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PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

SPEECH BY THE PRIME MINISTER
AUSTRALIAN FINANCE CONFERENCE
SYDNEY - 25 SEPTEMBER 1991

Next month marks some notable anniversaries. One, very much in my mind, will be 7 October - the fiftieth anniversary of the formation of the wartime Labor Government of Australia, under the leadership of the great John Curtin. Perhaps engraved more sharply on the memories of you here will be 20 October - the fourth anniversary of the stockmarket crash.

And I put to you, ladies and gentlemen, what might seem at first an astonishing proposition, but one which encapsulates the epic nature of the times through which we are living.

My proposition is this: those four years, 1941 to 1945, were the most crucial in changing world history and shaping the future of humanity - until the last four years, the four years since 1987.

They have indeed been remarkable years. For a few months in 1987 we feared that the world's economies - and in particular its market economies - would slide into a profound recession.

We feared that we would see again the sort of 'crisis of capitalism' that brought the international economy to its knees in the early 1930s, and which had such a grave effect on Australia and on so many of her people amongst our parents' generation.

And we were mindful too of the wider consequences of that earlier stockmarket crash; the flight to protectionism, the rise of fascism and the terrible trends that led to war.

But of course, none of that happened.

In fact over these past four years international events have been dominated by two much happier trends.

First, markets have not been discredited, as they were by the crash of 1929.

World markets and the world economy recovered surprisingly quickly from the crash. And the role of markets, including international markets, in satisfying the economic aspirations of ordinary men and women everywhere has been increasingly recognised in every corner of the globe.

Economies which for decades have been ruled by diktat are now starting to be ruled by choice.

Second, we have seen the political equivalent of these trends in economic thinking. Within nations, the last few years have seen an extraordinary surge towards democratic government. And between nations, there has been a remarkable reduction in tension and growth in cooperation.

Strategically, these years mark the end of the cold war. The end of the era that began in 1941 with the German invasion of the Soviet Union and the Japanese attack on Pearl Harbour. Those attacks drew the two great powers into World War 2 and led them, through victory, to superpower status and relentless antagonism.

Politically the last four years mark the end of an even longer era. For the death of communism in its first home, the Soviet Union, marks the eclipse of a conception of the State and its role in society, and indeed the end of an ideology about human society itself, which goes back even before 1917.

These great events - unquestionably among the decisive sequences of modern history - will be symbolised in history by the fall of the Berlin Wall and Russia's three-day revolution. But their effects have been felt, and will continue to be felt, all over the world.

So my theme today is change, in these times of immense change, and the challenge it brings inescapably in its wake.

And, in attempting to understand this experience of the recent past and, just as important, in planning for the future, October 1987 is an appropriate place to begin.

The falls in share prices in those tumultuous days, almost four years ago, surpassed anything seen since the Great Crash of 1929. It was a natural response, then, for the world's policy makers to look back to that earlier time. It was natural, also, that their predominant concern should be to avoid the collapse of the banking system and prolonged depression of the 1930s.

But that experience lay almost 60 years in the past. The world economy had changed enormously. The world financial system proved much more resilient than in 1929. The flexibility brought by deregulation, coupled with greater international integration of world capital markets, gave it a much greater capacity to absorb shocks.

We can now see, with hindsight, that the easy monetary policies, pursued in much of the developed world, designed to avoid a repeat of 1929, were an over-reaction. Their effect was to stimulate demand beyond the capacity of the world economy to produce. Amongst other things, it gave rise to a boom in asset prices.

We, in Australia, shared in this experience. Here, growth in demand outstripped growth in output by a factor of two. It was a situation we could not and did not allow to persist.

The international events I have described overlaid a range of fundamental changes we ourselves were making, to achieve greater competitiveness. Consequently, the impact of those events was greater here than in most other national economies.

The structural changes were imperative to the pursuit of competitiveness. Yet they made Australia particularly susceptible to these wider, international influences. Nowhere can this be seen more clearly and starkly than in the financial sector.

In many respects, the financial sector has been a pioneer of structural change in Australia. The floating of the dollar and the dismantling of foreign exchange controls opened the sector to the influence of international capital markets. Deregulation and the entry of the foreign banks brought a sharp increase in competitive pressure.

This new environment made immense demands on management within financial institutions.

But in the period following October 1987, these demands were not immediately obvious. Money and credit were easy. Aggressive lending was seen as essential to survival.

With the tightening of credit and the associated deflation of asset prices, the pressures on management were simultaneously revealed and redoubled. Regrettably, this proved too much for some institutions and has left its marks on the balance sheets of all of them.

Unlike the crash of 1987, these developments are genuinely testing the resilience of the financial system. And not just in Australia. There are serious concerns about the fragility of the financial systems of both the US and Japan.

If this account were all there was to be said about the last four years then the only remedy would be one drawn from the post-1929 experience. Perhaps some would be looking for the nearest window.

But, in spite of the pronouncements of the dismal johnnies who seek out the doom and gloom in every situation, this is manifestly not the case. The reform effort that predates

1987, and has continued and intensified since, has brought about real and lasting change.

