

Similarly the associated realignment of the major currencies by foreign exchange markets has been dramatic.

Adjustments of this magnitude cannot be accommodated over so short a time without at least some dislocations elsewhere in the world economy.

But this is not a time for Australia to hide behind simplistic remedies.

The question to be answered is how severe these dislocations will be and what implications flow for economic policy making in Australia.

We have these questions under active consideration.

At this stage the only accurate answer that can be given is that it is too soon to tell the magnitude of the likely impacts on the world economy.

Nevertheless the directions of change are well enough known and there are clear signs emerging that the more alarmist forecasts of doom we heard last month have little credibility today.

Some commentators have suggested that we should assume the worst possible scenario and have prescribed, as they regularly do, a very austere fiscal and wages regime.

The CAI was among those who called for an early tightening of policy.

Indeed there were many who were just speaking to their prejudices and who seem to favour fiscal and wages tightening no matter how tight policy already is.

The important point which I suggest the CAI and others have ignored is that no business could reasonably shut down a significant proportion of its plant on the basis of as little information as we now have about the likely effects of the stock market correction. Nor should this Government take such precipitate steps.

But having said that let me make two points plain about the Government's position.

The first is that as soon as the required policy responses, if any, can be identified and implemented, we will do so.

The second point is just as important. It is this : Australia can, in the meantime, afford to take the time for an informed evaluation of the situation. That is because the policy framework we had put in place was already moving Australia in the right direction.

This point is frequently overlooked. It is one I will refer to later.

First let me give you a brief assessment of where I think the initial burden of adjustment to the stock market is likely to be felt.

Of course the first effects are confined to the financial markets themselves.

So sharp a decline in share values has placed a premium on access to cash.

The Reserve Bank, in line with all other major central banks, has consistently sought to provide an adequate supply of cash to the market.

It will continue to do so for as long as is necessary.

Looking further ahead it is clear that for a time world growth is likely to be slower than previously expected.

Lower stock market values will affect people's assessment of their own wealth. Those whose wealth has been reduced may feel the need to save more to compensate, which will slow the growth of private spending.

Some businesses, especially highly geared ones, may become cautious about major new investments.

Moreover the policy adjustments required of the world's largest economy, the United States, are likely to slow growth in that economy, at least initially. Any expansionary measures elsewhere could be slower acting.

But let us keep the stock market crash in perspective.

It has to be viewed against the background of a five year period of rising share prices in international markets. Even after recent falls, the Australian All Ordinaries share price index is still about 80 per cent higher than it was three years ago, and is still at about the same level as in October 1986.

Moreover growth expectations in some of the major economies were in the process of being revised upwards prior to the crash - from levels which were reasonable by recent standards.

This suggests I believe that the share market correction is not likely to precipitate a recession.

That is an assessment which is shared by the OECD.

It is reported that their forecasters are expected to revise their growth estimates downwards by 1/2 per cent in the case of the US and by 1/4 per cent in the case of the industrial countries as a whole. That would leave growth at 2 1/4 per cent in 1988 in both cases, which is only 1/2 per cent lower than the average of the last 6 years.

Slower world growth can be expected to peg back the growth of our exports a little as time passes and to slow the growth of commodity prices compared to earlier expectations - but on the evidence to date of firm commodity prices since the crash the impact may not be great.

Domestic economic growth was showing signs of considerable strength in the September quarter - just prior to the stock market crash.

Although there are grounds for believing that the quarterly figures overestimate the longer term trend, the latest national accounts show that private consumption picked up strongly in the September quarter after declining for much of 1986-87.

Indeed, this pick-up was somewhat stronger than expected in the Budget forecasts.

So if there is some slowing in demand in prospect, it will be starting from a higher level than we had envisaged at Budget time.

But perhaps the strongest ground for optimism is the considerable progress which has already been made in re-structuring the economy.

In the first four months of this financial year, our current account deficit was $1.2 billion, or 20 per cent, lower than for the same period last year.

This reflects a dramatic improvement in our trade account.

Over the period, exports rose by nearly 12 per cent while imports remained roughly unchanged, resulting in a 60 per cent decline in our merchandise trade deficit.

