



PRIME MINISTER

TUESDAY, 29 JANUARY, 1980

ADDRESS TO BUSINESSMEN'S LUNCHEON, LOS ANGELES

Some of the things I want to say will not be new to you. But I would like to say at the outset that the increased international concerns that the United States, that we have, as a result of events in Afghanistan and elsewhere, demonstrate all the more the need for economic strength, because whatever the great democracies can do, their effectiveness depends upon their basic economic strength. That is obviously, and has always been, one of the underlying strengths of the United States. We hope, as we grow and develop our own capacities, that we can operate more effectively. We recognise the limits, quite obviously of 14 million people, but I believe it is more important to show willingness. It is important to play as much a role as we can.

I am sometimes asked: "Why is Australia concerned in the larger international events?" My answer to that is: "Well, we might be 14 million people, but if the scales on great issues were evenly balanced, and if we had sat back and left it all to other people, then if the weight of 14 million people had tipped the scales in the right direction, we would never forgive ourselves for not having taken whatever action we could."

Economic strength is ever more important, in the uncertain international times that confront us. Therefore, it is opportune to talk for a moment or two about the current economic climate in Australia, what we are doing and trying to do, and how that climate is enabling us to develop, as I believe responsibly, and to share with our world trading partners the possibilities that are opened up by the possession in Australia of large quantities of raw materials and in many cases abundant energy reserves. In the sort of world we face, we believe that these will come together in Australia, giving us many opportunities over the next decade.

Many of you will know the background to the problem that we faced, starting about four years ago. There had been a certain loss of competitiveness in Australia. There was an inflation rate much higher than our major trading partners, and much higher than the OECD average. There was a loss of confidence. A number of overseas concerns took up their stakes and ceased their operations from Australia. There was weak domestic and international investment in the country, and exports were also threatened by high domestic costs.

So this all had to be put right. Central to it all has been an unyielding attack on inflation which has not ceased and will not cease. No matter what the other policies might be, no matter what other things we might have to do, we cannot give up that attack on inflation, because we believe that it erodes the very heart of

an economy. It hurts too many people. It makes enterprise difficult. It erodes profits. It erodes everything that contributes to strength and the capacity of an economy to do the things that you need for your own people. So, over the four years, our monetary policies have all been designed to bear down on inflation, have all been designed to take their share of the weight.

I do not believe that you can adequately fight inflation if you are lax in some elements of policy and put all the weight onto other elements. That will not work, I believe, over the longer term. Perhaps the hardest thing for government, and perhaps the most important in the fight against inflation, is adequate expenditure restraint. There are always people who go to governments and say "will you spend more money on roads or hospitals", or a countless number of things. Governments just have to have the capacity to say no to those requests, because to meet them all would send the government, the country and every individual in it bankrupt.

Obviously, we have sought also to lower taxes, to provide additional incentives for exploration and for investment. We have administered flexible guidelines for overseas investment which are designed to attract and encourage overseas investment, but to do so within a national framework that is broadly acceptable to all Australians. That of course is good for Australia, but it is also good for those who invest, because it means their investment is secure and they do not have to worry about national reactions to it. I think we have been largely successful in that. As a result, overseas investment has very greatly increased.

Investment guidelines have to be administered flexibly, because we would never be able to finance some major projects. Our capital markets would run dry if it were not for funds from overseas. The North West Shelf offshore gas project will take not less than \$4 billion to develop. Quite plainly, capital of that kind cannot be found from Australia's capital markets. That just emphasises in fairly stark terms, the need for overseas partnership and involvement in Australian affairs.

In the current position in Australia, inflation over the last year has run at about 10 per cent. That is too high, and much higher than we would like, but you all know that there have been problems with oil prices which have had to be accommodated. But, our inflation rate is less than the OECD average, which is 11½ per cent, or thereabouts. It is also less than the United States' rate over the same period. As a result of bringing our inflation down below a number of our major trading partners, and below the OECD average, clearly Australian enterprises are now more competitive than they have been for a long while. Manufacturing exports are increasing very greatly as a result. In addition of course, our rural industries are having a much better time, adding very greatly to the underlying strength of the Australian balance of payments and balance in trade. The current trade accounts are as strong as they have been for many, many years. I believe that looks like persisting as far as we can reasonably see into the future.

