PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER
ANNUAL GENERAL MEETING OF
BUSINESS COUNCIL OF AUSTRALIA
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I have to congratulate you on your sense of timing. I was invited to this AGM by Dean Wills in the first half of July. Anyone who could correctly anticipate then that this week would see a major announcement on interest rates, as well as further progress towards one of the most significant Premiers Conferences held in Australia, obviously has a very effective crystal ball.

I've enjoyed very much the discussions I have just held with your Council members on the subject of the Premiers Conference - and I shall make some further comments about this important topic shortly.

Let me first spend some time reviewing the Government's economic policies, which I know are of interest to you all - particularly in the light of the further one per cent cut in interest rates announced on Monday.

The basic point that needs to be made of course is that this announcement was just the latest instalment - albeit a significant instalment - in the continuing economic strategy we have pursued since we came to office.

Because for all the variety of economic circumstances that have been presented to us by domestic or external sources, both when we came to office and in the following seven years, this Government has essentially been tackling the same fundamental problem: the need to rectify the nation's long standing structural weakness - our incapacity to pay our way in the world with a sufficiently diverse range of exports.

The policies the Government has brought to bear to address that weakness have been comprehensive, consistent and continued : unprecedentedly tight fiscal, wages and, of late, monetary policies coupled with micro-economic reform of a magnitude unparalleled in Australian experience.

The excessive growth in domestic demand that we saw in 1987 and 1988 only exposed this underlying structural failure more starkly to view.

Australia wasn't producing enough to pay for what we were consuming. So the difference was being made up by borrowing overseas which showed up as unsustainable increases in the current account deficit.

The inability of the supply side of the economy to respond to this growth in demand also placed upward pressure on prices giving us stubbornly high inflation.

As I said last Sunday in a speech to my electorate, we have had to slow things down. That has meant making things tougher than they had been for some time - and this Labor Prime Minister certainly took no pleasure in that.

But our action has delivered two undeniable and massive benefits.

First, in a negative sense, the hardship caused, for example, by real wage restraint and temporarily high interest rates, is as nothing compared to what would have ultimately occurred in the absence of such policies. By acting promptly we have contained the economic adjustment required to something that though uncomfortable, is manageable, compared to the catastrophic and traumatic correction that would, eventually, have been imposed on us by the rest of the world.

And second, in a far more positive sense, the adjustment that we have sought in the economy is in fact taking place successfully.

The signs are all there that domestic demand has now slowed significantly, providing increased opportunities for exports and import substitution.

Net exports contributed some 3.2 percentage points to GDP growth through the year to the June quarter 1990.

Imports fell 10 percent in the June quarter.

Inflation as measured by the Consumer Price Index has slowed for the last four quarters to 1.6 percent in the June quarter.

The current account deficits in July and August are consistent with the Budget forecast of a reduction from 5.6 percent of GDP in 1989-90 to 4.5 percent this year.

These welcome responses to the tightening we initiated in 1988 explain why, since the start of the year, we have been able to ease monetary policy five times, bringing down cash rates by about five percentage points.

I contend it would now be difficult to categorise the current stance of monetary policy as unusually tight. The relationship between long term and short term - the so-called "yield curve" - has assumed a more usual configuration, following a period, associated with monetary tightness, when short rates were well above long rates.

The general level of rates is certainly above what we would like to see in the medium term, but here we must have regard to international developments and particularly to the re-emergence of concerns about inflation in the US, Europe and Japan - concerns that have been heightened by the Gulf crisis. The key to achieving sustainable reductions in interest rates in the medium term is to achieve significant reductions in our inflation rate.

Having made these points, let me acknowledge at once that much of the benefit of the monetary easing we have been able to achieve is still flowing through to borrowers.

There has been some concern about bank interest margins.

As my colleague the Treasurer has said, following his receipt of the report from the Treasury and the Reserve Bank, these are moving back into line with normal practice.

This means, I believe, that banks should now be able quite rapidly to translate the lower rates into relief for their home loan and business customers.

But I make this vital point. The other elements of our policy approach remain in place: a tight fiscal policy with a budget surplus that for the third successive year is ensuring the public sector makes no net call on national savings; a tight wages policy that has cut non-farm real unit labour costs by 10 per cent and that has lifted the profit share to near record levels; and a continuing program of micro-economic reform that is seeing historic changes in telecommunications, the waterfront, land transport, and in the very structures of the Federal system of Government itself.

It is this combination of policies that will ensure that, through 1991 and 1992, we will see significant economic recovery and the creation of a climate for strong and sustainable growth.

This prediction is a sound one, whatever may be the technical parameters of any recessionary conditions later this year or in the early part of 1991.

In fact, the economy is in much better shape than is indicated by the gloomy findings of the various surveys of business and consumer confidence.

We are certainly not in any situation comparable to 1982-83 which was, with its double digit inflation and double digit unemployment, the worst recession Australia had seen in 50 years.

And it is critical to understand that whatever may be immediately around the corner, we can already see past it to the sound recovery that will occur in 1991-92.

As we move through 1991, the easing in monetary policy will be fuelling a recovery, with personal tax cuts and the flow through of Accord Mark VI wage increases boosting household incomes. The inventory and housing cycles can be expected to run their course and contribute to growth. The recent fall in the Australian dollar - if sustained - would improve the outlook for exporters and manufacturers competing with imports.

And under the Accord we can expect a resumption of the employment growth that has been the hallmark of my Government.

