



PRIME MINISTER

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SYDNEY CHAMBER OF COMMERCE LUNCHEON

I am glad to be able to address today such a broad cross-section of the New South Wales business community. I attach great importance to regular communication between Government and business. The genuine exchange of views can remove misunderstandings, and help towards finding solutions to the problems which confront us all.

Of course, communication today is itself a major industry whose output is prodigious and where persuasion, pursuit of special interests and over-simplification - as well as the telling of the plain truth - form part of that output.

It is prudent to keep this always in mind for in economic matters in particular, the truth is rarely simple.

I want to speak to you today about economic policies in Australia and the rest of the world. Let me begin with the world economy, a topic very much in the minds of all Government leaders at the moment and the subject of my discussions in Japan last week with Prime Minister Fukuda and his ministers.

Over the past year or so, increasing concern has been expressed throughout the world about the sluggish growth of the world economy and world trade. Faster world growth is clearly necessary if the global problems of under-utilization of resources and high unemployment, especially amongst the young, are to be overcome.

The great difficulty which faces all national governments is how best to achieve this result without rekindling inflation. Various solutions have been put forward in the past year, many with somewhat colourful titles.

There was the "Locomotive" theory, whereby the powerful "Motor" economies of the United States, West Germany and Japan would pull the economic carriages of the rest of the world on to the growth track.

This theory had its attractions, but it also had some serious drawbacks, for it could be taken as encouraging governments of the weaker economies simply to sit back and wait for the locomotive to begin pulling. This was, and remains, a false hope.

The weaker countries could only take advantage of the benefits which increased world growth might bring if they had effective anti-inflationary domestic policies in force. Without such domestic policies, the increased world demand could merely result in higher inflation and thus negate any lasting benefit to the trading world: and in particular, preclude any significant decline in unemployment.

In other words, the locomotive theory was of little use to those countries which had not yet completed necessary internal repair work on their own rolling stock. The "Locomotive" theory was then supplanted by the "Convoy" theory.

Under this theory, a fleet of national economies, instead of just two or three, would set sail together from the recessionary harbour all mutually supporting each other. One difficulty with this approach is that the convoy ranges from battleships to rather leaky dinghies, and like all convoys, the fleet can only move as fast as its slowest member.

Both these theories try to offer general solutions to what is an aggregate of particular national situations. In doing so, they do not seem to take full account of the complexity of the world economy. For example, we are all aware that the health of the world economy depends greatly upon the health of the U.S. economy; but that does not mean that the U.S. should try to pull others out of recession if by so doing its domestic economy would be impaired.

Recent fluctuations in the value of the U.S. dollar have brought home rather sharply the point that the U.S. must correct certain basic imbalances within its own economy if it is to avoid being a source of instability for the world rather than an engine of sustained recovery.

In an important speech earlier this month, President Carter re-affirmed the danger which resurgent inflation presents to the U.S. economy, and thereby to the world. Australia cannot ignore the effects of developments overseas. At the same time, we must avoid the error of seeing "overseas" as some sort of homogenous entity to which some single remedy can be applied. The truth is very different. Out there, there are a multitude of countries, all of which are struggling with their own problems, many of them rather similar to our own.

The ability of each country to join in the "Convoy" on any lasting basis will be determined by the quality of its domestic economic performance in beating down inflation; in restoring the profitability of new investments; in bringing Government finances and the growth of money supply under control.

In short, the first task for each country is to pursue with steadiness and determination the re-establishment of these fundamental pre-conditions for future growth of its own economy. As these pre-conditions are attained, cautious expansionary policies can then be pursued without consequent damaging increases in inflation.

Some of the stronger economies have reached this position, and West Germany and Japan in particular are now pursuing moderate expansionary policies.

In Australia too, our successes in reducing inflation and overcoming some of the imbalances which had been created in our economy have enabled the government to undertake a moderate expansionary initiative, not through inflated government spending but through the less inflationary course of cuts in personal income tax which were recently introduced.

One implication of what I am saying is that there needs to be in the industrialized economies a greater readiness to take a medium-term view of the policy formation process, to lay down policies accordingly and to stick with them as, slowly, they begin to put things right.

We have tried to follow that course since late 1975 -- I think with some success. And I acknowledge in that regard the increasing support we have received from the business community in doing so as it has come to be recognized that there are today no simple and speedy solutions to the fundamental imbalances with which our economy is still beset.

Yet there is still a tendency to react -- or over-react -- to every new set of statistics, to look for crises where none exists and to inflate even quite small problems to the status of national events which, it is then suggested, should be accommodated by way of some policy change or other.

What we should be paying attention to, are the fundamentals which underlie our economic situation and which, if not put right, will continue to debar us from any lasting progress.

Let me be a little more specific, and in doing so try to set Australia's problems within the broader framework of the world's economy.

I place Australia's own problems first in that categorisation because the plain truth is that Australia's overall economic welfare depends first and foremost upon our own efforts. Only Australians can correct the results of past mistakes most of which were made here in Australia.

