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Title:

Speech to the Australian Finance Conference at the Gateway Inn: The South Australian Economy

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SPEECH TO BE DELIVERED BY THE PREMIER, MR. DON DUNSTAN, TO THE AUSTRALIAN FINANCE CONFERENCE AT THE GATEWAY INN, ON WEDNESDAY, NOVEMBER 15, 1978.

EMBARGO 8.45 p.m.

THE SOUTH AUSTRALIAN ECONOMY

Thank you very much for inviting me here tonight to help you celebrate the 20th anniversary of the Conference. Most people like birthday parties, but, in keeping with the customary astuteness of the finance industry, you have gone not only one better, but many times better.

I understand you have been smart enough to hold at least six birthday parties, with one in each of the capital cities.

I would also like to thank you for allowing me to miss the early part of this evening while I helped launch what is almost certain to be another one of the great success stories from the South Australian Film Corporation.

Its latest movie, "Blue Fin", has its world premiere tonight and, while you were somewhat inexplicably prevented from attending, I am sure you will all catch up with it in due course. You will be delighted. It is a rattling good yarn about tuna fishing on the West Coast, written by Colin Thiele and starring Hardy Kruger and Greg Rowe.

Tonight, however, I would like to take this opportunity briefly to talk to you about an area which also has its ups and downs - the South Australian economy.

There can be no doubt that we've had a tough year. But some people have been spreading a sense of gloom so dense that the light of evidence has been unable to penetrate it. I would like to take this opportunity of putting some matters in perspective and presenting the facts as I see them.

Paradoxically, the difficulties of the past year are due in considerable part to the very success the South Australian economy had in staving off the worst ravages of the national recession in the period between 1974 and very early this year.

There is a saying that all good things come to an end sooner or later. However, such was the rapidity with which we caught up with the national recession that we overcompensated.

Because the four-year slide in national business activity has been compressed into little more than a year in South Australia, the rate of decline has obviously been greater here. And that has led to some over-reaction to our changed circumstances. It is not unusual for this to happen during correction phases.

But there are now very clear signs from a number of different sources that things are beginning to swing back our way again. As I will indicate later in my speech, I believe that by this time next year the performance of the State economy will be back in line with that for the nation as a whole.

During the four years 1973/74 to 1976/77, the South Australian economy, most of the key economic indicators, fared better than the Australian average. However, the national recession caught up finally with South Australia towards the end of last financial year. It was not possible indefinitely to sustain a level of activity markedly higher and a rate of unemployment substantially below the Australian pace.

From a position of consistently below national average unemployment in the period between mid 1973 and the first part of 1978, the State economy entered a difficult period as this year proceeded. The main contributing factors can almost be counted on the fingers of one hand.

First there were heavy retrenchments in the car industry, which, although no longer dominating activity in the way that it did some years ago, is still a major employer of our labour. With car sales stagnating all over the country under the impact of austerity policies, it has been a tough period for the companies involved to make additionally the necessary changes to their product line-up.

That both manufacturers have introduced major changes successfully in such a period is a considerable tribute to their ability. Nevertheless, around two and a half thousand jobs disappeared over the course of the 1977/78 financial year.

The State economy in general, and that of the Iron Triangle in particular, has also been hit heavily by the closing of the Whyalla shipyards. Nearly two thousand people were employed in the yards, and the prosperity of others in the area depended upon their work.

It has left a huge gap which we are trying hard to fill. We have had some success in finding alternative employment, both in the public sector through the State Government Clothing Factory and in the private sector with an important new salt manufacturing industry to be started up by the Pacific Salt Company. The proposed Redcliff petrochemical project would obviously fill the remaining gap, but I will come to that later.

In past centuries people have sought to explain the business cycle by such things as periods of sun spot activity. Though these ancient theories are now served up only for the amusement of first year economics students, they contain an essential grain of truth.

predominantly agricultural communities the state of the weather was an important determinant of prosperity. It is easy these days to overdo the emphasis on industry to the expense of agriculture. Certainly, the rural sector is no longer proportionately as important to South Australia as it was fifty years ago, but it can still directly and indirectly have a major impact on our fortunes.

For example, the indirect effects of the drought over the past three years led to the loss of nearly two thousand jobs in 1977/78 in food processing and agricultural implement manufacturing alone. And that figure does not allow for the direct loss of jobs in and around grazing areas, nor does it take account of the effects of reduced purchasing power by the rural community on the State's industrial output.

The long overdue breaking of the drought earlier this year was very welcome. I was in New York at the time, and when I was told about it by telephone, I was so relieved that I could almost hear the raindrops falling at the other end.

Paradoxically, the breaking of the drought has had the initial effect of depressing further employment prospects, as graziers re-stock instead of sending output to the slaughter yards. However, the position will right itself towards the end of 1979.

The other major decline in the past 18 months has been in housing and in industries dependent upon it. The fall in South Australian new dwellings commenced was from 14,260 in 1976/77 to 9,472 in 1977/78.

