

NATIONAL PRESS CLUB LUNCHEON

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Speech by the Prime Minister, Mr. William McMahon

Mr. Chairman,

Thank you and all members of the Press Club for inviting me here today. I hope I come back on many, many occasions, not as a vision or a memory, not as a former, but I hope in the way I have come today, in the capacity to enjoy myself as I am in your immediate company.

And may I too refer to a bit of history because this will be the last occasion we will see Tony Eggleton here for some time. When I first became the Foreign Minister - then the External Minister - for reasons that I will never really understand! (Laughter) But I did suggest to the then Permanent Head perhaps the area where we were suffering most was in public relations, and I thought it would be wise if I could get a sufficiently high enough grading for a good public relations officer, the bloke I would choose would be Tony Eggleton. We then decided well, perhaps, we couldn't get him quite enough for that, so the best thing we could do was to induce him to come in as a PR officer and later on we would be able to put him into the diplomatic service proper. Tony, I can assure you it was a tremendous personal loss to me when I was advised that it would be highly unlikely that you would come - not because you would take to heart the salary, but because you had other commitments and you were a bloke who lived up to your commitments first and foremost. So we will miss you, and we do hope, Tony in the days to come you will remember that if I am around the scene, anyhow, I will be one of the first to welcome you back and I will still be thinking of you for some position in the Commonwealth Civil Service - diplomatic or otherwise.

Well ladies and gentlemen, today I would like to speak to you about three different subjects. The first one I want to speak to you about is the state of our economy, then something about the People's Republic of China - I will call it from now on Coptinental China - and then to refer to this problem we have about the so-called political problems associated with the sale of wheat.

Well, now first of all about the state of the economy itself. No-one can deny that we are growing at a very satisfactory rate. Our rate of development is good, and before I get on, therefore, to what are our real problems, I would like, if I could, to dismiss certain other elements of the economy that are not causing great concern but perhaps are ones that we can regard as very satisfactory too.

Now the first one happens to be our balance of payments, and within our London balances. And I want you to remember these figures in the context of what I want to say to you later on about wheat, because we haven't got a crisis in our trade relationships, and we haven't got a crisis in our balance of payments or in our international balances either. In fact, up to the present in this year, we will have a surplus in our balances of something like \$188 million, and our international balances are running well over \$1,700 million. For a country like us even though we are a big trader, these are satisfactory figures.

Secondly, insofar as the money supply is concerned, as I mentioned in a speech in the House not so very long ago, we thought that round about the beginning of the June quarter we would have to liberalise the money supply, and the Reserve Bank did that yesterday, and made a statement about it yesterday. It wasn't as much as perhaps we might have expected it to be some two months ago, but it was in fact reduced probably or mainly because of the fact that we had reduced the deficit of the States when we gave them \$43-\$48 million at the beginning of last week.

And the other point that I want to mention to you is that consumption and retail sales, or consumption expenditure and retail sales are running at a normal level and are not therefore a contributory factor to our current economic difficulties.

Now, having said that may I then turn round and analyse what are the difficulties and the specific kind of remedies that we are making in order to meet them.

Well first and foremost then, may I look at the private sector - I want to divide this up into three sectors if I can - private, public and then average incomes or average wages and earnings, and then to deal with the remedies themselves.

But first of all, if I can look at the private sector, we had two areas where the demand was too great and where the demand on resources was exceeding the actual supply, where the main area was in investment in plant and equipment and we immediately took action to take away the investment allowance. The second area was in commercial building and construction, and here the rate of commencements was exceedingly high and couldn't have continued unless we had a price increase of something of the order of $12\frac{1}{2}$ to 15 per cent per annum, judged upon Commonwealth public works expenditure figures.

We got the various elements of the industry together and they assured us that they knew that they were over-building and that there would be a very substantial drop in approvals and in commencements and I believe that process is continuing.

Now, therefore, in the private sector we do look as though we can get control of the demand factor.

