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**Title:**  
Speech at business lunch, Prospect

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2705

Mr. Burchell, gentlemen :

Thank you very much for asking me to speak to you today.

In his letter of invitation, Mr. Burchell simply requested that I address you, making no attempt to pin me down to a particular topic. Anything - shoes, ships or sealing wax - he courteously gave the impression was all right by the businessmen who meet here.

But of course (and as he probably assumed) in these troublesome times there is one matter of over-riding mutual concern that imposes itself - the state of the economy and specifically the outlook for South Australia.

The problem we're now facing in Australia is, unhappily, by no means unique. Indeed, that very lack of uniqueness is part of the problem.

The central difficulty for virtually all developed nations with mixed economies is the emergence of simultaneous and apparently chronic high inflation and high unemployment.

Now I do not take the millennial view, popular in some circles, that this is somehow the onset of capitalism's terminal crisis.

But it is an unprecedented situation and one which requires of the managers of national economies an unprecedented order of skill and of nerve.

in Australia are now experiencing - as was inevitable - some of the strains being felt to a greater or lesser degree by the American, Japanese, West German and British economies.

But I believe that - thanks to our abundant resources and to early recognition and treatment of the problem by the National Government - the worst may be over.

During January registered unemployment surged to a post-war record of 311,596 or 5.24% of the Australian work-force.

I don't think we can look for much comfort from the February figures. That's the bad news.

The good news, however, is that I think there are now solid grounds for believing that the economic recovery is well underway.

I expect that by May or June there will be a clear upturn in seasonally adjusted unemployment.

The nature of economic decision making is such that there is a natural lag period between the stimulus - a tax cut, reduced interest rates or whatever - and the effect in terms of jobs.

Just to give one example: lower housing interest rates will indeed generate more building, but it still takes time for loans to be processed, for buyers to find a builder, get the necessary approvals and so on before more building workers are hired.

We have been going through just such a period.

However, it is my view that consumption spending in Australia - the spending that can quickly create employment - is likely to rise markedly in the first half of this year.

I think the first official inkling of this was discernible on Monday with the release of the figures for retail sales excluding motor vehicles.

These were weak in November and December - which includes the traditional Christmas period of high sales - but rose by a clear 4.5% on a seasonally adjusted basis in January.

I expect this trend to be maintained. The income tax cut - which is concentrated in the second half of this financial year - has raised take-home pay for most workers and the tax concessions of home loan interest is further fattening the pay packets of many hundreds of thousands of Australians.

This must lead to increased consumer spending. Nor are those the only plus factors.

The introduction of colour television - and its evident popularity - is a further stimulus as is the large sales tax reduction on motor vehicles.

This, of course, is most important for us in South Australia. The sales tax reduction is generating greatly increased sales enabling the manufacturers to reduce their considerable build up of stocks.

It has held up employment in our key manufacturing industry and I think it's true to say that without it we'd have been in terrible trouble.

Here it's interesting to note that, while unemployment in South Australia is in absolute terms at an unacceptable level, in relative State terms we have been comparatively well off. With some 9.3% of the national total of civilian employment we had in January 8.4% of total unemployment.

One element in this is that over the past four years or so we have achieved a measure of greater industrial diversification.

But the main reason is that we're fortunate in having a low proportion of textile and other industries affected by earlier tariff decisions.

In addition to the material factors contributing to an upturn which I've outlined, I believe there is now a marked upturn in business confidence. The share markets better tone in recent weeks is an indicator of this.

This invisible but vital element in the economy was undoubtedly one of the reasons for our economic ills just as renewed confidence is again a factor for recovery.

The Federal Government, and especially Dr. Cairns as Treasurer, I believe deserve full credit for the speed and thoroughness with which they acted to get us out of trouble.

As I said earlier, I think there's good reason to believe that better times are only weeks away.

Must, however, make one proviso.

Early recovery I foresee will be due to local stimulation by the Federal Government but overseas developments are likely to remain adverse.

We live in an era of economic interdependence and our recovery may be prejudiced if the serious decline in the American economy which is already apparent, proceeds further and has a wave effect on other nations, particularly Japan.

The rate of decline in their production and employment is alarming. Their unemployment level is 8.1% seasonally adjusted, compared to our 4.06%. The Federal administration there has recently announced its own stimulatory package. Australians have a much vested interest in hoping that President Ford's package is as successful as Dr. Cairns'. It is surely as important to us.

There is one final point I should make.

The danger which could arise from the present reflation is, of course, that of a renewed burst of inflation.

Success in the long term - indeed survival - will depend on our achieving effective wage and price restraints. The constitutional barriers to the Commonwealth Government having power in this area have never appeared more absurd and antique or their removal more urgent.

Until that reform can be achieved - either through legislation by State Parliaments or by referendum - there is a grave responsibility on business and on organised labour voluntarily to exercise the greatest restraint in both prices and incomes.

Thank You.

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