Part of this was in line with the industry recession nationally. A further part was in correction of speculative overbuilding, which had occurred in a number of cities including Adelaide and Melbourne.

Put simply, that 14,260 back in 1976/77 was unsustainable. The rate was excessive. All it did was to leave a large number of spec houses unsold, out at grass so to speak, to depress enthusiasm for further building while the speculative overhang remained.

We lost more than fifteen hundred jobs directly in the building industry as a result, and almost that number in industries dependent on housing, such as bricks, wood products and bedding.

The four factors that I have outlined above led to the loss of around nine thousand jobs in 1977/78. They have provided almost the entire reason for the decline of late in the South Australian economy. Over the year to June 1978 civilian employment in South Australia fell by just under ten thousand, so that the four factors alone provided more than ninety per cent of the explanation of what has happened.

With the exception of the Whyalla shipyards, there is no reason why we cannot make at least a partial comeback in all of these areas. There are already signs that the car industry is rebounding strongly. Both the Sigma and the Commodore have been very well received, and the two major companies have begun to take on considerable numbers of extra workers.

With the drought now a matter of history the rural sector is reviving. It is already the case that employment levels have picked up in agricultural implement manufacturing. Horwood Bagshaw in particular, which was badly hit this time last year, is now beginning to enjoy an encouraging resurgence in its business. And a little further down the track we should see the return of many jobs in food processing.

The housing rebound is still a little way off. The overhang has just about disappeared as far as houses are concerned, but there continues to be some excess of unsold units.

The speed with which builders re-enter the market will depend very much upon their faith in the economy generally. But some time in 1979 I expect a pick-up in activity, though I would not want to see conditions

return to the excessive boom of 1976 and early 1977.

Even so, an annual rate of new dwellings of around eleven to twelve thousand a year would be a considerable improvement on the present position. And such a resurgence would obviously be a great help for the wide range of industries dependent upon new housing.

There has also been a substantial improvement in the fortunes of our major domestic appliance manufacturers. Both Simpson Pope and Kelvinator have recently turned in substantially improved reports and their employment position has been strengthened.

Indeed, I believe generally that the slide in the South Australian economy, induced by a catching up with the national recession, has now stopped. For the most part the correction has already been made.

The employment position has stabilised in recent months and our fortunes will depend in the immediate term on the growth of the national economy as a whole.

As part of our monitoring of the State economy periodically we collect employment figures from 123 important business entities. In manufacturing, for example, the sample represents almost two-thirds of total employment in that category in South Australia.

Between late 1977 and June 1978 the survey presented a depressing picture. Almost all the manufacturing entries had a minus sign in front of them. Almost every sector of industry was showing a decline, with the sole exception of the textile industry, which was showing some minor increases against the national trend.

But the most recent reading is far more encouraging. Overall, between the end of June and the end of September, manufacturing employment in our sample increased from 64,644 to 64,664. It was a modest increase of only 20, but an increase nevertheless.

Moreover, increases and decreases were equally balanced across the twelve sectors into which manufacturing is classified. The stabilisation is broadly based. Furthermore, I expect to see a more substantial gain when the figures for the December quarter are in.

These developments have begun to be reflected in our unemployment figures also. Last Friday's unemployment figures showed a drop over the month in South Australia of 675. That compared with a national drop of 2,503. After the dismal period that we have been through, it is very pleasing to see South Australia contributing far more than its share to the nation's jobless reduction.

At seven per cent our unemployment rate is clearly too high. It will go higher still in the next few months as school-leavers hit the market. But at least we can face that prospect with an element of optimism now that our major industries have adjusted to the tougher markets.

Now that inflation is under control, it is only a matter of the right timing for some stimulus to be given to the national economy. I believe that time to be overdue, as does every other Premier, irrespective of political persuasion. And I notice from my colleague Jack Wright's meeting with unions and employers recently, as well as from comments in the press, that many leading employers are coming round to this view.

There is no need for defeatism about our longer-term prospects. With the application and persistence that South Australians have shown for 140 years now, we can compete on equal terms with others. But I don't expect overnight success.

For example, we have slowly but steadily built up the export of our dry-land farming techniques, and with them sales of our equipment. It has been a slow process but it is now beginning to pay off very nicely. Only last week the Deputy Prime Minister, Mr. Anthony, told me about the enthusiastic interest he had found amongst the Chinese over the use of our techniques. We are following up this immediately, and I am reasonably optimistic of a breakthrough here.

Similarly, Noel Roscrow and his people at Sola plugged away for many years through the 1960s before they became the great international success story that they are today. I am a little sad in a way to see this fine South Australian enterprise being taken over by Pilkingtons, but I am sure that the net result will be a strengthening of their activities. In any case, they have shown what can be done here in South Australia, creating \$42 million out of next to nothing.

And I very much hope that after plugging away now for six years, to the accompaniment of derisive comments from some quarters, that we will soon see work begin on the Redcliff petrochemical project.