I now turn, therefore, to the public sector, and here, of course, we do have one of the two major problems besetting this country. In terms of our public expenditure, there will be an increase in the State sector this year of something like 16 per cent and they have particularly big difficulties because they are labour-intensive in their employment figures and with wages in the education and in police and in other civil service sectors, they have of course have got a boost in costs that couldn't have been forecast at the time when their Budgets were being prepared.

And, secondly, we have one other very big problem there that I believe that it is in terms of expenditure on goods and services outside wages that the amount or the increase that is taking place is great and consequently we had in co-operation with the States to reduce ours and they had to reduce theirs. They reduced their expenditures by something of the order of \$60 million in this current year. We attempted a goal of about \$75 million and I believe that to be a reasonable and a satisfactory figure for the moment.

So in the public sector we therefore took action.

Coming to the third element, and that is average earnings, these of course were the besetting evil that we had to face because I am confident in this view that had it not been for the 6 per cent increase in the national wage case, driven forward by the impact of a 40 per cent wage drift - that is the amounts that were paid in average earnings over and above Arbitration awards - I am absolutely certain that we would have been able to keep the economy under fairly tight control and we wouldn't have the inflationary problem that now threatens us today.

But when the national wage increase of 6 per cent, adding \$900 million to the pay cheque - the take-home pay cheque - occurred, then of course a totally different element has to be introduced. And there was really nothing that we could do about this because once your increase in wages runs ahead of your increase in productivity, you get an inbuilt inflationary pressure and there is very little or nothing that any Government can do about this particular element.

So this does introduce an element of inflation that will, I believe... an underlying element of inflation that in terms of discounted gross national production will, I think, be certainly higher than 5 per cent and is the real difficulty that the Government has to face now and in the days to come.

Now the effect of this increase in average incomes and wages might not occur immediately because savings can to some extent reduce the impact and, of course, it can occur over a period of time and not be concentrated in any one particular Budget year. So what then are we doing?

We have of course announced the various measures that I have spoken of a few moments ago, but we are also looking at a wide range of measures so that we don't have to press down too heavily in any one sector. Within the course of the next few weeks we will be introducing a special Bill on resale price maintenance, outlawing it, but having certain conditions under which an application can be made to the tribunal. We are looking in detail at the problem of restrictive practices again to see if there can be a tightening-up in the procedures and in the kind of activity that we might regard as contrary to the national interest or contrary to the competitive interests within the Australian economy.

We will also be looking at the same time to see if we can strengthen the Arbitration Commission and in these and in other ways we hope that we will be able to get an internally consistent and a general programme that will, subject to what I have said about the national wage case and average earnings, will, I think, put us in a favourable position so that when the next Budget comes along we will be able to reduce the rate of government expenditure both in the States and in the Commonwealth and thus give one other dampener to demand.

Now what I want to point out to you is this. That the problems are there and in particular I have to emphasise, as other people have emphasised, too, the real problem today is one of inflation and we must look at every avenue of expenditure to ensure not only of expenditure but particularly in the area of arbitration awards

and over-award payments made by industry, to ensure that to the maximum of our extent we can reduce the inflationary impact. So that then is the first statement I wanted to make to you.

And the second one relates to our relationships with Continental China - Peking China. And here I believe there has been a great deal of misunderstanding. This problem itself must be looked at in two separate components. And I believe that when I have listened to what has been said by the Opposition and particularly by people who have recently been talking too freely and in an ill-informed way down in Adelaide, I have been surprised at the lack of understanding of what is actually happening.

Well, now let me look at the two components associated with China - that is Continental China - and associated with it the problem of a Taiwan China - the Republic of China itself.

First, as I said, we have the problem of admission to the United Nations. Now Taiwan China is in fact a member of the United Nations. It is a fact of life, and the government there has de facto control and constitutional control over 14½ million people. It has lived up to all its international obligations, and lived up to its obligations under the United Nations Charter.

On the contrary, Continental China - Peking China - is not a member of the United Nations. It is not recognised by us. And while there are many who feel they would like it to be a responsible member of the United Nations and of the international community, they do so and we do so on these grounds: that if they are to become a member of the United Nations and to be recognised, then there must be some kind of assurances that they will live up to their international obligations, particularly those to the United Nations. In other words that they won't try and achieve their political objectives by force of arms. Two, that they won't be guilty of insurgency or guerrilla operations in neighbouring countries. And thirdly, that we hope they will leave their neighbours in peace. Or to put it a little more eloquently they will let the people of the countries concerned determine their own futures.