Moreover, despite many forecasts to the contrary, business investment has picked up sharply. In the September quarter non-residential construction rose 11.5 per cent and, most significantly, equipment investment rose 11.8 per cent.

Taken together these trade and investment figures provide sure evidence of the reconstruction of the Australian economy.

They also show why we should not be overly concerned about our capacity to frame policies to weather the choppy seas which the stock market crash has whipped up.

The sources of our economic reconstruction are firmly rooted in the congenial environment for business which our economic policy settings have permitted and in the dramatic improvement in our international competitiveness.

Let me point to the factors underlying that success.

First is our solid fiscal performance. Having inherited the prospect of a Budget deficit of $9.6 billion in 1983 we have reduced the fiscal deficit from that horrendous level in each Budget. Moreover over the last two Budgets we have cut outlays by more than 3 per cent in real terms.

The accumulated result of five Budgets of fiscal restraint is that in 1987-88, for the first time in 30 years, we balanced the Budget.

The great benefit is that, since government is borrowing less from financial markets, there is less pressure on interest rates in Australia and less dependence by Australians on overseas borrowings.

In particular, fiscal restraint has underwritten the substantial declines in interest rates that we have witnessed this year.

A second essential ingredient in producing the right environment for business has been wages moderation and a dramatic improvement in industrial disputation.

The figures on wage restraint speak for themselves. In each of the last two financial years, average weekly earnings have risen by at least two percentage points less than the Consumer Price Index. It is expected that average weekly earnings will again rise by less than the Consumer Price Index this year.

Moreover, with the introduction of the two-tier wage system earlier this year, an opportunity has now been provided to employers to negotiate the removal of restrictive work practices.

This is the best such opportunity provided in Australia's post war history and I would urge you all to take a personal interest in ensuring that your own companies make the most of this opportunity to attain more efficient and productive work places.

Although in the present wage round there is a limit of 4 per cent on the potential wages gain in second tier agreements, there is no such limit on the productivity increases that can be negotiated by employers. It is encouraging to note that some employers have achieved productivity gains well in excess of 4 per cent in their second tier agreements.

Despite these achievements - achievements which have been secured not least because of the enlightened cooperation of the trade union movement - some have suggested that the Government should oppose the ACTU's claim for a 1 1/2 per cent first tier increase in the current National Wage Case. Indeed some people in this room have made that suggestion.

But I put it to them that their remedy would be a peculiarly short-sighted one.

To deny the current National Wage Case claim would put at risk the high degree of compliance with the centralised wages fixing principles which has been the foundation on which sustained real labour cost reductions have been built over recent years.

It would also put at risk our initiatives to improve work practices and would undermine improvements in the industrial relations environment.

If, when the dust settles from recent world financial market turbulence, there is need for further tightening of wages policy - and I make no predictions that will occur - then Australia's interests will be best served by having in place a durable basis of trust with the union movement. That will provide a framework for negotiations and cooperation in adjusting wages to meet underlying economic imperatives.

In summary on the wages front let me make these points. There has probably been more nonsense talked on this issue by our political opponents, many employers and some extreme elements of the trade union movement - an unholy alliance - than on any other area of economic and social policy.

Together they have ignored, avoided or simply not comprehended the fundamental facts - which are these.

Because of the existence of the centralised wage fixing system and a strong and responsible trade union movement, since 1983 real wages have declined in a period of overall economic growth - a fact unprecedented in our economic history.

This has been possible because the trade union movement, in cooperation with this Government, has been prepared to accept, in the place of real wage increases for a smaller workforce, improvements in the social wage and an historically high rate of employment growth - with 837,000 new jobs giving a rate of growth twice as fast as the rest of the world. And all this with competitiveness and profit shares back to the levels of the late 1960s and early 1970s.

These, as I say, are facts. It is a pity the ritualistic parading of prejudices seems to have precluded their more universal recognition.

The third element underpinning Australia's economic reconstruction has been steady reform of the policies, practices, rules and regulations which form the backdrop to the business environment.

This remains a top priority of my Government's third term.

Indeed its relevance to the post-stock-market correction world is, if anything, greater than before - because what counts most at such a time is flexibility.

We want to get government off the back of business as much as possible and to free up the operation of the infrastructure to maximise the efficiency of our economy.

