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AUSTRALIA

PRIME MINISTER

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TEXT OF ADDRESS GIVEN BY THE PRIME MINISTER AT THE CEDA LECTURE

"AUSTRALIA IN THE WORLD ECONOMY"

Under the title "Australia in the world economy" I want to talk about two aspects of Australia's economic situation, as it relates to the international economic scene.

First of all I will comment on our domestic economic situation in international perspective and then discuss the changing character of the Australian and world economies and what this means for Australian policy.

The debate over policy in both these areas is inevitably concerned with the way in which economic policy and social policy ought to be linked.

Economic policy cannot be divorced from our aspirations for Australia and for our way of life.

Very often this requires a balance to be struck between short-term and long-term considerations, between the policy which will produce the most rapid growth in our material standard of living and policies which foster the wider range of individual and national goals.

Many of the economic problems which Australia is now seeking to resolve have sprung from the failure to find an adequate reconciliation of economic and social objectives, or to realistically assess the inter-action of the two.

In particular there developed a view that we could progress more rapidly towards a number of social objectives through a dramatic expansion of Government expenditure, and more rapidly towards some economic objectives by sharp changes of policy in some areas.

Inevitably problems resulted. Nor was Australia entirely alone in this, though perhaps we were an extreme case.

In recent years, indeed, most of the industrialised economies have been beset with problems.

As a result questions were being raised about the future of the market-oriented economic system that operates in Australia and countries outside the Eastern Bloc.

A whole industry of doom-saying sprang up, and for a while appeared to be flourishing.

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Today we hear less of such talk.

Most of those countries - and Australia among them - have turned back from the precipice.

Along with most other countries with free enterprise economies we have started once again to apply policies which pay regard both to economic realities and to social needs.

Sir Douglas Copland, who was the founder of this Association, and in whose honour this lecture was established, was a proponent of the need for more resources to be shifted to the public sector.

Born a New Zealander, Sir Douglas was not afraid to tell Australians - or others for that matter - how he thought they should mould their futures.

His courage and imagination - as exemplified in the title of one of his last books "The Adventure of Growth" - must be admired.

However, his well-known criticism of Australia in the immediate post war period as a "milk bar" economy reflected an approach which, boiled down to its basic tenets, sought to substitute the judgements of the few for the choices, freely expressed through the market system, of the many.

So far as those judgements involve - as they do for example in the writings of economists such as Galbraith - expansion of public sector spending programs, they were challenged even then by other economists.

The experience of recent years shows very clearly that substantial public sector expansion can stimulate inflation and that this inflation, can put at risk social and economic progress.

Most major overseas countries have now realised that they were pursuing policies that exacerbated inflation. It has been further recognised that these policies were also resulting in growing unemployment.

True, some are doing more about it than others.

Nevertheless, given the widely different complexions of the various Governments, the degree of consensus on the general economic strategy that should be pursued if there is to be sustained economic expansion is remarkable.

In the words of the communique following the OECD Ministerial meeting in June this year - "the basic premise on which this strategy rests, is that the steady growth needed to restore full employment and satisfy rising economic and social aspirations will not prove sustainable unless all member countries make further progress towards eradicating inflation".

In the light of this agreed approach, all OECD Governments have accepted that considerable care will have to be exercised to ensure that economic recovery proceeds gradually and steadily so as to avoid any resurgency of inflationary pressures.

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They have recognised that the high level of unemployment, while a cause for considerable concern, is not capable of a quick solution: the OECD Ministerial Communique stated that "restoration of full employment and normal levels of capacity in the OECD area will be progressive and take a number of years."

Boiled down to simpler language, this means that when our economies have been allowed to get into the state that many of them are in - and Australia's more than most - there are no magic wands available.

We no longer have any real choice about the kinds of policy to be followed.

O.E.C.D. countries generally have rejected broad stimulatory action as a means of reducing unemployment.

When inflation remains a threat, restoring steady growth and reducing unemployment is achievable not by increasing Government expenditure but by reducing the rate of growth of such expenditure, and adopting policies - such as lightening the tax burden and more appropriate monetary policies - which such restraint makes possible.

What people have come to regard as the Keynesian approach is now recognised to be inapplicable in current circumstances.

Virtually all major countries have now proposed reductions in the rate of growth of central Government spending between their last fiscal year and their present one.

