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PRIME MINISTER

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SPEECH BY THE PRIME MINISTER
ANNUAL DINNER OF THE
CONFEDERATION OF AUSTRALIAN INDUSTRY
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Tonight's annual dinner of the CAI occurs at a truly significant time for the debate about the future of the Australian economy.

It is a time requiring renewed efforts by the Government to explain to the community the necessity and effectiveness of the strategy we are following.

And it is a time that is flushing out the opportunism of the Coalition parties who are making a bid for power that is fundamentally and, I believe, fatally flawed.

It a significant time when some respected business and media commentators are preoccupied with doom-saying while many basic characteristics of the economy are fundamentally bright.

So I welcome this opportunity to talk to you, and through you to ask the Australian business community about the sort of Australia in which it wants to operate.

That is neither a frivolous question nor an academic one.

It is a question you will have to contemplate seriously in the coming months.

Because the answer the Australian community gives will profoundly affect the prospects for Australian business and the Australian economy at large.

There are two alternative Australias facing business: an Australia of confrontation, an Australia shaken by a wages explosion and industrial warfare, an Australia of recession and of introspection; or an Australia of co-operation and industrial order, of sensible wage determination, and of deliberate pursuit of a clear strategy of internationalising the economy.

Then, of course, there is also the fantasy world of Professor Hewson who talks in terms of no inflation, no rise in unemployment, minimal interest rates - the world whose creation Ross Gittens says would win the Nobel Prize.

I ask you to take a hard-nosed look at the two Australias that, realistically, are open to you.

In doing so I make no apology for these direct politically-relevant comments.

Indeed, in making these points, I am returning to the theme to which I have devoted considerable attention over the last few weeks in Parliament, press conferences and speeches - namely, the vast chasm that separates this Government from the Opposition in every aspect of Government policy making.

When I addressed the Evatt Foundation recently I focussed on the deep ideological divide between us and the conservatives on social justice; when I spoke to the National Farmers' Federation and when I launched the Garnaut report I addressed the profoundly different approaches we have brought to the task of micro-economic reform and its relationship to our future in the Asia-Pacific region.

Today I want to address issues of macro-economic policy.

Do you remember Hanrahan, the farmer in John O'Brien's poem whose incessant prediction was: "We'll all be rooned"?

If it wasn't a drought Hanrahan was lamenting, it was a flood or the threat of bushfires - the only thing certain was that one way or another "we'll all be rooned, ... before the year is out."

Hanrahan could easily get a job today as an economic commentator with some of the newspapers or financial institutions - or as an advisor to the Coalition.

This week, for example, he would have been bemoaning the current dip in house prices - just a few months after lamenting increases in house prices. We'll all be rooned if house prices rise; we'll all be rooned if they fall.

Don't misinterpret me. I welcome the current debate about interest rates, foreign debt and the balance of payments. And I'll address each of these tonight.

But what I find disappointing - and, more than that, what I find damaging to the community and to the economy itself - is the Hanrahan-style refusal to take a balanced or comprehensive view about the economy.

Hanrahan reckons things are pretty crook in today's business world.

The profit share is 23 per cent higher than the average of the last 15 years - and 50 per cent higher than it was when the Labor Government came to office.

The company tax rate is down to 39 per cent.

Real unit labour costs have fallen more than 11 per cent since 1983.

Business investment is at its highest level in 40 years. Manufacturing investment has been growing at 13 per cent in real terms per annum over the last five years - compared with a rate of minus 1.6 per cent over the previous five years.

And Access Economics has documented $90 billion in new investment projects in the pipeline or at an advanced stage of planning.

Now I'm not saying there are no problems. There are real problems - and the Government is by no means complacent about them.

The build-up of Australia's international debt is a real problem. The Government has never sought to deny that. But we do not accept the Hanrahans of the Macquarie Bank who predict a cataclysmic explosion in our overseas debt by the turn of the century. Nor for that matter does Sir Roderick Carnegie, or the former Governor of the Reserve Bank, or EPAC whose conclusion earlier this year was that stabilisation of Australia's foreign debt at around the existing level could occur in the mid-1990s.

Remember that our net external debt stood at 34% of GDP in September 1986, and it now stands at 31.9 per cent.