That is a large task. It is one which requires a careful approach to the making and review of regulations which impinge on the private sector. It also requires dedicated pursuit of public sector efficiency.

We have required of ourselves the kinds of discipline which we encourage in the private sector.

The number of Departments has been slashed by 10, eventually saving 3,000 jobs, and an annual wages bill of $107 million. David Block has been appointed to scrutinise Departmental operations and Departments are now required to meet an annual efficiency dividend of 1 1/4 per cent of running costs. These measures will save almost $100 million in 1988-89. We have reversed the growth of public service staff numbers.

Public sector authorities will not be exempted either.

Possible measures include introducing greater competition, or improved performance criteria.

As you know I have also suggested - and not from the point of view of some manic ideological hang up against public enterprise - that the broader public interest may be better served by freeing up resources through the disposal of some public enterprises, provided we could be sure that essential community requirements would be at least as well served by the private sector.

The government's record on deregulation is impressive by anyone's standards.

The most recent example has been the announcement of our intention to terminate the Two Airlines' Agreement and end the economic regulation of the domestic aviation industry. At the same time clear guidelines have been promulgated for the automatic approval of programs of international charter flights into Australia and the regulation of liner shipping has been reformed.

The task of carrying forward the broader agenda of economic reform is being guided by the Structural Adjustment Committee of Cabinet.

The Committee has a wide range of matters on its agenda for consideration in the next few months.

Among other things this includes a review of the telecommunications industry, aspects of education policy, the regulatory apparatus for Government business enterprises and some further areas of transport policy.

The Treasurer also has well in hand a further review of the business tax system, to see what can be done to reduce business tax rates through sensible broadening of the company tax base.

While not an exhaustive list, it illustrates the breadth of the reform process we have in mind and the strength of our commitment. No Australian Government has ever attempted such a wide-ranging review of its microeconomic policies.

Ladies and Gentlemen

Tomorrow I will be departing for a brief visit to Singapore and the USSR, where I will be joined also by the Minister for Foreign Affairs and Trade, Bill Hayden.

It will be my first visit to the USSR as Prime Minister and I expect to hold wide ranging talks with the Soviet leadership.

As with all my overseas visits, however, we will be giving a particular emphasis to promoting Australia's trading interests.

Australia already has a significant trading relationship with the USSR, which is our eighth largest export market.

Bill Hayden and I hope to give new momentum to our longer term trading relationships in the course of this visit.

Recognising the importance of an appropriate government-level umbrella for business contacts with the centrally planned economies, I will be accompanied for the trade talks in Moscow by a group of Australian businessmen who are seeking to develop their links with USSR.

In particular they will participate in the discussions with Mr Kamentsev, Chairman of the State Foreign Economic Commission. This body was formed in 1986 to facilitate joint ventures and the like with foreign companies.

A new agreement is to be signed during the visit which will provide an expanded framework for the development of our trading relationship. The focus is not simply on trade in goods and services but also on developing wider forms of economic co-operation such as joint ventures and the exchange of technology.

This visit will complement our wider initiatives to open up trading opportunities, including in the context of the GATT.

Ladies and gentlemen,

Uncertainties about the world economic situation have introduced a new element into the design of economic policy in Australia. But we need to view it in proper prospective.

I take some heart from the fact that President Reagan has made a start in reducing the US fiscal deficit and that he and his Cabinet colleagues are firmly opposed to protectionism. Both attitudes are fundamental to the longer term solution.

I also take great comfort from the fact that Australia faces this period of uncertainty with three major advantages.

First is a track record of having weathered a series of storms and of having found timely and correct solutions.

Second is an economy which is increasingly competitive, dynamic and export oriented - and thus more able to cope with changing world conditions.

And third it is my belief that in the last Federal election we have re-written the political/economic agenda. Never again, I believe, will any party be able, with any hope of success, to go to the Australian people with Alice in Wonderland programs that neither add up nor address the realities of the economic challenges facing our country.

The day of the bribe and of cheap rhetoric has gone - what is required is performance or credible alternatives.

This combination gives us a firm foundation on which to build Australia's long term economic prosperity.

It is a combination which provides a solid underpinning for business to plan with confidence.

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