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AUSTRALIA

PRIME MINISTER

FOR MEDIA

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ADDRESS TO ANNUAL GENERAL MEETING IRON AND STEEL INSTITUTE, SYDNEY

I would like to say something about some of the world trading problems as I see them at the moment and about what Australia seeks to do principally in looking after our own affairs and hopefully also in trying to contribute to a more responsible international economic community.

We all know that the world's economies are interdependent and that what happens in the United States sooner or later tends to affect us all. Thus what happens in Europe tends to affect all major countries, all industrialised countries and developing countries.

There have been very many difficulties in world trade over most of the last decade. Since the early 1970's growth in trade has been about four per cent a year. In the previous 20 years growth was something like eight per cent a year. Those two figures alone illustrate much of the problems of high unemployment and low growth in world markets. That low growth in world trade and low growth in world markets has quite obviously coincided with the period of high and deeply imbedded inflation, which is still with us and which in present circumstances shows no signs of abating.

This poses problems for all countries - both for developed countries and for developing. I do not know that we have addressed our national policies to these problems as adequately as we could. We certainly haven't done as much about that as we ought to do.

The first question I would like to raise is how do we return to a vigorous growth in the world trade   how do we get back to that eight per cent a year, instead of the four per cent that we have had for far too long? Secondly, regardless of whether we can get back to that eight per cent or not, what are the prospects for a resource and energy-exporting country such as Australia?

Obviously getting inflation down is a paramount, a first priority. But a lot of people have said much about that. There has not always been adequate action in national policies.

We all know that high inflation destroys confidence. It destroys profitability. It creates uncertainty. It reduces market growth. It reduces the flows of world trade, leads to new and increasing and more perfidious forms of protection, and leads to higher unemployment which can have severe social and economic consequences in a number of countries.

The consequence of inflation endangering the social system is a real one. William Miller, Secretary of the United States' Treasury, said only a short while ago - and this is in a country where inflation is now at an annual rate of 14 per cent - "Inflation is a clear and present danger. It struck at our nation's vitality. If it is not checked then it will threaten our democratic system itself. We must attack the root causes and totally eradicate the basic sources. What is needed is a comprehensive, sustained and total war against inflation".

The rhetoric is easy, and the rhetoric can be found in many countries around the world. But in what countries do we find that total war? There is no harm in pointing out that two major and significant countries have been more successful than many: Germany and Japan.

At international meetings -- whether the international conference in Jamaica, UNCTAD V in Manila, the Commonwealth Heads of Government meeting in Lusaka, or more conventionally, the International Monetary Fund or the OECD, they will all accept that inflation must come down. They will all give prescriptions for getting inflation down. But inflation has gone on through this last decade at high and often rising rates, increasing in many countries as it has been at the moment. We know what we need to do to get it down. But how many countries commit themselves to the policies that will do what we know needs to be done.

Van Lennup of the OECD has spoken often enough about positive adjustment policies - a somewhat misleading term, because what he really means is: "Governments keep out. Don't subsidise wages. Don't subsidise inefficient industries. Don't have protection that is too high. Just let the market forces work. Allow the normal re-structuring that will take place if governments don't get in the way. Let it all occur and then world trade will start to grow again and industry will start to be efficient again. There will be vigour and life, in world economies again". He preaches and he talks and people say "yes", and they believe him. But governments still do not act.

I do not think it is necessarily only governments' fault, because sometimes when they try to act, the beneficiaries of the present system of inefficiency so often say: "No, you must not, it will hurt too much. We know that what you are trying to do is right, but it would be much better to forget all about it and to go along as we are at the present time".

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Unless we all realise that defeating inflation is a first priority I do not believe there will be a significant lift in the growth of world trade. That obviously has very considerable long-term consequences for the steel industry and for other major industries right around the world.

Also, I believe, that even though we need to get inflation down and even though that is a paramount need - a pre-requisite - getting inflation down alone in the circumstances of 1979, 1980 or beyond, may not be enough to return to the levels of growth that we knew in the latter years of 1940, 1950s, the 1960s and into the very early 1970s.

If that is so, we need to address something more fundamental, more significant and ask ourselves what has happened, what is different between 1949 perhaps and 1979. It is worth looking at what has happened over the years. We need to see our present circumstance against the historical background of the years since the last World War.

From the mid-40s to the early '70s - the very early '70s - there was a dramatic growth in world trade; one of the greatest sustained periods of expansion in markets, growth in trade, that the world had ever seen. What were the reasons for that: a depression before the war; the war itself; the enormous pent-up consumer demand; the Marshall Plan; new technology; the re-building of Europe. All of this led to a sustained upsurge in growth and incomes of a kind that the world had never previously seen.

