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AUSTRALIA AND SOME WORLD ECONOMIC ISSUES -

A SPEECH BY THE PRIME MINISTER OF AUSTRALIA,

THE RT. HON. MALCOLM FRASER, C.H., M.P.

TO

THE ECONOMIC CLUB OF NEW YORK ON 4 JANUARY, 1979

It is a great pleasure to be in the U.S. again and have the opportunity to address this very important group of American business leaders. I am also pleased to have the opportunity to try to collect my bet with Arthur Burns, a bet about which I think, some of you may know.

When we met in Washington in June, 1977, he made one of his few errors of judgement and bet me that Australia would not get its inflation rate down below this country's by the June quarter of 1978. Well, we did. Doing so has not been easy - it never is.

I am sure that the anti-inflationary measures announced in this country two months ago by President Carter were not easily arrived at either.

To announce measures of that kind shortly in advance of the congressional election must have required considerable political courage. And if I may say so, we in Australia have greatly welcomed the policy decisions involved.

The contribution they are making towards stabilizing the value of the U.S. dollar has as much, or more significance, for the rest of the world as it does for the United States.

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The absolute magnitude of U.S. trade means that even small changes in the value of the U.S. dollar have large effects on the trade of smaller countries.

In reflecting upon our own fight against inflation, I must say it has taken us three years of hard slog to make the progress we have made.

Throughout that period our policies have been designed to re-establish the pre-conditions for sustainable economic growth.

We have approached the task of economic restoration in a medium-term framework.

After the economic turmoil through which the Australian economy passed a few years ago, it takes time to eliminate economic distortions and imbalances, to provide a settled framework of expectations within which businessmen - and consumers - can take decisions with confidence.

America has recently been swept by initiatives such as Proposition 13 designed to restrain the growth of public sector spending.

I am told that the elections last November showed that this is a political winner across the U.S.

Well, the basic philosophy reflected in Proposition 13 has been alive and well in Australia for the past three years.

We have rejected the notion that an economy can be kept moving by continually bloating the public sector.

We have cut the growth in Federal Government expenditures from the astronomical figure of 46 per cent in 1974-75, to less than 8 per cent. We still think that's a bit too high.

We have used some of the resultant savings to reduce taxes, to put spending and decision-making power back into the hands of businesses and private individuals where it more properly belongs.

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We have legislated to keep Government honest by providing for indexation of personal income tax.

To encourage continuing economic growth we have provided tax incentives for private investment.

We have not been able to pass on all the expenditure savings to the private sector because we inherited an enormous budget deficit - over 5 per cent of G.D.P. We have set about reducing it, and this financial year the deficit should be about 2.8 per cent of G.D.P.

We have cut back the rate of growth in our money supply. The rate of growth of our M_3 - which incidentally corresponds more nearly to your M_2-has been reduced from around 20 per cent per annum in the second half of 1975 to 8 per cent in 1977-78.

Let me now tell you briefly about how these policies have been bearing fruit.

Our major success has been in pushing our annual inflation rate down from about 17 per cent in 1975 to about seven and a half per cent. This is lower than the average for the O.E.C.D. area as a whole and it is trending downwards.

In the light of the recent wage decision the Treasury has revised its budget forecasts and anticipates that inflation will be under 6 per cent by the middle of this year.

Lower inflation is encouraging consumers to spend a higher proportion of their disposable incomes. And this is reflected in the fall of the personal savings ratio from its peak of a few years ago.

Business investment, by both domestic and overseas enterprises, has been rising strongly, partly because of the greater business certainty flowing from lower inflation, and also because of some - although not yet enough - recovery in corporate profitability.

At the same time as we have been pursuing our anti-inflationary strategy, we have had a growth record which stands up well enough by international comparison. I do not want to give the impression that we think all our economic problems have been overcome. We still have some way to go, and this is most obvious in the area of unemployment.

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There are two reasons for that - one general, one particular. The general reason is that when an economy has been so fractured as the Australian economy was a few years ago it takes a time for the steady application of policies to put things right, re-establish confidence in the community and restore the buoyant growth of private demand that is fundamental to growing job opportunities. The particular reason is that our own institutional wage fixing arrangements - where wages are determined by an independent arbitration commission - have not made the contribution they should to economic recovery.

In most markets when a product is in surplus supply, and people want to sell more of it, they seek to reduce their price. In the labour market, however, people forget that economic truism. Even though labour is in over supply, union leaders still seek excessive wage increases. This plainly makes it harder to get people back into jobs.

