



FILE

PRIME MINISTER

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ECONOMIC INTERVENTION

I was very taken by the theme that you provided for us in you opening remarks yesterday that the international situation calls for vision, courage and initiative. In a very real sense that is the challenge which faces us at this conference.

I have no doubt whatsoever that there is an important, constructive role for the Commonwealth to play in relation to world economic development issues.

We can do much to create and sustain an international climate of opinion which is conducive to bold and imaginative action. We can produce stimulation, well considered proposals. We can help generate a will and a vision commensurate with the scale of the problems.

At our last meeting in 1977, the Commonwealth took a successful initiative on the Common Fund, at a time when its prospects seemed far from good. That initiative demonstrated the potential the Commonwealth has to contribute in the economic area. Excessive modesty on our part therefore would be entirely mis-placed.

This meeting is taking place at a time when authoritative assessments for the medium term outlook are for a continuation of the slow growth experienced since 1973, or even a further deterioration of that growth. The sombre prospects which face us could threaten not only the economic well-being of the world but ultimately, its social cohesion and political stability. We must act to remedy the situation. Yet the question must be asked: Has the world - have we - responded with the urgency and determination which the gravity of these problems demands?

Central to Australia's perception of these problems are two tenets : First, that in the contemporary world there is a very substantial degree of economic interdependence between all countries, and second, that the major issues facing us are not separate and discrete, but are closely interrelated.

The concept of economic interdependence is not without its ambiguities and it is sometimes put to questionable polemical use. But when all reservations have been registered the fact remains: our fates are inextricably intertwined and in the contemporary world no society is an economic island.

A full recognition of the interdependence between north and south and of the urgent need for a greater accommodation of developing countries within the global economy is vital, both in political and economic terms.

A key element in achieving this accommodation is overcoming inflation. The linkages are clear. The developed countries provide over 70 percent of the market for the goods of the developing countries, and the volume of capital flows to the developing countries is linked to the demand for their exports. Those exports and capital flows can only grow as western economies grow. And those economies will only grow when inflation is overcome.

Beyond this, it is well established that sustained high inflation has a corrosive effect on social and political institutions. Unless it is brought under control it will not only result in economic havoc but in social disintegration and political chaos.

While no country can ignore the need to follow sound anti-inflationary policies, the major industrialised countries of Europe, North America and Japan have a clear, overriding responsibility in this regard. To say this is not to make an onerous demand on those countries. It is merely to recognise a fact. Their role, function and weight in the international system makes their responsibility inescapable.

Indeed the fact that these countries come together for periodic economic summit meetings acknowledges their responsibility. The rest of us are only spectators as far as these meetings are concerned - and often uninformed spectators - though we all have to live with their consequences.

I believe therefore that this meeting has the right to call on the major industrialised countries, in the most forthright terms, to adopt policies to bring inflation under control.

Equally, of course, the developed countries have a vital responsibility to reduce their consumption of oil and to develop alternative energy resources, if growth is not to be constrained. It is important too, that oil producing countries should have regard to the effects of oil price rises on inflation and the importance of the continuity of oil supplies for the world economy. It is not a matter of altruism. It is in their own interest to do so, as well as in the interests of everyone else, not least the developing countries.

The Australian view is that there is also an inescapable link between inflation and protectionism. Each feeds the other and each frustrates the aspirations of developing countries. There is no doubt that the adverse effects of higher inflation in recent years are largely responsible for the drift towards protectionism. This proposition was fully recognised and accepted by those government leaders - from developed and developing countries - who came together in the meeting convened on the initiative of Michael Manley in Jamaica last year.

Defensive protectionist policies exacerbate the situation they are meant to deal with, in that they result in an inefficient use of labour and capital resources. They are inimical to general economic recovery and put the future growth of developing countries in jeopardy.

The risk of increased protectionism is all the greater now that the MTN negotiations have concluded. Whatever our assessment of the results of those negotiations - and in my view they were far from satisfactory, particularly in relation to agricultural products - the very fact of their being conducted provided some degree of restraint against pressure for increased protection. That restraint is now removed.

It is all the more important therefore that attention be focused on the development of a definitive program of action to implement positive structural adjustment policies. We need policies which will free those resources of capital and labour that are at present locked into unproductive uses and allow them to reflect the operation of market forces, including, most importantly, the competitive forces of international trade.

The adoption of such a program would have economic and political costs. It would require courage to implement. But the compensating benefits - for the industrialised countries themselves and for developing countries - would much more than offset the costs.

It should be recognised that some progress has been made in important areas. I have already mentioned one such area - the Common Fund - which has been a major achievement of U.N.C.T.A.D., effectively supported by the Commonwealth.

The agreement is important not only because it provides hopes for commodity exporters, but because it gives evidence of a growing willingness to approach the problems of trade and development in a proper spirit.

But even here, much work remains to be done both on matters of principle and detail. And if the common fund is to be a hollow shell, there must be such progress on the negotiation of individual commodity agreements. It would be difficult to describe as anything but cynical an acceptance of the Common Fund which was accompanied by a refusal to enter into the commodity agreements necessary to give it substance.