It was not only the developed world that took advantage of this. This was also the period in which more developing countries experienced some lift in their standard - some improvement - from the abject poverty that they had known for so long and which so many still know as the only way of life; not necessarily entirely from their fault or from their circumstance.

By the mid-1970s, for a variety of reasons perhaps, the consumer boom itself which did much to fuel this growth in incomes, tended to be running down. Other things also were happening. This was a time when inflation began to be deeply imbedded in Europe and in North America. It was also at a time when the expectations that governments could go on providing and meeting all requests put to governments: that governments had an inexhaustible supply of funds, that Keynesian policies had made deficit financing responsible. All of these things led to governments following policies that they ought not to have followed from about 1972-73 onwards, and led to governments believing themselves that they could still meet the wishes of their people when they asked for things, or industries when they asked for things.

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Instead of saying "no", governments themselves acquiesced, printed more money, and inflation became more deeply embedded. Trade and market growth began to shrink.

I do not believe governments then understood the economic realities that began to unfold. Perhaps they understand now, but policies did not flow as a result, as I believe they should. High inflation was thus built into too many economies.

We have also had two oil crises: in 1973-74 oil prices quadrupled. There was a significant increase in the already worsening inflation position. European inflation, OECD inflation, went from 8 per cent to 13 per cent. As a result of that oil crisis, adequate energy policies were required, but much, if not most of the world ignored the warning. It has happened once: it has not happened before: it will not happen again - that was the attitude of too many people.

By 1978 inflation had been painfully ground back to 8 per cent - still very high, still much too high - but with people perhaps beginning to think "8 per cent is endurable". But 8 per cent was probably too high to achieve the kind of market growth that most of our industries need.

Then came a second oil crisis - not as severe as the first - but enough with other factors to put OECD inflation once again up to 13 per cent, leading to reduced expectations of market growth, reduced expectations for employment and the solution of economic problems of a kind that concern many countries at this present time.

In these circumstances, there are increased pressures on governments for intervention, for more protection of one kind or another. Despite the trade negotiations that have just concluded, the pressures for renewed protection, for new kinds of protection - levies and wage subsidies and export subsidies, special protective devices, subsidised loans and all the rest, voluntary restraint agreements - which even have been visited upon BHP - all of these things helped to add to the rigidity in economies and industries and made it harder to get rid of the inefficiencies in from our systems.

Thus, we have a new kind of restraint to investment and development, because what we are talking about provides a restraint, a roadblock, to efficient investment, to efficient development, to efficient profit-making. But then, over the same period, especially during a period of high growth, we had many concerns - environmental concerns, restrictive trade practice legislation, foreign investment policies, national investment policies - all of which tended to put impediments of one kind or another to profitable enterprise; impediments that just were not there in 1949, which have grown over the years when people came to take growth and progress for granted because the world went through the best and most sustained period of growth and development that it had over about 30 years after the war.

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With all these impediments now within our systems, sometimes requiring three, four or five years for an environmental approval, where before a board could make a decision in the course of a day or a week - but now you have to get through government arrangements which might take three years or more.

Against that kind of background, even if inflation does come down, is there then going to be an adequate growth rate to enable a return to the level of profitability, the growth in national economies, that is necessary and desirable if world economic problems are to be put aside.

There is a growing international awareness of the danger that getting inflation down alone may not be adequate. The Commonwealth Heads of Government meeting in Lusaka has decided to establish a worldwide group of experts to study this problem and offer some suggestions for national policy-making which might be an aid to a greater rate of investment and market growth in countries around the world.

What then are the prospects for a country like Australia - 14 million people, a middle-ranking power - if we are going to be in a period of high inflation and low market growth. Obviously, more rapid market growth helps a country like ours. About 15 per cent of our GDP is traded, but I do not think we can look forward to this rapid growth - not as a certainty. It may be remote. What then do we do in a difficult world trading scene? There is a great deal that a country like Australia can do, is doing, intends to do. We are one of the few countries that can get through the 1980's without difficulty no matter what the world scene may be.

Over the last two to three years, Australia has, through world trading negotiations, with Europe, with the United States and with Japan, established a network of bilateral trade agreements on a basis that I believe gives our exporters greater security than they have ever had. Obviously, the trade agreements are beneficial in both directions. A good deal of energy and effort has gone into securing access to markets. That is important indeed.