In the financial sector, there have been real benefits to consumers. A much richer menu of financial products and services has become available, and competition for savings has enhanced the returns on the accounts available, and increased their range.

And this is a motif repeated across many sectors of our economy: real and lasting benefit on the one hand, coupled with particular difficulties flowing from the extremely disruptive, but essentially transitory, experience of the last couple of years.

I think it is of profound importance that we draw the appropriate conclusions from this observation. We must not allow ourselves to be overwhelmed by the difficulties of the moment as disturbing as they might be. We should take heart from the massive change we have already secured, draw strength from the achievements we have already posted and move to tackle the problems that now confront us with the same determination that has brought us this far.

Make no mistake, this is not an idle and empty clarion call to attempt some impossible feat, nor will you respond adequately by feeling committed for the next twenty four hours. What has brought us the achievements we have secured and what promises further gains is continued application of effort by each of us in our own area to perform our functions better.

My Government, in this year of recession, has sought to redouble its own efforts. I made the claim, at the post-Budget AFR dinner, that in no year in the post-war era had so much reform been achieved.

The challenge I issued then to refute that claim remains unanswered.

Let me take you through some of the main elements that substantiate this claim, not to convince you of our virtue, but to demonstrate that, in urging you to help work our way through the current problems, this Government is leading by example.

The reforms we are implementing have an overriding objective: to make our economy more competitive internationally.

Nowhere are these reforms more striking than in the area of Commonwealth-State relations. Through the Special Premiers Conference process, we are redefining the relationship between Federal, State and Local Governments in a way unmatched in over ninety years of Federation and to a degree considered impossible by many, even as recently as last year.

The impact of these reforms has yet to be felt in the community at large. But, as they come on stream in the years ahead, Australia will be free, at last, to operate and compete as a single, efficient unit, free of inefficiencies flowing from the accumulated mass of uncoordinated and contradictory rules and regulations.

The establishment of the National Rail Corporation, at a cost of over $260 million over the next four years, will mean that business will no longer have to deal with five separate rail systems, uniform only in their capacity to make losses. Instead, there will be a single, commercially oriented company responsible for interstate rail freight with a network extending from Brisbane to Perth.

The National Road Transport Commission will regulate heavy vehicles on a nationally uniform basis.

The National Grid Management Council will deliver a more rational use of energy resources. It will, over time, provide electricity cheaper than it would otherwise have been available to household consumers and industry alike.

From the beginning of 1993, regulations and standards covering goods and occupations in each of the States and Territories will be recognised in each of the others - a simple reform in itself, but one with far-reaching implications. Yet this simple reform was put in the too hard tray by a succession of Governments during the first ninety years of Federation.

Further, through the process of the Special Premiers Conference, proposals are being developed for adequate and uniform prudential standards for State-based non-bank financial institutions. While I know these reforms will not affect directly the institutions represented here today, it will provide a more efficient and predictable operating environment for those in the building society and credit union sector.

But, of course, the achievement of micro-economic reform extends well beyond Commonwealth-State relations. I list:

- the tariff cuts and further taxation reforms announced in the March Economic Statement

- the Waterfront reforms which are already giving rise to productivity gains of 60-70 per cent in some ports and, in so doing, providing direct benefits to all Australian exporters

- deregulation of the civil aviation industry, which is providing cheaper fares for all air travellers

- reform of the telecommunications sector and in the management and operation of government-owned enterprises, at both the Commonwealth and State levels.

The Government's micro-economic reform initiatives are being pursued within a coherent and forward-looking overall policy framework designed to get the fundamentals right.

The 1991-92 budget brought down by John Kerin was integral to this strategy.

If Australia is to develop an internationally competitive economy, the skills level of its workforce must be upgraded. That is why the Budget saw expenditure on labour market and training programs increase by 50 per cent in real terms. Also, it is why $420 million was allocated to TAFE.

Similarly, if we are to plan properly for the future, we cannot ignore the problems associated with the ageing of our population. We cannot wish away such problems or pretend they do not exist. If we are to have sensible policies for the future, we have to make basic decisions now. That is the approach behind the superannuation initiative announced in the Budget. It might have been expedient to put off the decision, but that would have simply imposed a greater cost on business, and the community as a whole, further down the track.

I come now to the prospects ahead.

Over the course of this financial year, our inflation rate is forecast to drop to 3 per cent. At 3.4 per cent, Australia's inflation rate is already below the 4.3 per cent average of our major trading partners in the OECD.

Inflation expectations are being lowered and, for the first time in a generation, Australia has the opportunity to make permanent its status as a low-inflation country. My Government intends to grasp that opportunity. We intend to lock in permanently the advantages which low inflation brings to our international competitiveness.

Central to the maintenance of low inflation is an effective wages policy. It is to its great credit that the Australian union movement shares the commitment to keeping inflation low. Through the Accord process - one of the great success stories in economic management over the past decade - the union movement has committed itself to the achievement of a wages outcome in the order of 5 per cent this year. Beyond that, the union movement has agreed to work with the Government towards a wages outcome consistent with keeping Australia's inflation rate at levels comparable with those of our major trading partners.