It makes great sense, not only from the South Australian viewpoint, but from the national interest as well.

Some six per cent of the country's presently known oil reserves are locked away in the Cooper Basin. Their value at present prices is around \$1½ billion. But such is their distance from the market that they are unlikely to be commercially viable unless they are used for high-value purposes such as petrochemicals.

One cannot just leave them in the ground, for soon they will have to be piped up with the gas that supplies Sydney and Adelaide. One and a quarter billion dollars will go up in smoke. In times of a global energy shortage that act would be criminal.

By comparison, any alternative petrochemical project would use feedstock from Bass Strait, which would be available in the market place whether used for petrochemicals or not. Redcliff would thus free Bass Strait resources for other uses.

The other important raw material for Redcliff is salt from the natural brines of Lake Torrens. For centuries now the salt has been produced naturally and has gone to waste. It will continue to go to waste without Redcliff.

Apart from these raw materials, which in a sense are free to the nation, Redcliff also offers considerable savings to our Balance of Payments, presently the weakest spot in the national economy.

It has been estimated that at current prices, even after allowing for the servicing of capital, the Redcliff project will benefit the national Balance of Payments by some \$220 million a year. This is more than double the likely affect of any alternative project.

On a smaller scale I hope to be able to announce shortly the names of the first set of recipients from our innovative Establishment Payments Scheme. The Scheme has been designed specifically to help firms in the critical early period of launching new products or attacking new

markets for existing products. Hopefully, another success story like Sola might emerge from amongst the recipients.

Finally, I would like to comment briefly on the suggestion that South Australia's cost structure is out of line with that in other States. It is. Labour costs are generally lower here than in other States.

There has been an awful lot of codswallop talked this year about South Australia having lost its labour cost advantage of the Playford era. None of these comments ever gets down to specifics. Let me just briefly mention, however, what the official statistics have to say about our labour costs.

First, wages. The latest set of average weekly earnings figures, for the June quarter, show South Australian wage costs to be at least ten dollars per week below those in Victoria and New South Wales, our principal industrial competitors. The figures are: South Australia, \$207.30, Victoria, \$218.10 per week, New South Wales, \$217.40 and the Australian average, \$215.50.

Second, payroll tax. South Australia has, jointly with Victoria, the lowest schedule of payroll tax payable anywhere in the country. The only exception to this claim occurs in the case of Queensland for firms with between 7 and 13 employees. But if they expand only to 15, such is the prohibitive speed with which the initial exemption phases down in that State, the firm would wind up paying more payroll tax in Queensland than here.

And the wage advantage plus the favourable payroll tax position multiply together. Not only is the payroll tax schedule the lowest in the country, it applies to much lower than average wages. The effect of this is that for a firm of 15 employees paid at average weekly earnings, for example, payroll tax payable in New South Wales is 28.5 per cent higher than in South Australia, 6.5 per cent higher in Victoria, 4 per cent higher in Queensland, 3.2 per cent higher in Western Australia and 4.2 per cent higher in Tasmania.

In fact, the highest payroll tax burden levied anywhere in the country occurs in the ACT under the payroll tax system administered directly by the Fraser Government. The Federal Minister for Construction, Mr. McLeay, should see to it that his own house is put in order before he

continues his criticism of payroll tax in South Australia. We already have indisputably the lowest burden.

Interstate comparisons of the cost of workmen's compensation are bedevilled by the variety of rating systems used in this country. Nevertheless, if we examine the overall figures supplied by the Statistician, once again South Australian costs, either for claims paid out or for premiums charged, are lower than those prevailing in the two other industrialised States, Victoria and New South Wales.

The latest year for which figures are available is 1976/77. They show premiums charged per worker in Victoria at an average \$252 a year, in New South Wales at \$191 a year, and in South Australia at \$182 a year.

The position was even more distinct in regard to the claims paid out. In Victoria the 1976/77 figure was \$155 per year per worker, and \$152 in New South Wales. In South Australia the corresponding figure was only \$112.

This evidence is not simply a fortuitous result for one year alone. Exactly the same result was obtained in 1975/76 and earlier years.

These are the three main components of labour costs. In each case local employers fare better than their competitors in the other major industrialised States. To those who claim that the way to economic salvation lies solely through lower labour costs, I say, take a look at the facts. We already enjoy lower labour costs, which undoubtedly gives business in this State a tremendous advantage.

They also have the advantage of trading in easily the best industrial atmosphere anywhere in the country. This year, yet again, days lost through strikes in South Australia are running well below the national average. On the latest figures, for the first seven months of 1978, our strike loss rate was only 42 per cent of the national pace.

Against this background there is every reason to believe that South Australia can enjoy a strong business future. I am sure that the members of the Australian Finance Conference will be very active in the decades to come helping to secure that future for us. I congratulate you on the twentieth anniversary of the Conference, and I look forward to at least another twenty successful years.