- In the United Kingdom from 28 to 17 percent
- In Canada from 19 to 13 percent
- In Germany from 19 to 4 percent
- In New Zealand from 29 to 5 percent
- In the United States from 13 to 9 percent
- And of course, Australia, - from 23 to 11 percent.

The Australian Government's policies are fully in line with this general OECD strategy.

I know that there are many who are impatient to see the Australian economy back on its feet.

Believe me, nobody wants that more than I and the Government which I lead.

But what we all have to recognise is that we have a long haul ahead of us.

Not only was the Australian economy in a much worse state than the economies of most other OECD countries but Australia has also made a much later start than most others in moving to bring inflation under control.

This bears particularly on the problem of unemployment.

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Even in those countries which were first to reduce inflation to more manageable levels, the reduction in unemployment has so far been comparatively moderate.

In the United States, for example, unemployment in June was 8 percent compared with 9.1 percent a year earlier.

In Germany unemployment has fallen over the last year from about 4.4 percent to 4.0 percent.

In other major countries - unemployment in mid 1976 was higher than a year earlier.

In the early stages of recovery unemployment may be slow to come down but if unemployment is to be reduced, and a sound basis for expanding job opportunities established, the policy approach we have adopted is the only one.

In Australia and overseas the lesson is clear. Governments cannot spend their way out of recession when inflation is running as it has been.

To attempt to do so would lead, perhaps after a short burst in activity, to a deepening of the recession and a worsening of unemployment.

There can be no better demonstration of the inappropriateness of the tradition "pump-priming" approach in periods of rapid inflation than to look at the record in Australia.

In 1974/75 budget expenditures increased by 46 percent and the deficit rose by almost $2,300 million.

In 1975/76 there was a further increase in expenditure of 23 percent It would have been much greater but for the direct and indirect measures the Government took over the latter part of the year. The deficit rose by a further $1,000 million to $3,585 million.

Over this period there was an increase of more than 30 percent in prices.

Yet over this same period there was negligible growth in real output and unemployment increased by over 200,000.

The facts are well known.

Let me repeat here the situation which the Government faced when it came to office at the end of 1975:

At that time the private sector was employing no more people than it had been 3 years earlier, even though during that period the labour force had expanded by about 370,000.

Unemployment had risen to a level not recorded in this country since the 1930's.

Gross non-farm product in the December quarter of 1975 was still almost 5 percent below its peak level recorded two years earlier.

The farm sector was in a state of collapse.

The share of company profits in national income remained depressed at around three quarters of its long run norm.

Real business fixed investment had fallen in the December quarter to its lowest level for almost 3 years.

And, last but not least, the consumer price index in the December quarter was 14 percent above a year earlier and showed no real prospect of a sustained move down.

Some have argued that Australia's recent economic problems have had their origins overseas.

External economic trends can and do affect the Australian economy through the operation of the overseas trade cycle. But, the structure of the Australian economy has altered over the post-war period, and we have a much improved capacity to absorb overseas economic fluctuations without large domestic effects.

In the period 1973-75, for instance, the effect of overseas economic fluctuations was considerably diminished by:

- the broadening of our export base, and
- the associated contractual arrangements for a number of our major minerals exports.
- unlike most of the O.E.C.D. countries, we were also spared any significant direct impact from the large rise in oil prices overseas.

Inflation overseas would have had some impact upon the Australian economy, but the pursuit of inappropriate domestic policies was the prime cause of the economic setback which we suffered during this period.

The large expansion in Government spending which occurred in 1973 took place at a time when it was clear that private demand pressures were already excessive.

The Government had come to office in December 1972 on the false proposition that the economy was headed into a slump. It became a victim of its own propoganda.

We can see today a similar attempt from the same quarters, to "talk down" the economy in the hope of electoral advantage.

Then, when the economy none the less fell into recession in 1974 there was the attempt to continue to drive it along by an even greater boost in Government spending.

Then, when the moment of truth came in last year's budget there was a frantic effort to slash back the rate of growth of spending.

Of course that moment of truth was just that - momentary.

Compounding the problem was the Government's attitude to wages and salaries in 1973 and 1974.

For quite some time large wage rises were actually encouraged and supported by the then Commonwealth Government before the Conciliation and Arbitration Commission. High unemployment, combined with high inflation, were inevitable consequences.