Now these are the goals that we have had in our international life, and they are the goals that we want to sustain in the future. Now what then is the present and the immediate problem that we have to face?

At the last year at the United Nations where I had the pleasure to be present, I did come to the conclusion that of the two resolutions that were before the United Nations - one relating to what is called the Important Question - and that means that a particular question can be determined important - and once it becomes important it requires a two-thirds majority to permit the subsequent resolution itself to be put into effect - I wondered to myself whether it would be possible to sustain the Important Question for very many more years, and then when it came to the substantive question of what is called The Albanian Resolution, then I was fairly certain that that resolution would be carried and the effect of that would be that Continental China would become a member of the United Nations and a permanent member of the Security Council. But what you people and all Australians have to remember is that it would have automatically led to the expulsion of Taiwan.

Taiwan has been a good member, and has lived up to its international obligations and is responsible for the welfare of 14½ million people. Now her attitude has therefore been clear as a Government.

Let us look, first of all, at what is the immediate and pressing problem - that is of admission. And consequently, as a government, we came to the conclusion that our attitude would be of doing all in our power to sustain the position of Taiwan as a member of the United Nations. We have had discussions with many of our great friends. We have had them visit us and talk to us. We have talked to them. We have let them know our thinking and I believe that the contribution made and the papers prepared by our own Department of Foreign Affairs are at least the equal of anything that I have seen or anything that I have heard. And while I am not now the Minister, I pay enormously high tribute to the quality of the work that has been done by the civil servants in that Department.

We will do all we can to sustain the position providing the R. O. C. want their position to be sustained in the United Nations itself.

Well now, then, let me come to the question of recognition, and here I believe we run up against an extremely difficult problem because recognition is now gaining some force. But what has happened, and I can illustrate this to you by reference to the position of Canada.

In the case of Canada it recognised, but it recognised on the basis that it noted the claim of Continental China, that it had an inalienable right to the whole of China including Taiwan, and it was made clear by the Canadian Government that recognition in this way meant that there should be withdrawal of recognition by Canada of the representation of the Taiwan Government. In other words, recognition of one meant withdrawal of recognition of the other, and this is the constitutional and legal position as presented to me.

Now, wouldn't it be a strange thing for us if we put the cart before the horse and we went straight ahead with recognition and said, "Well, it will mean that we have to withdraw recognition from you", or what would happen is that if we recognised Continental China, it would mean that Taiwan China itself would say, "Look if you are going to do that, let us get in first and we will be first in the queue because we don't want you to take the initial action".

Now I believe the proper and the responsible course there, the only wise course that you can take - and this does require a great degree of subtlety, a great degree of subtlety of handling and a knowledge of what most other countries in the United Nations and in other parts of the world are thinking. But I believe that the first step and the immediate step must be to try and ensure that by September of this year we and our friends have mobilised sufficient strength to be able to keep the Taiwan Government in the United Nations and to be able to ensure that it plays its proper part in international affairs.

Now as to the facts themselves, I am fairly certain that if you were to be able to get a Gallup Poll of all the members of the United Nations, what it would mean would be this : That on admission, there would be a majority who favour the admission of Communist China - Continental China - to the United Nations, and

I think it would be by a bigger majority than the Albanian majority was carried last year. Equally, too, am I certain of this that a very big majority of the members of the United Nations would like to find some means by which Taiwan China - the Republic of China - could also retain its membership. That is our paramount goal and it is the one that we will adhere to, and it is the policy we will be pursuing between now and the next meeting of the United Nations in September of this year.

And now may I come to the other subject that I want to speak to you about and that is the one relating to wheat. I wonder if there could be more misunderstanding of the single problem of wheat than there has been at the Conference of the ALP in Adelaide.

Let me first of all try and persuade you on the facts and on the logic of the situation alone. And the facts are these, and they are very easy to understand.