Mr. Chairman, what I want to make clear today is that we will maintain the present steady cast of policy until these problems are overcome. Our aim is not, for instance, to be satisfied when we have reduced inflation to 5 per cent, but to go well beyond.

Inflation increases interest rates, makes business decisions more risky and discourages consumer spending. It distorts the relationship between wages and profits, makes domestic business less competitive internationally, and creates social inequities. Too often, we have seen Governments make some moderate though important progress in lowering inflation only to throw away the gains by turning back to budgetary pump priming, which cannot achieve a permanent reduction in unemployment or bring any lasting economic benefits. There are those in Australia who, now that we have made so much progress in the fight against inflation, would have us follow that road. We have no intention of doing so. Such a course may temporarily provide some new jobs, but at the cost of existing ones - as the rise in inflationary expectations which it causes leads to a loss of business and consumer confidence, less consumer demand, less investment both by domestic and foreign investors, and hence fewer jobs.

In the end new jobs will only be created if our economies grow faster than they have been. For that to happen, the constraints which are preventing that growth - inflation, the imbalance between wages and productivity, and the inadequacy of profits - will have to be removed. They will not be removed by budgetary pump priming.

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We in Australia are determined to meet the challenges posed by our enormous resource potential and the dynamism of our region. To do so effectively, we shall need the help of overseas capital. I cannot emphasise too strongly that Australia welcomes overseas investment to supplement its already high level of capital formation from domestic sources.

Development of our resource potential is going to require considerable capital funds from overseas. The total investment finance required for that purpose over the next three years could be nearly $US 7 Billion and a major proportion of this estimated requirement will need to be sought offshore. Figures such as these are necessarily speculative but they will give you an idea of the opportunities which are opening up in Australia as we bring our own economy into better shape. Those opportunities are, we believe, enhanced by the great markets opening up in the countries immediately to our north.

We are a "natural" importer of long-term capital and are likely to remain so as far ahead as one can reasonably foresee.

We are determined to create, through our general economic policies, conditions which are favourable to the employment of capital in Australia, whether derived from the savings of our own people or from overseas investment.

We have laid down clear guidelines for foreign investment - and they are being administered flexibly and fairly. I believe this general approach is now widely recognised and supported by foreign investors. It is increasingly apparent that the chief deterrent to investment is not so much rules - or guidelines - in themselves, but any suggestion that those rules may be subject to violent and arbitrary change. Ours will not be.

Australia has unlimited prospects and offers excellent opportunities for investors. For its part, the Government is determined to pursue the steady, sound economic policies which will make the 1980's a decade of achievement.

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whether through the M.T.N. or otherwise, the developed countries must come to terms with one salient fact. Excluding petroleum, agricultural and other commodities account for 55 per cent of the exports of the developing nations. Unless these products can gain greater access to the markets of the developed countries the development process in the developing countries will be stultified and the growth of their markets, from $US 50 Billion to $US 250 Billion in the last decade - growth which benefitted the industrial nations - will be checked. In the past decade these countries have grown faster than the developed countries. It is in all our interests that this process should be maintained.

Mr. Chairman, whatever the outcome of international negotiations Australia is confident of its capacity to improve its share of world markets. We have resources the world wants. We are reducing our inflation rate relative to the rest of the world, and increasing our international competitiveness.

Better trading results, as well as lower inflation, will help Australia achieve a bright future in the 1980's. But these are not the only reasons for confidence in Australia's growth and development. We are located in an important and growing region.

The five ASEAN countries - Malaysia, Singapore, Indonesia, Thailand and the Philippines - are progressing so well that before long their combined purchasing power will represent a significant force in world markets. Also, other countries in the region are amongst the most vibrant economies in the world today, and this says nothing of the fascinating developments which presently seem to lie ahead in China.

Australia is a land of opportunities. It is one of the few countries still offering the excitement and adventure of new development that offers opportunities not only to Australians, but to all those who wish to participate in our development.

I do not need to detail here the great natural resource base. It covers almost the whole range of important minerals and provides almost unlimited scope for investment both in extraction and processing.

The Australian continent supports one of the most efficient rural industries in the world. We have a stable and abundant energy base for our own use and as a supplier for world markets.

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In turn inflation and the unemployment it inevitably brings produce problems in world trade and are at the root of the re-emergence of protectionism, one of the central economic problems of our time. Uncompetitive countries have looked to more and more protection for their domestic industries. For example, we understand that the E.E.C. countries are currently spending about $US 8 Billion a year on a new form of protectionism, so called job subsidies. These give effective protection to industry against imports and are a hidden form of export subsidy.

