



# PRIME MINISTER

FOR MEDIA

FRIDAY, 7 MAY 1982

## SECOND SIR CONDOR LAUCKE ORATION

I would like to congratulate the service clubs initiating this oration, which is a tribute to the esteem in which Sir Condor Laucke is rightly held. I would also like to thank you for inviting me to give the second in the series following Sir Condor's own inaugural oration on the Senate, and the importance of Parliamentary democracy.

What I would like to discuss with you this evening are some of the ways in which Australia needs to respond to the dominant features of the current world situation. In particular, I want to look at the significance for our policies of the overall world economic situation, and of some threats to world peace and security. I am pleased to have this opportunity to draw together a number of themes, which really cannot be viewed in isolation, themes which are important in understanding Australia's situation and prospects, themes which provide a foundation for the constructive and vigorous policies which will meet Australian values and objectives.

Government policies must be directed to achieving greater prosperity and further improvement in the living standards of Australia. They need to increase opportunities still further for our young people in particular; they need to be compatible with Australia's concerns and responsibilities as an outward looking nation. The task of welding together the imperatives of policy formation and the hopes and aims of people is one of the great challenges for governments. We must never lose sight of our objectives, or the constant need to revitalise and redefine them in terms which are relevant to current circumstances.

But by the same token, no democratic government can serve the community well unless it pursues policies which are based on reality. This means policies which reflect a sound understanding of what is happening in the world, and the impact of these events on Australia. It means policies which give full recognition to Australia's advantages, and to the great underlying strengths of our economy. It also calls for balanced understanding of all aspects of the situation in which Australia is placed.

Whether times are buoyant or depressed, whether prospects are encouraging or uncertain, balance is vastly important in our understanding of events and in the presentation of news, for without balance, the community can be seriously misled, and people's attitudes and expectations misdirected. At the present time Australia and other Western countries are facing a conjunction of two events which present problems of significant proportions, whose dimensions have not yet been fully identified or defined.

The first arises from the profound economic difficulties currently being experienced in the West, the other is the deployment of unprecedented Soviet power around the world, combined with the aggressive stance of Soviet policy. Against the background of the present economic, political and strategic circumstances, two summit meetings due to take place next month in Europe, the Versailles meeting of the major economic powers, and the Bonn meeting of the NATO heads of government, take on a special importance, a special meaning.

The Versailles Economic Summit is the latest in a series of meetings that have been held every year since 1975, and it will be attended by the heads of government of the United Kingdom, France, West Germany, Italy, Japan, Canada and the United States, and the President of the Commission of the European Communities. They will discuss the economic problems faced by the West and policies to overcome them; energy problems faced by the West beyond the present downturn in world prices; the dialogue between developed and developing countries; and problems and strategies in economic relations between the Western countries and the Soviet bloc.

The NATO Summit, on the other hand, is a special meeting convened against the background of growing concern among Western governments about the state of the Western alliance. It will be searching for a strategy for the 1980's and will be attended by the same leaders attending the economic summit, except Japan, together with smaller West European NATO members. The conjunction of the two meetings means that economic and security factors can both be addressed and the linkages between them given proper emphasis.

Australia is not directly involved in these discussions, but we and most other free peoples may be profoundly affected by their outcome, and for this reason I particularly value the opportunity which I will have in a couple of weeks to discuss some of these issues with President Reagan in Washington, and with Prime Minister Suzuki in Tokyo. The world strategic and political situation gives rise to many causes for concern, especially arising from the provocation of Soviet policies.

We see the effect of these policies in the occupation of Afghanistan; we see it behind the forces for repression in Poland; we see it in the priority which Vietnam attaches to continued occupation of Kampuchea; we see it directly and indirectly in central America, in Africa and in parts of the Middle East. The Australian Government has been consistently arguing since the mid 1970's for a clearer perception and adequate response by the West to the Soviet Union's international actions, for we detected tendencies to overlook how frequently the advantages of the policies of detente seemed to flow one way to the Soviet Union.