In other words, substantial stabilisation of our indebtedness has already occurred.

The modern day Hanrahans seem to think that all debt is bad. Some of those people are running our larger companies. Presumably debt was not a dirty word when their boards of directors considered the financing of their new investments. Yet when commenting on the national accumulation of all those investment decisions - 89 per cent of Australia's debt is business related - the verdict is, "we'll all be rooned".

Of course the nation must service that net debt - of which, as you know, the Commonwealth owes not a cent - but most of that indebtedness would not have been incurred had businesses not had the expectation and the confidence it could be repaid with interest.

The Government could, of course, slash Australia's overseas debt and break the balance of payments problem by banning the importation of planes by Qantas and the domestic airlines. We could prohibit the importation of factory equipment, computers, construction materials - which are being used to re-tool and reconstruct the Australian economy. But those policies, while reducing debt, would not be in the nation's economic interests.

And I add this observation: our foreign debt would have been up to $42 billion, or nearly 40 per cent, lower if my Government had not freed up opportunities for Australian investment abroad. For that has been the growth in Australian equity investment overseas - from $7 billion in 1983 to $49 billion now. That investment will yield future income for Australia: it is already yielding $3 billion a year, more than double the inflow of only three years ago.

Hanrahan would no doubt point out that Australian foreign investment abroad is smaller than foreign investment in Australia. But there has always been foreign investment in Australia; it has only been in recent years that such spectacular growth in Australian investment abroad has occurred. It is income-earning investment; investment that is integrating Australia into the global economy; investment which is generating markets, technology, ideas, skills.

Obviously if national savings were higher Australia could finance this Australian overseas investment and reduce its dependence on foreign debt.

For our part, the Government is making a substantial contribution to the national savings effort. Since coming to office we have, by turning around the Public Sector Borrowing Requirement by 8 per cent of GDP, increased public sector savings by around $30 billion per annum. This year is the fourth year of real reductions in Commonwealth outlays. As a proportion of GDP they will reach their lowest level since the mid-1970s: lower than in any of the seven years of the previous Government.

This is the tightest fiscal policy Australia has ever seen.

These figures provide a firm basis for the future. Indeed, by 1992-93, we expect Government outlays to be at their lowest level since the early 1960s.

So on fiscal policy, the Government's record, our current performance, and our future determination are matters not of speculation or of rhetoric but of fact.

And so it is with the second instrument of macro-economic management: wages policy. You have heard me often enough speaking of the benefits to Australian workers and businesses of the Prices and Incomes Accord - the creation of more than one and a half million new jobs, the 11 per cent reduction in real unit labour costs, the 60 per cent reduction in industrial disputation and, I repeat, a higher profit share and record investment.

But let me cite fresh, independent evidence just released by Drs Chapman, Dowrick and Junakar in a paper presented to an economic policy conference at the Australian National University. Their study concludes that the Accord has contributed massively to job growth, to an associated fall in unemployment and to an increase in the profit share.

This is the Accord that our political opponents have from day one written off as a doomed experiment. Hanrahan has predicted its demise more often than I can recall. But it still survives and adapts - providing now a comprehensive basis for the establishment of responsible wage outcomes in concert with improvements in the social wage.

The current process of award restructuring presents an opportunity to tackle some of the barriers to improved industry efficiency and productivity.

I stress the word 'opportunity'.

Sustainable increases in productivity will not come from unilateral Government action. They depend upon business and employee willingness to change, and on an environment conducive to change.

My Government is creating that environment. A clear strategy of internationalising the Australian economy has changed the economic debate in Australia.

We have now widespread acceptance of the need for micro reform, particularly the idea of exposing Australians to competition, both domestic and overseas.

This promotes change.

And it will encourage use of the opportunities available through the current wage fixing system for increased productivity.

Such opportunities are not static.

Broader mechanisms are in place to bring about a move away from occupational awards and fragmented, craft based unions to arrangements which better reflect the needs of industries and enterprises.

We are seeing union amalgamations, an acceptance of significantly fewer bargaining units on the factory floor - indeed, the desirable goal is one such bargaining unit - and widespread acknowledgement that craft-based awards need redrafting.