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In the present situation, the speed with which the recovery will progress is largely a function of the speed with which real wages and productivity can be brought into balance.

The amount of wage restraint accepted by the trade union movement will play a vital role in this.

Wage restraint in the months ahead could help significantly to speed up the process of reducing unemployment.

It should not be overlooked that the drop in unemployment in the United States over the past year or so followed a period of wage and salary restraint.

It is now clear that the rapid real wage gains in Australia in 1974 were partly at the expense of those who lost their jobs.

Those who are in a position to influence wage demands - and those in a position to influence their outcome - would do well to ponder these realities.

Restraint now will also make possible a more normal growth in real wages to resume in the shortest possible time.

The experience of the recent past has particularly affected those groups in the community most vulnerable to unemployment - the young, the disadvantaged and the unskilled workers.

The large increase in the real level of the minimum wage, for instance, has been cold comfort to the many unskilled workers who have lost their jobs during the recession because employers could no longer afford to keep them on.

Their labour had become too expensive relative to their more skilled workmates.

Similarly many young people have found employment difficult to obtain as the relative rates of pay of juniors to adults have increased.

In recent years wage-fixing decisions affecting the minimum wage, and certain other wage relativities have aimed to improve the position of those at the lower end of the income scale.

It is easy to understand this approach.

But when that improvement is sought through the wage system regard also needs to be had to its implications for the employment prospects of those affected.

The present high rates of unemployment among such groups are a harsh reminder that the wage system may not be the best mechanism for giving effect to social considerations in these matters.

Here as elsewhere, decisions taken for the best of motives may have quite undesirable consequences.

The art of Government is to be able to strike the right balance between considerations of different kinds. Throughout Australia's history that problem has had to be faced.

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One of the clearest lessons to emerge from the experience of recent years is that social policies undertaken in disregard of economic realities can not only be economically disastrous - they can be socially damaging as well.

Those who are economically disadvantaged through no fault of their own, should be able to look to Governments for assistance.

This is a much better way of handling the problems than by distorting the wage structure.

The Government has in fact adopted a number of measures to help low income groups.

In particular the new family allowances scheme is a most important step towards the alleviation of poverty in Australia and is much more efficient and equitable than the previous arrangements

The effect of all the measures taken by the Government in the Budget and in the major statement on 20 May is in fact estimated to increase average disposable income somewhat in real terms in 1976/77.

I have no doubt that the more we can achieve restraint in wage and salary demands - the greater will be the reduction in unemployment and the larger the increase in total real earnings.

A 1 percent reduction in unemployment would result in increased wages of about $600 million in 1976/77.

It is pleasing to see that the approach the Government has adopted is winning wide acceptance - increasingly I believe by wage and salary earners, by the Arbitration Commission, and by business.

Businesses, for example, have indicated their confidence in the Government's policies by the announcement of major investment proposals totalling almost $3 billion in the last 6 months.

So far I have been discussing economic problems Australia has shared with other countries but has suffered in an acute form.

Let me now turn to consider another aspect of our economic situation - the changing structure of the Australian and world economy and the implications of those changes for policy.

Here again the interaction of social and economic objectives has had, and must continue to have, an important place in our consideratio of appropriate policy.

This last quarter of a century has seen marked changes in the structure of the Australian economy, encouraged in part by deliberate social policy.

Those changes have affected the nature of our economic relationships with the outside world.

Most significantly, the manufacturing and service industries have recorded a rapid expansion while the contribution of agriculture to Australia's gross domestic product declined around 25 percent in 1950 to less than 10 percent in 1973/74.

The mineral industry has also grown rapidly, although still accounting for less than 4 percent of total output in 1973/74.

While we remain relatively large importers of capital equipment, we now manufacture a wide range of consumer goods.

Our export base has been considerably broadened and diversified.

Products broadly defined as manufactured now constitute between one-firth and one-quarter of total exports, as do minerals.

The latter have been the fastest growth items in more recent years.

Rural industry has also broadened its base, notably by expansion of the sugar and beef cattle industries.

We continue, of course, as the world's largest exporter of wool and one of the most important exporters of wheat.

Overall, however, our rual exports have declined from around 80 percent of the total to less than 50 percent.

