

As a nation we have to live within our income over the longer run—the remedies are in our own hands.

The New Zealand economy continues to face difficulties. These result from the slowness of the world's recovery from depression since 1975 and from continuing international inflation which, together, have caused a major deterioration in our terms of trade. As a consequence we have suffered a large drop in national income, which is now having an effect on the domestic economy.

The Government has acted to solve the country's economic problems. The high balance of payments deficit has been reduced and the growth of expenditure on imports has been retarded considerably. With the balance of payments on current account still in deficit the Government will be obliged to continue to control tightly the total quantum of imports.

Imported inflation and domestic wage and price increases have developed a strong momentum. The Government has therefore applied a wide range of policies to cope with the problem including price regulation and fiscal and monetary restraint. It is now clear that these policies are succeeding. While still high, the rate of inflation is falling and further improvement is expected. The Government regards a higher rate of productivity as an important means of reducing inflation and will continue to encourage efforts in this direction.

The Government is firmly committed to a policy of controlling inflation and reducing the balance of payments deficit. These are the priorities. Without them a permanent strengthening of the economy cannot be achieved.

Over recent months a major difficulty has been the drop in domestic activity and increased unemployment. The Government has moved promptly to minimise the effects of this cyclical downturn. Policies are now in train which have increased the money supply and have boosted direct Government spending in the weaker sectors of the economy. The business community can now look forward to improved demand and can take confidence from the Government's preparedness to sustain activity.

While unemployment has become a growing problem the policies of economic stimulation pursued by the Government have been instrumental in controlling its growth. In addition the Government has made special work available and assisted local authorities and private employers to take on additional workers. The emphasis is on retraining to diversify and improve the skills of the labour force. This is a necessary part of the economic restructuring.

The Government has successfully introduced a system of free wage bargaining, and the round of wage negotiations through the summer was the first for several years. Difficulties which might have occurred were largely avoided and in general reasonable settlements were reached.

The integrated system of wage settlement tribunals which was enacted at the last Session is now in place. While the main emphasis in wage determination will remain on conciliation, the Government trusts that the new Arbitration Court and its associated tribunals will quickly gain the respect of all parties in cases where it becomes