And we will take these developments much further through the Accord and within nationally accepted wage fixing principles.

But, and this is vital, at the same time as the objectives of increased flexibility and decentralisation are being achieved, we are maintaining an institutional structure that produces responsible aggregate wage outcomes.

This is fundamental to assessing the desirable path for future change.

So you should not simply listen to political promises about wage and productivity outcomes - you must look carefully at the proposed policy actions.

The increases in productivity flowing from award restructuring will in some cases be immediate, and in other cases take longer. But in all cases they are being achieved through sensible and constructive negotiations in which everyone can play a part.

Look at the recent airline upheavals.

As a result of the actions of the AFAP very large productivity increases will occur in the airline industry.

But they have not been achieved in a way desired by my Government.

There has been massive disruption and pain for tourism; an expensive program of training new pilots; and inevitably an aftertaste of bitterness.

This is the espoused method of Coalition reform.

But is the bull in the china shop approach the desirable method of achieving micro reform? It produces a lot of broken china.

And would will the Coalition have the guts to follow it through? They would have given into the AFAP. What chance would they stand with the Waterside Workers?

With continued responsible wage setting practices and with continued fiscal restraint, we will, in time, be able to ease the pressure on the third instrument of macro-economic policy - monetary policy.

I know high interest rates give no pleasure to the business community. I certainly know home buyers hate high interest rates. And as a politician, I'm not thrilled about them either.

But it would be economically irresponsible to bring down interest rates prematurely.

I will not do that.

The Government's three-pronged attack on the unsustainable growth in domestic demand - accompanied by our continued program of micro-economic reform - is beginning to show the desired results. Signs of a slowdown are becoming more widespread.

But the Government will not ease monetary policy until it is confident that the slowdown in demand is broadly based.

Ladies and gentlemen

Contrast all this with the other world in which you as business men and women could live. That is the world offered by the conservatives. I don't have to traverse the full terrain with you, because most of you have been there before. Remember 1980, 1981, 1982? An 18 per cent wage explosion. Industrial chaos. Factories closing down. Double digit inflation. Double digit unemployment. The lowest profit share in more than 20 years. High marginal tax rates. Ninety day bank bills at 22 per cent.

That's the other world. The conservatives are caught in a time warp: the Economic Action Plan promises to take you back in the time tunnel to 1982. It took business investment five years to recover from that battering. Their policies promise a new belting for business.

No-one who cares about the future of the economy can take comfort from the fact that after seven years in Opposition, the would-be Government has produced only a woefully thin document, full of policy contradictions, a prescription that would take us back to the past.

If we are to address our serious economic problems, we won't do it with a plan whose philosophy John Elliott describes as taking from the bludgers and giving to the workers.

Lest I be accused of sounding like Hanrahan, I want to substantiate those claims with three facts.

Fact One: the Economic Action Plan involves a very substantial <u>relaxation</u> of fiscal policy. By the Coalition's own stated figuring it involves no tightening. But there is an $800 million over-estimate of savings on unemployment benefit identified by the Department of Finance. Add to that the multi-billion dollar handback of capital gains tax revenue and you have a significantly relaxed fiscal policy.

I ask you, as representatives of the Australian business community, to consider the full economic ramifications of the Liberals' promise to abolish Labor's capital gains tax:

- the consequent relaxation of fiscal policy must inevitably increase the pressure on interest rates;
- there would be highly distorting behaviour in relation to asset disposals driven by a desire to minimise or avoid tax on capital gains;
- a sell-off would occur on stock markets as shareholders sought to realise their capital gains before the following Federal election;
- capital would be diverted once again away from economically productive, job creating investments and into schemes yielding tax-free capital gains.

I put it to you in the strongest possible terms that Australia's economic difficulties will be worsened by abolishing Labor's capital gains tax - returning us to the days when the fastest growing industry, indeed the only thriving industry, was tax avoidance.

Fact Two: the conservatives' industrial relations policy would return Australian business to the industrial jungle. Their policy is no different from what it was in 1981 and 1982. And if you need any evidence of that, just look at their explicit and still continuing support for the Australian Federation of Air Pilots.

The strong are allowed to opt out and exercise their industrial muscle - just as they did in 1981; just as the AFAP sought to do.