These and other similar developments reflect a diversification and broadening of the Australian economy and of our trading and financial relationships with the rest of the world. Interdependence there has always been.

Both its nature, and its extent, have been changing.

We now live in a world which is much more complex, more diverse in its economic relationships and inter-relationships.

Twenty five years ago the world seemed to many comparatively settled in its economic relationships and patters of trade.

The non-communist world generally was dominated by the United States economy.

The world of Commonwealth countries was dominated by Britain.

It is difficult now to appreciate that the dominance of Commonwealth preferences in our external trade, and sterling in our payments and reserves, should have disappeared in such a comparatively short period.

Today, the United States economy remains the most powerful.

But there are other economic forces - notably Japan and Germany - of much greater relative power than formerly, with which Australia does not have automatic historical links.

In this changed and changing world we have to make our own way to a much greater extent.

We have to fight for markets and for access to technology which formerly came more or less automatically.

We have also to think about the type of economic system within which we want to trade and develop.

Australia has long supported the idea of commodity agreements where such agreements could contribute to greater stability in international commodity trade.

At the same time we have taken the view that any such agreements would need to have regard to underlying market trends and to be practical both in terms of implementation and financing.

Proposals made by the developing countries over recent years under the heading "New International Economic Order" envisage significant, indeed fundamental changes in the present economic system.

Some proposals for commodity agreements, for instance, envisage that such agreements would be used to transfer resources to developing countries, by effecting significant price increases just as the OPEC countries have done in respect of oil prices.

It would not be appropriate here to comment in detail on this or various other proposals for radical changes in the international economic system.

Undoubtedly the developing countries need to be able to improve their standards of living.

Great differences in economic situations between nations, which are seen to be unreasonable, can unsettle political relationships.

It does not, however, follow that such differences can be rectified by fundamental changes in the international economic system.

Indeed, many of the changes proposed in the "New International Economic Order " seem likely to lead to less in the way of development benefits rather than more.

This is because the imbalance between nations lies much less in the economic system as such than in the policies pursued by some nations and the historical facts of world economic development.

Because of our geographic position, and our importance as a supplier of resources, this is a matter of particular importance for Australia.

We must remain sensitive to the legitimate aspirations of the developing countries while at the same time supporting proposals that not only accord with own fundamental economic interests but also in our judgement with those of the developing countries themselves.

Associated with the emergence of new and powerful economic forces in the world there has been a considerable loosening up in external economic relationships.

For example, there has been a greater preparedness to allow market forces to operate in the field of trade and payments.

This is by no means universal: important restrictions remain on international trade, especially on trade in agricultural products and on capital flows.

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We retain, for good reasons, a number of such restrictions ourselves.

By and large, however, it seems fair to say that the last quarter century has seen a considerable liberalisation of world trade and payments.

These and other developments in world economic and political relationships have, I believe, made Australia more reliant on its own resources and skills.

The apron strings to Britain - even to the Anglo-Saxon world more generally - have loosened and frayed and we are today exposed to a much more diverse, complex set of economic patterns and flows.

Even as our general interdependence has increased so has our particular independence.

In this situation there is a balance to be struck between allowing the operation of purely economic forces and intervening in the international flow of trade and capital on what might be described as "non-economic" grounds.

In the case of Australia, as in other countries, there is a tradition of intervention in trade flows.

Over the years we have intervened to enable secondary industry to develop to the point where it is now as large, relatively as in most so-called advanced industrialised economies.

Indeed it is now about the same relative size as the secondary sector in the United States economy.

While we should not overlook the natural advantaged that has assisted part of that growth, there is no doubt also that a considerable part of it has been due to the protection that has been given against foreign competition.

Policies of successive Australian Governments have embraced tariff protection and other measures designed to ensure the development of a well balanced economy.

This has included:

- an adequate manufacturing base to assist in employing a growing population
- and the reslience to meet the pressures and crises of a changing and at times threatening world.

Considerable political importance has been attached to peopling a continent with substantial natural resources but a relatively small population.

Nor should we overlook the desire of the Australian people to create a nation that was not just a hewer of wood and drawer of water for the industrialised world.

In the last few decades, the Australian economy could be said to have come of age in a structural sense.

It has an extensively developed industrial sector, efficient large

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scale rural industries, a major mining industry which is a source of basic materials to the giant industrial economies of the northern hemisphere and a highly developed structure of commercial and governmental services to its people.