Australia's current account deficit is forecast to be around $14 billion or 3.5 per cent of GDP in 1991-92, a very significant improvement on the $22.3 billion or 6 per cent of GDP in 1989-90.

And especially pleasing about this trend is the fact that so much of it is due to a growth in net exports. That is a clear sign that the changes we have been working for, are beginning to take hold. In particular, manufacturing exports have shown a consistently high growth over the past eight years - 26 per cent in 1990-91 alone. In fact, in 1990-91 the share of manufacturing exports in total exports was 18 per cent, compared with 12 per cent in 1982-83.

Largely as a result of the growth in exports, the balance on goods and services is forecast to be in surplus in 1991-92, the first such surplus in over a decade.

The Budget forecasts are for recovery at a moderate pace over the course of this financial year, with GDP growing at three and three quarter percent through the year.

While I do not underestimate the difficulties still being faced by businesses all the signs point to the beginnings of a steady improvement in economic activity

- despite a slight fall-back in the past two months, the index of consumer confidence has risen by 30 per cent since February

- housing starts and retail trade statistics have picked up

- new manufacturing orders are expected to increase over the coming quarter.

Ladies and gentlemen,

The thrust of this Government's policy effort has been to take the right decisions for the future of Australia. We are about getting the framework and structures right. Such an approach is, we believe, the one which will be of most benefit to Australian industry and to the Australian people.

And, on industry policy, let me restate very clearly that the Government's objective is to build a more competitive Australia. As I stated in Melbourne last week to the Australian Chamber of Manufactures, there is an obvious distinction between policies that stimulate and facilitate the growth of self-sustaining new industries, that rejuvenate old ones, and policies that bring into existence industries whose viability is dependent on special treatment by Government.

While in Government we have put in place various policies of the former kind, policies of the latter kind have not only failed to bring about worthwhile change but have actually held back the development of competitive industries.

Obviously, this government wants to see development wherever possible. And we also have a responsibility to ourselves and to future generations to ensure that development does not do irretrievable damage to the environment. That is the very reason we established the Ecologically Sustainable Development process; to bring business, environment groups, Commonwealth and State Governments together to develop a rational way of resolving sensibly the frequently recurring conflict between development and the environment.

As with so many other things, it would be easy to pretend this problem does not exist, but that would be irresponsible and represent a massive betrayal of the trust placed in those elected to government. But I do also contend that there are ways of reconciling in most instances the need for economic growth with the responsibility for protecting the environment.

Ladies and gentlemen,

Let me turn briefly to your own situation. There has been a tendency through the period of turmoil I have described for the banks to increase their share of activity in the financial sector. Nevertheless, with assets in excess of $50 billion and employing around 20,000 people, finance companies in Australia continue to be a major presence in the sector, particularly in the provision of financial services to small and medium sized businesses.

Many in your sector have been criticised for your behaviour through the recent period. Beyond pursuing the normal processes of the law in punishing demonstrable cases of wrong-doing, I think little purpose is served in raking over the ashes of past mistakes - better to look forward and ask what positive contribution can be made to the future.

In looking to that future there are two particular goals towards which I would ask you to aim.

First, to secure and maintain the strength and stability of your own institutions. A financial sector that is itself unstable cannot contribute to restructuring elsewhere in the economy.

It is, on the face of it, presumptuous for me to be drawing your attention to what, according to all conventional wisdom, must be the prime aim of a financial institution. But I believe I am justified in doing so, not only by the manifest damage to your balance sheets many of you have sustained; but because I make the deeper observation that the damage has been caused, not by some extraneous combination of circumstances, but by a failure of management within institutions to keep this goal uppermost in their minds. The sober virtues of a balanced portfolio, avoiding excessive exposure to one sector or one borrower, of careful analysis and management of risk and of matching assets and liabilities were forgotten in the heady days of the late 1980s. They must be reinstated.

Second, I would ask that your pay closer attention to your customers. They must be seen as more than an immediate source of revenue; more than another point in a battle for market share.

Their future prosperity is your future prosperity, and you must ask yourselves what more you can do to help secure it. I believe we must see much closer relationships between lenders and their customers. And I believe the responsibility for developing this closeness lies principally with lenders for they will cultivate many such relationships whereas borrowers may maintain only one.

This closeness will give greater insight into customer needs and enable you to develop and offer products targeted to those needs. It will also allow you, the lender, greater insight into the capacity of your borrower to carry debt and allow you to manage risk prudently without unnecessarily penalising your customers.

It was with the interests of consumers in mind that the Minister for Justice and Consumer Affairs, Senator Tate, announced recently that from yesterday, 24 September, people would be guaranteed access, free of charge, to any credit information held on them by a credit reporting agency. Also, the credit reporting industry will be under an obligation to ensure that the records it holds are accurate and up to date.

Likewise, the Government is now moving to address the issue of consumer credit insurance, with the objective of providing greater protection to the consumer and, in so doing, to improve the standing of the industry as a whole.

In a period of restructuring aimed at building a more competitive Australia, the financial sector has a key role to play. I urge you not to be discouraged by the difficult times through which you have passed, but to learn the lessons it offers and move to play your essential part in our great national enterprise.

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