Then again, we have paid particular attention to trade with developing countries of Asia and the Pacific because in our experience it is trade with these countries that has served us in very good stead, as we found it more difficult to trade with the more affluent and large markets in Europe because of European Economic Community policies. If it had not been for the diversion of our trade to countries such as Korea, Taiwan, Japan, the ASEAN countries, to China itself, Australia would have been in very real difficulty.

There is another message that comes out of this changed trading relationship that Australia has experienced, because it is not just our exports to these countries that have grown. Our trade both ways has grown with the newly industrialising countries, the countries of the Pacific and South East Asia, very dramatically indeed.

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ASEAN exports to us have increased by about 30 per cent a year over the last 10 years. Our exports to their countries have also been growing at a rapid rate, although not quite as rapidly as that. The prospect for rapid market growth in the newly industrialising countries is a very real one, and one which I think the older industrialised countries ought to grasp eagerly. They should not see this trade as something to be shunned or feared, because wages there are lower and they would therefore be more competitive. If opportunities are grasped, trade both ways will grow very greatly. Markets in newly industrialising countries will be there for the products and the goods, of the older industrial countries, for the countries of Europe and North America if we all have but the wit to grasp and take the opportunities instead of fearfully saying; "No, we must not do it, we want selective safeguards. We want to be able to say goods from these countries can be excluded from us because we are frightened of their competitive power". I think if we seize the opportunities there is nothing to be fearful of, and much to be gained by a greater rate of economic take-off in a greater number of developing countries. We ought to look to see what could be done to promote that.

Australia, in this part of the world with our trading experience, has some reason to look forward with confidence. But there are other reasons why we can look forward with a great degree of confidence. We are a net energy exporter. We have very significant reserves of coal, of natural gas and of uranium, as you know. Coupled with Australia's mineral resources, there are opportunties open for us that may be not open to all other countries.

The $4 billion worth of investment in aluminium and aluminium processing taking place in Australia right at this time, could not have occured if it were not for the adequate reserves of bauxite, perhaps even more important, adequate reserves of relatively cheap coal-based electricity which has been important and necessary for that processing and development.

I think over the next decade and beyond more of that kind will be put together in Australia, making use of our resources and of Australian energy, and achieving a greater degree of processing within this country. That will not come by some Government decree, Government directive. We do not work that way. But if through the normal commercial processes, it seems that is the best path to take, then there are some things that a Government can do to stimulate it, to encourage it. I believe that is one of the directions in which Australia will move and one of the reasons why we will be able to attract to ourselves perhaps a greater share of world investment in resources and in energy projects, than otherwise might take place.

The other reason why we might well attract a greater share of world investment than would otherwise occur is because I believe our economic policies will and are, attracting that kind of investment. We are determined to maintain a downward thrust on inflation. Our deficit as a percentage of gross domestic product will be under 2 per cent this year. That is less than most OECD countries on a comparable basis. It is certainly much less than has been the case in Australia for a long while.

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It is still too high, but we can work at it and we will get it down further.

Government expenditure in real terms, has been held static over the last four years, despite much increased sums going into defence and despite an ageing population - in spite of it being a young country - our social security payments have also increased. Quite plainly, such technical matters as money supply growth have got to be rigidly controlled as they are, and as they will continue to be.

When we took office, when my Government took office, our inflation was about 5 points above the OECD average. It is now about 3 or 4 points below the OECD average and we intend to keep it that way. The more the OECD gets its inflation rate down, so it makes it tougher for us to stay below the average of the OECD countries. But, the better I like it, because we intend to keep it below that average to enhance Australia's competitive position.

Against that background, putting together the economic policies that we pursue, Australian resources and Australian energy -- I have said nothing about Australian initiative and enterprise -- but putting those things together, I believe the future for a country such as Australia is a good one. If any of you have a few dollars you would like to invest in this country, it would be our intention that you would make better profits on those dollars than dollars you invest in your own. That is not meant to be offensive. I would hope it would become a fact of life.

So, there are many unresolved problems. Trade growth is slow, inflation is too high. There is, in some cases, exchange rate instability. There are uncertainties in energy. But I believe despite all that, I look to this country to the 1980's with enormous enthusiasm and with enormous confidence, because the policies we have pursued for nearly four years are starting to pay off. I think there are a few investors in Europe and in Britain and in the United States who have made that very same judgement, because they have been voting with their dollars, their Pounds and Deutschmarks and Yen and all the rest, in investment in this country. Again, we intend to maintain the policies that will make sure those investments are soundly based so that the dollars that have come will be followed by more.

The advantages we have are real. Maybe it is because we are a lucky country, but it is up to us to use the resources that are available to us and to do it wisely.

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