It remains true that the Accord processes have been central to the economic achievements of my Government. So in the light of this week's remarks by the Governor of the Reserve Bank, let me underline the fact that the capacity to trade off wages for taxes has added a new dimension of flexibility to fiscal and wages policy making.

But, as my colleague Paul Keating told Parliament this week, it is simply too early, with Accord Mark VI still in the pipeline, to entertain any real consideration of what may succeed it. Such trade-offs require extensive and careful deliberation about the state of prevailing economic conditions and I would not want to lock the Federal Government into any premature understandings.

My friends,

Of more immediate importance is the effort the Commonwealth Government is making, with the States, to improve the efficiency of our Federal policy-making, administrative and financial machinery.

I have discussed this at length already with your Council members. But let me briefly express here my gratitude to the Council for its strong support for the Conference - and my confidence that concrete and significant outcomes will be achieved in five areas:

- Commonwealth-State financial relations;

- improving the arrangements for the delivery of services in pursuit of social justice;

- micro-economic reform;

- industrial relations;

- the environment.

I take this opportunity to draw attention in particular to the initiatives that will be discussed in relation to road and rail transport. Inevitably I suppose the attention that has been focussed recently on telecommunications and civil aviation has overshadowed the significance of land transport reform; but I can assure you that road and rail occupy a very significant place in our agenda for micro-economic reform.

Hand in hand with these processes, but necessarily with a longer gestation period, are the renewed efforts we want to make to achieve constitutional reform.

A Steering Committee, under the Chairmanship of the former Governor-General Sir Ninian Stephen, is to develop arrangements and an agenda for a Constitutional Conference in 1991.

This is a task which should not be left solely to the politicians. I have said, for example, that I would be prepared to see a constitutional amendment to achieve four-year terms for the Federal Parliament - if there is bipartisan support for the proposal.

If the corporate sector genuinely believes, as I think you do, that three-year terms are a handicap to efficient business, then it is up to you to make your views known, to exert pressure on politicians to see that the referendum does take place, and to give it your vocal support when it does.

My friends,

I want you to know and understand that the kind of analysis I have made of the Australian economy this evening has a powerfully important international aspect.

Increasingly, our overseas trading partners - and, of critical importance, our trading partners in the Asia Pacific region - are recognising the significance of the changes that are being wrought in the Australian economy.

It is certainly a central element of the diplomacy I conduct on my overseas visits. On my recent visit to Japan - Australia's largest trading partner - I told my audiences that Australia was prepared and equipped to engage Japan, the region, and the world, on new and more competitive terms.

And I pointed out that the pace of change in Australia has rendered completely out of date the stereotypes that, once accurately, portrayed Australia as a frequently unreliable, usually complacent and essentially inward looking kind of economy.

I consider this kind of commercial diplomacy to be absolutely integral to the overall face that Australia presents to the world. Part of my job overseas should be to help open doors for Australian business. We are all the winners when Australian companies can attract new work overseas.

But my friends all this requires one critical factor. Are Australian companies prepared to exploit the opportunities being created, and are they equipped to compete fully on regional and global markets?

Of course there have been some very significant successes, and many of the companies represented here are actively marketing Australian products overseas.

But the fact remains that much more needs to be done by Australian companies if we are fully to exploit the opportunities that await this country in the region's markets.

We need to see a greater research and development effort; we need to see greater managerial competence with longer corporate planning horizons and more determined marketing; we need to see greater effort to master the unfamiliar markets of Asia as well as the more familiar ones in Europe and North America.

And let me not omit from this list the need for a greater commitment by Australian business to training.

That is why the book you have asked me to launch, "Training Australians - A Better Way of Working" is such an important signpost to the future.

It comes as no surprise to me that many Australian businesses - as the case-studies in this survey show - attribute their success to their commitment to training and developing human resources.

The Training Guarantee, along with our increased support for apprentices, our expansion of places in higher education, and the dramatic increase in retention rates at secondary school level, show the Federal Government's active commitment to improve Australia's skills base.

As you know, further recommendations have been made by Ivan Deveson in his report that we received this week.

I don't want to preempt the Government's precise response to his report. But this much can be said with certainty: we accept that much more needs to be done to ensure the Australian work force is equipped with the skills it needs to enable our companies to compete internationally.

This is a responsibility we have shouldered in the past. Most importantly it is also a responsibility that must be shouldered to a greater extent by business.

Your report is a very welcome one and you are to be congratulated for it. I have pleasure in launching it.

I don't think however that anyone believes this represents other than an early staging post on a long road towards a more substantial Australian business role in training.

It is consistent with everything I have said today that business must adopt a more dynamic response, in training and more generally, to the great process of national economic revitalisation that is taking place in Australia.

It's a tough process, and a slow one. But it is taking place.

And it must continue to take place if we are to emerge a stronger and more competitive nation.

That is why we can't afford any failure by business to play its part. As a nation we depend on businesses as the immediate agents of economic prosperity.

Government can and must create conditions broadly conducive to a more outward looking, competitive economy.

We can, we must - and we are doing that.

But ultimately it comes down to the skills and willingness of individual managers in individual enterprises to take up the challenge.

The current account deficit will only be reduced by the accumulated results of hundreds and thousands of managerial decisions to export and to replace imports.

You are the front line troops.

Ultimately, winning this battle is up to you - and I cannot urge on you too strongly your responsibilities in this truly vital task.

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