There can be no turning back from this situation. There can be no question, for instance, that the Australian economy must continue to have a substantial manufacturing sector.

This is not to say, however, that questions should not be raised about the balance between particular industries or within such industries.

It is in our own interest to make the most efficient possible use of our resources and to envisage change which helps us to do so.

In essence, the choice is between higher and lower rates of economic growth, to the extent that we restrict international trade and capital movements we tend to forego the opportunity to have a higher rate of economic growth per head of population.

It should not be necessary to say that economic growth is imporant.

Expectations of rising standards of living cannot be fulfilled beyond the limits of the resources available to fulfill them.

It is the rate of economic growth which determines the pace at which our economy - and our society - can meet the aspirations of our citizens.

But that having been said, we must think beyond economic growth.

Just as individuals have a choice between work and leisure, governments must often choose policies that are in the broader national interest, even at some sacrifice of economic growth.

There is a delicate balance to be struck.

To some extent a country's sense of well-being is a relative one. If Australia falls behind other countries economically, this sense of well-being will be to that extent reduced. To the extent that we forego our full potential for economic growth, we will be less able to help the poor and the disadvantaged, both within our own community and overseas.

We must take this into account in the field of protection policy, while at the same time ensuring that any significant changes in levels of protection will not be too sudden or severe.

We will not embark on such foolish ventures as the previous Government's 25 percent across-the-board tariff cut in 1973.

A reduction which was forecast at the time to involve a loss of 33,000 jobs, it was, in effect, a decision to export those jobs overseas.

We know the sad effects on many industries of changes that are too drastic, too sudden.

Indeed the previous Government was forced to reverse engines in that area and to provide additional protection to certain industries affected by an unprecedented upsurge in imports.

These additional restrictions, which now cover about 10 percent of total imports, are in full accordance with our international obligations.

They have been designed specifically to alleviate potential serious disruption and will be removed, or replaced by appropriate long term arrangements, as soon as circumstances permit.

It is important however that we should not delude ourselves that external policies can be used to assure employment in circumstances where pressure for domestic wage and price increases remain excessive.

If increased protection is provided in such circumstances, whether through tariff increases or by other means, it will tend to be dissipated fairly quickly, leaving the competitive situation much as it was before.

Many countries using "floating" exchange rates over recent years have found that the unemployment effects of rapidly escalating money wage rates cannot be remedied simply by allowing their exchange rates to depreciate.

There is no alternative to the pursuit of appropriate domestic policies to bring inflation under control. This is precisely what the Government is endeavouring to do.

Our economic future will always depend in part on the caprice of changing international economic circumstances.

However, with appropriate management of our economic affairs, we have the capacity to re-establish satisfactory growth in the Australian economy and to reduce unemployment progressively.

Australia's economic problems arise because of the past pursuit of inappropriate policies - in some cases for many years past.

In these circumstances, solutions are not to be found through drastic or sudden action.

That would be both economically and socially divisive and disruptive.

Lasting solutions can only be found if the majority of the people understand and support the basic thrust of the Government's policies.

We believe that the Australian people today do increasingly understand and support those policies.

Internationally also, Australian Governments will need to continue to strike a balance between pursuing an independent course of action and further exposure to the flow of world trade and payments.

As in other areas of our national life, there are policy choices to be made.

Australia cannot afford to pursue courses of action that would isolate us from external competition.

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As in our domestic affairs, we must face up to the reality of a competitive outside world.

If we fail to do so, we will run the risk, ultimately, of becoming a country of second raters.

We have vast natural resources to develop.

If we are to do so, we need to employ our capital and our labour force as efficiently as possible.

In this field, as in others, the task - and the challenge - are ahead of us.

In meeting this challenge we will continue to face the task of reconciling our economic and social objectives.

Recent experience has made it plain that unless we recognize economic reality we will fail both in our economic and in our social objectives as a nation.

There is no way around the fundamental fact that resources are scarce. Our policies must aim to expand the resources available to us, because only in that way can Australians hope to realise so many of their aspirations.

We have seen only too clearly what happens when aspirations run ahead of resources.

At the same time our policies for growth must also minimize the social costs of growth.

Achieving that delicate balance is one of our great challenges as a nation.

As a Government - and as a country - we cannot afford to fail.

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