I have stressed the need to combat inflation and protectionism. That is an absolute imperative. But I do not want to end my remarks there. For we have to face the likelihood that the world wide fight against these twin evils will be a protracted one. We also have to face the possibility that even when it is won, the rate of growth might still be inadequate. And thirdly, we have also to recognise that there are other powerful forces - economic, political and cultural ones - which work to impede growth and inhibit enterprise.

Let me briefly set the problem in an historical context. In the quarter century after the second world war - roughly from the mid 1940s up to about 1970 - the world experienced a period of unprecedented economic growth. This reflected some very special circumstances in the industrial countries of the west. The great depression, followed by the war, had created a huge pent-up demand for consumer goods, for the material "good life" which had been denied people for the previous two decades. That, together with the Marshall Plan, the widespread adoption of Keynesian policies and the rapid introduction of new technology, led to a sustained upsurge in economic growth and real income - in the developing countries as well as in the industrialised world.

In those two decades, the material conditions of the mass of people in western societies was transformed. But the very success of that process meant that by the mid 1960s conditions were changing and by the early 1970s the consumer boom was clearly running down. It would be an exaggeration to say that people were satiated, but the tempo was perceptible slackening.

At the same time, a combination of factors - some of them directly related to the affluence - resulted in increasing impediments to enterprise and investment. Governments conditioned to believing that Keynesian policies were the answer to all problems stubbornly continued to pursue those policies. They pursued them despite the onset of inflation - and they were encouraged to do so by electorates increasingly accustomed to believing that governments could provide for all needs.

A cast of mind developed which took for granted and regarded as endless the extraordinary growth of the period and let to increasingly unrealistic demands being made on the economy. This was particularly true of the trade unions which now assumed unprecedented power within the pluralistic balance of western societies. At the same time significant and vocal sections of western societies indulged in the luxury and hypocrisy of decrying material possessions and focusing on the so called "quality of life" issues. In doing so they ignored the fact that the majority of the worlds peoples were still living in comparative poverty and want. A legitimate concern for the need to protect the environment was exaggerated into an ideological cause which became essentially anti-growth.

An increasingly formidable system of statutory road blocks - very demanding environmental laws, harsh trade practices legislation, prices justification regulations - were placed in the way of development and investment. The result was that many investment opportunities which had been highly attractive twenty years ago now became uneconomic.

At the same time, and for a variety of reasons, the authority and confidence of some western governments were weakened, and the quality of leadership they were able to provide suffered.

This combination of factors has given rise to a state of affairs which is not conducive to growth - which is in some respects positively hostile to it. The result has been that in recent years the growth of world trade has fallen to half what it was in the previous decades - from 8 to 4 percent.

Paternalistic, defensive attitudes have largely replaced a spirit of enterprise - as witnessed by the 25 billion dollars spent by western industrial countries on wage and export subsidies to prop up inefficient industries. If only resources of this magnitude could be devoted to more productive purposes, the consequent expansion in investment and demand would be a very real contribution to growth in the world economy as a whole.

The new industrialising countries, those countries which have dramatically shown that high growth is still possible in the later 1970s, have increasingly met with "selective safeguards" and been seen in terms of a threat. They should have been congratulated and welcomed for the opportunities they provide for the growth of the newly industrialising countries creates significant new markets for the developed States. Given the effort these countries have made, nothing is more likely to embitter relations between developed and developing States, or to discredit the case for a liberal economic order than such an ungenerous and short-sighted response.

In sum, the conditions which generated and fuelled the great surge of growth in the last quarter century have now largely disappeared. It is against this background that I ask whether the lowering of inflation will, in itself, be enough to generate the growth in world trade necessary to reduce world unemployment and to promote a resurgence of sustained high growth.

Do we not have to face the possibility that a whole range of constraints may need to be tackled in order to achieve these goals?

Do we not have to ask what in the next two decades could restore the vitality and dynamism which the system showed in the late 1950s and 1960s?

Is there a way in which the resources of the world can be better deployed and allocated to provide this dynamism? What would happen, for example, if the vast amount of money expended by developed countries on wage and export subsidies were to find a more productive use?

Is it not possible to protect the environment and the interests of consumers without systematically frustrating investment and enterprise?

Are there not ways in which resources in developing countries could be more effectively utilised, so as to increase growth on a sustainable basis and reduce the intolerable burden of poverty in the world?

Should we not do more to accommodate the newly industrialised countries, the one group of countries which is still achieving the growth rates of the earlier decades?

I will say frankly that I do not know the answer to these questions. But I believe they are essential questions, questions we must address at this time.

Let me recall again that the American Marshall Plan, - the first great transfer of resources in our time - played an important, perhaps a crucial part, in initiating the great post-war expansion. In doing so, I want to make it clear that I do not believe that what is called for at the present time, is a replica of that plan. The mechanical repetition of past solutions in changed circumstances rarely works.

But what I do believe, and believe very strongly, is that something corresponding to the political will and vision which inspired the Marshall Plan is needed now. We must respond in a manner which is commensurate with the challenge we face - with imagination and boldness, and with a willingness to look beyond the conventional wisdom.