THE CRISIS IN BUSINESS CONFIDENCE

The figures which were issued this week for new capital investment by Australian industry were a measure of the loss of confidence which has developed in the economic system over the past year.

New capital expenditure by business firms on buildings, plant, equipment and other assets fell during the three months from the already low level of the last half of last year.

After allowing for seasonal conditions the fall was about one and a half per cent, but that is before making any adjustment for inflation.

If account were taken in the loss of purchasing power of the dollars spent during this quarter, compared with last year, then the fall is quite steep.

In fact, over the year and a half that the Government has been collecting these statistics, this was the first fall. It appears that the level of investment is now at its lowest level for many years.

The factors at work here derive directly from the inflationary situation in Australia.

Borrowed money in Australia costs 13%, or 15%, or 18%, depending on credit rating and the availability of funds -- high rates to cover high inflation!
Industry needs to make a hefty profit to cover capital which costs this sort of price. A glance at the finance pages of the newspapers is a reminder that today profits are going down, not up.

Australians everywhere know that they or their grown sons and daughters, or their friends, are having trouble financing their homes, because of these high interest rates. Home ownership is slipping beyond the reach of young couples.

Not so many are aware of the impact which interest rates have on job security through their destruction of the capacity of private enterprise to replace worn out machinery or buy new equipment.

If firms contract their capital investment, they contract their employment. The figures which came out this week show how this is happening.

The Treasurer, Dr. Cairns, has given an indication that he is becoming aware that the Government's first problem is inflation. The unemployment which has flowed from it was only made worse by the inflationary measures which the Government has been taking so far.

Dr. Cairns has spoken of the need to make reductions in Government expenditure. It is to be hoped that these indications of a more responsible approach to this strong inflationary factor of excess expenditure will be sustained through the budget discussions during the parliamentary winter recess.

I asked the Prime Minister about these statements by Dr. Cairns, but he evaded giving a straightforward answer, taking refuge in a point of parliamentary procedure.
The Prime Minister also brushed aside a question about comparable rates of inflation between Australia and other major trading nations.

In seven of these ten nations, the rate of inflation is forecast to decline this year. In the case of one of them, Japan, the decline is expected to be from 24.4% last year to 11.6% during 1975.

The other six nations where inflation is going down this year are Canada, France, West Germany, the United States, the Netherlands and Switzerland.

The Government has claimed often enough in the past that Australia's inflation is at least partly imported, but the Prime Minister did not welcome it when asked when Australia would be importing deflation from her trading partners.

He evaded this question also, and well he might.

Despite the general downward movement in prices around the world, there are forecasts that in Australia the trend will remain upward, and that the rate of inflation could go as high as 30% next year.