Last year, private overseas investment in Australia was the highest for many, many years. The Australian economy has stood up pretty well, when you have in mind some of the problems that have occurred - the high interest rates in the United States and in the United Kingdom. It has stood up because of the basic strength of our exports and also because inflation has been lower than in some other places. But quite plainly, international events do have their impact around the world, and they do have their impact in a country such as Australia.

Money supply is on target for this year; something less than 10 per cent, a little less. Having in mind the rates of inflation that are predicted, and the rate of growth in the economy that we hope for and expect, I think that seems a reasonable target.

The Budget deficit, as a total deficit, is less than two per cent of our gross domestic product. That shows the degree of expenditure restraint there has been. The domestic deficit is considerably less than 1 per cent of the gross domestic product. That is a better result, than most European countries have been able to achieve, at any rate. Gross domestic product is, as we believe, likely to rise by about 3 per cent through 1979.

There is always a battle on the wages front. There is always a battle on industrial relations. These are things that are never won entirely. You can win them for today, or for this week, but if you think you can vacate the field you will lose it next week, next month, next year. Pressure, I think, in any country has to be maintained in those particular aspects of domestic affairs. We have had a reasonable level of success. Employment has started to grow in Australia again, rising about 2 per cent over last year.

I give you those economic facts because I believe they do demonstrate that there is a basic strength in the Australian economy and that the future looks pretty secure, putting aside for a moment international events of other kinds.

There is a strong sense of optimism in Australia. There are opportunities for the medium-term for investment and opportunities in Australia that might not have been there four or five years ago. Many of them would be resource-based. There is a possibility for much greater activity and greater partnership between Australians and people from other countries. Much of that I think is based on large reserves of raw materials, and of energy. We are one of the significant net exporters of energy in the free world. In all, we are 70 per cent self-sufficient. In that sense we are lucky, having in mind current oil problems. Like the United States, we do possess enormous Shale oil deposits. We are hoping that development of those deposits will be able to proceed before too long.

Uranium; a fifth of the Western world's reasonably recoverable reserves. In coal; large deposits of high-grade coking and steaming coal. Together with the State Governments we have embarked on major development programmes which will make sure that Governments are not short in providing the basic infrastructure which is necessary to enable private investment, private enterprise, to go ahead and play their role in the development of these resources.

We have, for example, a special examination going on at the moment with the State Governments about the pace of development of their electricity programmes, electricity based on coal, because there would be some pressure on supplies as a result of \$4 billion investment in the aluminium and smelting industries - very high energy users. We want to make sure that there are no investment opportunities lost in Australia as a result of inadequate foresight on the part of State Governments, which are largely responsible for power generation.

Steaming coal exports, in our examination, look like rising from 1978, 6 billion tonnes, to 1990, maybe 50 million tonnes, to the year 2000, maybe 100 million tonnes. That obviously would take some handling, but it can be done. There are, again, examinations going on between ourselves and the States to make sure that we have the capacity and the basic infrastructure for that expansion to take place.

I think Australia is embarked on the beginning of a new phase in her own national development. Resources projects, resource projects based on energy, are going ahead and in some perverse way I suppose the energy problems, the oil-based energy problems, are throwing more opportunities Australia's way because of our possession of our coal and the capacity to provide, by world standards, cheap electricity for heavy power users.

At the moment, there is \$16 billion to \$17 billion worth of mining and manufacturing investment on the line all ready to go. Compared to five or six years ago, that is a pretty substantial figure, which indicates, I believe, a growing sense of confidence in what is happening in Australia. In that, as I have already indicated, there is a very significant role for foreign capital.

In a world that is greatly in need for raw materials, and in a world which is greatly in need of energy, the possession of both provides opportunities and responsibilities for Australia. We intend to grasp the opportunities. We intend also to meet our responsibilities, because we know that other countries need to have access to secure and reliable supplies of energy and raw materials. If other areas are somewhat unreliable in supply, Australia has been and will always be reliable in supply of these particular materials.

If I could just end, gentlemen, at the point at which I began. The economic strength of countries such as the United States, which is undoubted, and countries such as Australia, is all the more important in the light of the uncertain international political situation that has been developing over recent months. We want more diplomatic strength in the free world. If we are to have that greater diplomatic strength, greater economic strength will certainly assist in that. That means the fight that we have all been waging over recent years against inflation has got to continue unabated. We cannot be diverted from it because if we are diverted, our capacity to meet other concerns, whether they are domestic ones or international ones, will be diminished from what otherwise they would be.