First of all this year - in the first four months of this year - we have sold over three million tons of wheat in the international markets. That is 1.1 million or 60 per cent more - or whatever it happens to be in percentage terms more than we sold last year. The biggest sales we have ever had up until this year in the corresponding four months have been 2.6 million tons. So we are selling, and we are selling better than ever before. But we haven't got to worry too much about the Chinese market, at least in this crop year.

Secondly, in international trade, the quantities in international trade have increased from 54 to 57 million tons and we are participating in that growth.

Thirdly, and this was pointed out by the Chairman of the Wheat Board yesterday - or last night and published today - that China itself has had nine successive good crop years and has now sufficient wheat to meet its immediate requirements and has sufficient wheat also to build up quite substantial stocks.

Now there are two other facts of life that you should know. Normally China imports wheat because it has a surplus of high quality rice that it can export at a premium to other countries. Because there is a surplus of premium rice throughout the world today and is likely to grow, China therefore is in a position where she has got a surplus of rice and where she doesn't need to depend so heavily upon the importation of wheat even though our wheat is the kind that she wants most, and in terms of quality and price it is probably in their terms the best kind of wheat they can get, subject to getting a reasonable quantity of high protein Canadian wheat.

Now those are the facts of life as they exist today and the other fact that I should mention is that within the course of the last few days the Australian Wheat Board has returned from negotiating with Nung Fung Hong Corporation, on behalf of the Chinese Government in order to find out what the true position with regard to Chinese - Continental Chinese - demand for wheat should be. They had established and are continuing to establish the most close and friendly commercial relationships with them, and the Corporation itself has said to them, "We want you to keep in closest contact with us. We want the goodwill that exists between us to keep on because

conditions may change."

And with the changing conditions, well, your guess is just as good as mine as to what could happen.

Now, I admit quite freely here that of course the Continental Chinese would be making as much political mileage out of this as they could, but equally certain am I of this particular fact that when they want wheat, and they want it in quantities, they are hard traders and they will buy where they can get the best commercial advantage. Some politics - yes, but not a great deal. But I am sure of this, that it is the hard facts of commercial life that will determine what their actions will be. Put that in context against the fact that we are doing pretty well in the international wheat trade, the price is good, particularly good, and the Wheat Board itself certainly cannot, if you read its statement of last night, be regarded as coming back with any feeling that there is a crisis or that we face real problems.

* Now as to the suggestion that there should be a political group, promoted by people like Mr. Hawke and the Secretary of the Labour Party - not the Parliamentary representatives - and this is something of tremendous significance to us - that a delegation should be going to China, to Peking China, to be able to put the political position to them - not as the representatives of the Australian wheatgrowers, not as the constitutionally-established or legally-established Wheat Board that has the responsibility for selling our wheat. If the delegation goes, I venture to suggest that they can do both political harm and they can do harm to the interests of every single grower throughout the Australian community. But they would do that only in circumstances when China has a shortage of wheat through either bad crop years or for other reasons. What I want to emphasise is that this is a political gesture and I have never known political gestures to be successful in commercial life of this kind. On the contrary, if you are playing politics for the shabbiest of motives, the probability is that you will do harm and I believe this can do, as I repeat it again - this can do damage to the wheat interests of this country.

So there were the various matters that I wanted to speak to you about today. I want you to understand, too, and particularly those who are members of the Press Gallery and of the National Press Club that my door has in the past been always open to you. I believe as a practising politician that it is our responsibility as Members of Parliament and as Members of a Cabinet and of a Government to be able to provide you, unless there are security reasons to the contrary - and that applies particularly to Foreign Affairs - that we should give you access to the maximum of information. I want you to understand, too, that whenever you are given information that you feel ought to be checked that either my door or the door of my Press Office will be open. Consequently we will do our best to see that this communications gap is narrowed.

Thank you Mr. Chairman for giving me the chance of coming here and speaking to you today. I ask you to put any question you want to me, and if it is in my capacity, I give you my assurance I will do my best to answer it.

* This paragraph has been adjusted in line with the amendment made by the Prime Minister in the subsequent question time.