It is a policy that the Opposition Leader has failed to articulate because he does not understand it. It is, in reality, a complete abrogation of responsibility in the critically important area of wage fixation.

Fact three follows from the previous two.

In the end the only weapon the conservatives really have to contain their wages explosion would be to depress the economy through high interest rates. It is a theory that was practised with disastrous results when they were last in office.

While ninety day bank bills are currently around 18 per cent, in April 1982, I repeat, they reached 22 per cent.

In the final analysis they would have no choice - a looser fiscal policy and a wages break-out would leave them totally reliant on the swing instrument, interest rates, to bring the economy to heel - at massive economic cost and social dislocation.

That is why I have made it quite clear that while interest rates are high now, they would certainly be very much higher under a hypothetical Peacock Government.

Ladies and gentlemen

Members of the CAI - and all those concerned about the economic future of this country - have a fundamental question to answer: what kind of Australia do they wish to live in and invest in?

Would they rather it be an Australia whose immediate economic problems - high interest rates, debt and current account imbalances - reflect buoyant employment growth and record private investment.

- Or an Australia where the economic levers are pulled by would-be Nobel Prize winners trying to demonstrate the impossible notion that interest rates and inflation can be eliminated without job loss - an experiment with architecture as much as with economics, because it would drive interest rates through the ceiling, the dollar through the floor and all our hopes of recovery out the window?

Would they prefer 1989 where families that need second incomes can find an additional job?

- Or a return to 1982-83 where families found their sole breadwinners had lost their jobs because the dole queue was being used as an instrument of economic policy making?

Would they rather live and invest in an Australia that has started down the road of economic reconstruction, shaking off the bad habits of protectionism and introspection, and building a thriving, diverse export culture?

- Or an Australia back in the hands of those whose slavish subservience to the agrarian socialists meant the taxpayers forked out subsidy after tariff after bounty for sectional interest groups?

Would they rather have an Australia where wages are set in a predictable, stable fashion, where aggregate wage outcomes reflect national priorities of international competitiveness and domestic social justice?

- Or an Australia where the strong can extract massive wage increases and there is thought to be no need to control aggregate wage outcomes?

Would they rather see an Australia where personal and corporate rates of taxation are set so as to create an efficient and fair system of taxation, that directs investment to productive job creating activity?

- Or would they rather see public revenue undermined and public confidence eroded by the ingenuity of the sharp paper shufflers aided and abetted by the smart tax accountants and lawyers whose sole activity is to find and exploit loopholes?

You should have no doubt about the kind of Australia that we are trying to build.

Australia is in the middle of an historic transition from a narrow, inward-looking, uncompetitive economy to a broadly based, export-oriented economy that can proudly take its place in the world.

The nation has its economic problems, but the Government's macro- and micro-economic reforms are delivering demonstrable improvement.

There is no time for looking back to the easy comfort of mediocrity, relying on a good harvest or wool clip, or a mineral commodity boom - then dragging ourselves through the next rural bust, blaming the rest of the world for not paying us a living.

Now is a time of hope, not despair - a time for keeping our eyes on the long-term goal of an internationally competitive economy. In a few short years we have travelled a very great distance along the national road of economic reconstruction. And through co-operation, consensus and a shared commitment to see the job through we will take into the 21st Century a re-invigorated, modern and cohesive nation, one truly able to stand up and make a full contribution to global prosperity.

The Australian economy is fundamentally strong.

We are experiencing an investment boom unparalleled in Australia in the period that records have been kept - an investment boom spanning the entire economy and with enormous potential for new jobs and new exports.

Employment growth is twice the rate of the Western world. Participation in employment is at record levels, as is participation in the education system.

We have a stable yet flexible wages system that has survived the intense pressures placed on it by buoyant economic conditions - one that through its inherent adaptability will be a key instrument for continued economic reform.

The public sector is in long-term surplus and the Commonwealth is reducing the national debt.

Today's national accounts support our Budget predictions that the current account deficit will improve significantly in the first half of next year. Demand growth is slowing and net exports are contributing once again to growth.

Our foreign debt must be brought down. There is clearly no room for complacency. But most certainly it is not a time for heeding the Hanrahans among us.

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