A fundamental opportunity to stop encroaching protectionism and further liberalise world trade is held out by the multilateral trade negotations . But if the M.T.N. is to realise its promise, the agreements reached must be broadly based.

If the agreements are restricted to industrial products they will not cover a significant proportion of world trade. These industrial products amount to 40 per cent of the exports of the major industrialised countries but only 20 per cent of world trade and no more than 5 per cent of the exports of many developing countries.

The proposal would result only in a reduction of the average level of industrial tariffs by half a per cent a year spread over eight years. Such a limited agreement plainly could make only a marginal contribution towards expanding world markets.

In this case the main contribution of the M.T.N. may be to help check the spread of protectionism in manufactured goods, but it would do little to stimulate the growth of world trade, and it would do nothing to stem the tide of protectionism in agriculture.

Australia for one has been particularly affected by growing protectionist pressures, because almost half of our exports are agricultural products which have been subjected to quotas, embargoes, variable levies, and dumping of surpluses.

For example, the E.E.C. in 1978 spent $US 12 Billion in agricultural support, which included almost $US 5 Billion on direct subsidies on the export of sugar, wheat, dairy products and meat, much of it to our traditional markets.

If the M.T.N. is to have a real impact, then it is essential that trade in agriculture be liberalised, and I am glad that the U.S. Administration shares this view.

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I believe that the public does understand that inflation is an illness and that recovery from it will give our economies a genuine stimulus towards growth and full employment.

I believe the public knows that those committed to anti-inflationary policies show more concern for the real well-being of people than politicians who glibly pursue short-term stimulatory policies, which will not solve economic problems and will in fact make them worse.

Anti-inflation policies are the best way to shift the balance back in favour of risk-takers instead of loading the dice against them.

Attacking inflation strengthens our market-oriented system, which finds its greatest superiority over "command economies" in its capacity to handle change. It is that very process of change which, in the end, delivers the goods and services which people want, at the prices and in the places at which they want them.

Any economy that is to remain vital and vigorous must be capable of adaptation and change and Governments need to structure their policies accordingly. They must accommodate the fact that economies are not static but living entities constantly changing to meet the changing preferences of consumers both at home and abroad.

Inflation not only damages growth of domestic markets, not only reduces employment and weakens the basis of our market system, it quickly flows through into the international economy and retards the development of world trade. Countries with high inflation rates become uncompetitive, their exports fall, their imports rise, and inevitably their currencies depreciate.

It is ironic that the flexible exchange rate which has become needed principally because countries' domestic policies have been inadequate is sometimes heralded as a significant advance in its own right.

It is true that the flexible exchange rate gives us another weapon in our economic armoury. But it should, however, be recognised that it is a weapon which compensates either for a Government's own domestic policy inadequacies - or for the domestic policy inadequacies of others.

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Those who expect Governments to stimulate the economy by increasing Government expenditure at the first sign that inflation is falling misunderstand the nature - and the cure - of the economic and social illness we are facing. The fundamental point is that the reduction of inflation is stimulatory of itself. It re-establishes consumer confidence and the confidence of domestic and overseas investors. Those changed attitudes are then accompanied by higher consumer demand and higher investment and lower interest rates. That process in turn creates employment. Thus, I utterly reject any suggestion that our policies show no concern for unemployment and the unemployed. On the contrary, it is because of our concern for those things that we have persevered with the policies which we know are essential if unemployment is ever to be reduced.

I believe that the importance of the fight against inflation is now better understood internationally. At the September meeting of the I.M.F. Board of Governors, the Secretary-General of the O.E.C.D., Emil Van Lennep, said that: "Unacceptably high rates of inflation remain the fundamental obstacle to getting back to full employment."

The Annual Report of the G.A.T.T. of last September stated: "The industrial countries can only move towards increased growth and development, and towards sustainable payments positions and more stable exchange rates, by reducing their inflation rates to the levels experienced until the mid-1960's."

Just a few days ago in Jamaica the Heads of Government of seven developed and developing countries recognised in the clearest terms that inflation was the common enemy. We all agreed that the interdependence of the economic health of industrialised nations and the opportunities for increased growth in the developing world demanded that inflation be vigorously combatted both domestically and internationally.

It is of the greatest importance that these sentiments should not remain merely sentiments, but that they should be carried through to the Tokyo Economic Summit in June, and into the policies of Governments.

It is sometimes said that in democracies where there are elections every few years, it is difficult to persevere with firm, anti-inflationary policies. Implicitly - or even explicitly in some cases - this view is based upon a low opinion of our democratic electorates. This is an opinion that I do not share. What our democratic electorates do require is leadership and constant explanation of policies.

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