I am assisted in this task by being able to refer, very topically, to a survey of the Australian economy which was released last night by the Paris-based organisation for Economic Cooperation and Development.

The OECD, as it is called, undertakes regular surveys of the economies of all its 24 member countries. I commend the close and careful scrutiny of our own economy and its problems which is contained in the survey. Though I must say that I do not share all the views expressed in the survey's conclusions..

If the survey has a single theme, it is to point out the economic constraints under which the Australian economy - in company with many others - is still labouring and which do of course limit the policy options open to a responsible government in such circumstances.

Indeed, the OECD discusses at some length the distortions under which the Australian economy has been operating for some years now, and it concludes that "The Australian economy is still undergoing a process of slow cyclical recovery and gradual adjustment of some of the major imbalances which developed in recent years". (P.44).

If I may digress for a moment, you will note that the OECD recognizes, as some commentators do not, that a recovery is in train in Australia.

In commenting on our past experience the OECD report points out that: "Australia has suffered, in acute form, two problems common to many OECD countries: rapid inflation and an increase in real wages well in excess of productivity". (P.44).

Furthermore, the OECD observes that, unlike many other countries the immediate cause of these problems in Australia was not: "The import price rise for oil and other raw materials but a domestic wage explosion". (P.44).

The survey points out that, as a result of this largely self-inflicted wound, Australia saw: "the emergence of some of the classic symptoms of real wage imbalance -- deterioration of employment and investment beyond what can be explained by the weakness in activity, weak balance of payments despite low levels of capacity utilisation, and greatly accelerated capital/labour substitution". (P.44).

How, you might ask, does a country get out of such a mess? The OECD survey goes to some trouble to analyse how we got into the mess, and the clear conclusion that it reaches is that the only way to get out of it -- to achieve economic recovery -- is by going through the rather painful process of correcting past mistakes and restoring those basic economic relationships that I referred to earlier to a more sensible pattern.

My own government has set out, from the beginning, to follow such a policy course and effect the fundamental repair job which was necessary. But there is still some way to go and we propose to maintain our steady course of policy while we get there.

For example, we have achieved a real advance in reducing price inflation to the point where our performance is now broadly in line with the OECD average. The March Quarter Consumer Price Index issued on Wednesday of this week showed that over the past twelve months the index has risen by 8.2 per cent. Over the first three quarters of this financial year the index has risen at an annual rate of 7.7 per cent.

I make no bones about saying that these are still high figures, but can any fair-minded observer deny that, by comparison with the state of our affairs a bare two years ago, they are - again, to use the words of the OECD survey - "an important achievement"?

We have, however, had less success in dealing with perhaps the most fundamental distortion from which our economy is suffering and to which the OECD survey devotes a major part of its analysis, namely, a level of real wages that is "out of line" with the productivity of the labour involved. That distortion remains.

Until it is removed and better corporate profitability is restored and inflationary expectations are entirely quenched the road to full economic recovery for Australia will continue to be difficult.

That is why we have continually stressed, and will continue to stress, the need for the Arbitration Commission to play its part in restoring sanity to the wage determination process and reducing unemployment.

We are keenly aware that our policies, or more correctly the past mistakes which those policies are designed to correct involve some continuing and heavy costs, costs which represent the payment for past errors.

In this connection, the OECD survey mentions the high level of unemployment in Australia which is of such serious concern to all of us. The survey goes on to say that: "with a considerable part, but by no means all, of unemployment cyclical in nature there would on the face of it seem to be strong reasons to turn to more expansionary policies to try to alleviate the problem". (P.45)

Having, as it were, offered this tempting prospect of a quicker and easier path to recovery and reducing unemployment through measures such as pump-priming government spending the OECD then goes on to explain that the prospect is in fact a mirage.

I quote: "It seems probable that such policies would indeed lead to some short-term expansion of output and reduction in unemployment, but that the net gains so achieved would be less over the longer run than what is likely to be achieved under policies broadly similar to those now being followed". (P.45).

In short, the superficially attractive path of providing an inflationary governmental "stimulus" to the Australian economy is seen on closer examination to be one of irresponsibility which no government with a view to the medium and longer-term welfare of the Australian people could countenance.

The survey concludes that: "...maintenance of the present stance is broadly appropriate".

There are many other sections of the OECD survey which bear quotation and I again commend it to you as a useful and objective contribution to the economic debate in Australia.

On the whole, it reaches the same conclusions as those long held by my own government, namely that there is no instant, packaged solution to the economic problems to which past mistakes have given rise.

What is required is a continuing - and unremitting - attention to the basic imbalances which still persist in our economy which must be put right if Australia is to enjoy the future which her resources offer her and to which her people, given resolution, good sense, and firm leadership, could reasonably expect to be entitled.

If these qualities are forthcoming, the decade ahead of us will make the dark years in the 1970's seem merely like a bad dream. The job is up to us all.

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