The persistence of the Soviet Union in continuing to devote some 13% of its national product to military processes cannot be taken lightly, especially against the comparable United States figure of no more than 6% even with the present efforts to increase US defence capability. We have been greatly encouraged by the determination of President Reagan to revive Western power, but that revival, and the restoration of a desirable balance, cannot take place overnight, and continued Western resolve in the face of the Soviet Union's advantages will be a critical factor in the next few years.

The responsibility of Western nations in relation to world peace and security is made no easier as the war in Vietnam showed, by the need for democratic governments to sustain public support for the kind of policies on which these objectives depend, especially as many people are tempted to attach a greater immediacy to competing priorities.

Let me say that here in Australia, the Government stands without hesitation or reserve behind its commitment and obligation to keep building up that strong defence force, tailored to meet the threats and challenges of the times which Australia needs. Despite budgetary restraint in recent years, Australia's defence spending has been increasing substantially, bringing with it significant real improvement in our defence capability.

Defence outlays this financial year have increased by almost 20% over last year, well above general price increases of something just over 10%, and without anticipating details of the Budget, there will be a further substantial increase in the defence vote next year. We will continue to maintain and develop all our defence capabilities. Last year's increases in service pay and allowances are already having benefits in terms of more service personnel staying with the forces, and the importance of attracting the right people to the defence forces cannot be over estimated.

The recent rescheduling of some parts of the defence programme which has involved bringing forward the acquisition of the new carrier and of 10 new Orion aircraft has enabled us to take advantage of opportunities which could not have been repeated.

As well as the new aircraft carrier and the 10 extra P3C Orion aircraft, the Government last year made the decision to buy 75 FA-18 fighter aircraft; two new frigates have entered service, and a further two will do so over the next couple of years; our existing destroyers are being modernised; and our defence industries are being upgraded.

A high quality, independent defence force is a high priority for Australia. We cannot assume that our own region will be free of trouble spots, especially in the uncertain and threatening situation which currently prevails.

Let me turn to the world economic situation where predictions of an imminent up-turn in growth and activity are repeatedly made but where that predicted recovery repeatedly fails to materialise. Last year, for the first time in over 20 years, it is estimated that the value of world trade actually fell. Moreover, following average real growth rates of output of about 5% in the 1960s, and over 3% in the 1970s, the Western industrialised countries have produced growth rates of output only a little over 1% in each of the last two years.

Indeed, in the final quarter of 1981 real GDP fell in West Germany, the United States, and even in Japan, and on preliminary figures a further fall in real GDP occurred in the USA in the first quarter of 1982. It is little wonder that unemployment rates in the major industrialised countries are high and rising. On the latest figures, the unemployment rate in West Germany is over 7%; in France, the USA and Canada it is about 9%; in the United Kingdom it is approaching 12%, and on some projections total unemployment in the OECD countries will reach 30 million people during this year.

On top of all this, real interest rates world-wide have reached historically high levels, making the investment that is so essential to building a basis for economic recovery unprofitable in many cases. Not only are the problems immense, but agreement on solutions is far from being reached, and democratic governments face the added difficulty of having to sustain public support for the sorts of policies that are required. The temptation for countries to resort to beggar-thy-neighbour policies of increased protectionism has enormously increased. The European community, for example, has continued its policy of virtually excluding imports of agricultural products except in limited cases where the community's production cannot meet its needs, and it has extended its policies to subsidise exports of surplus agricultural production to third markets. And there is an increasing and very disturbing tendency for countries to resort to bilateral trade agreements, cutting off the forces of multilateral competition in trade that have contributed so significantly to the growth of living standards for most of the post-war period.

It is interesting to note in this connection that the countries that have done best in the difficult world environment in recent years have been the newly industrialising countries of South East Asia, countries which have adopted outward looking policies and not expected the world to stand still for them. It must be said, however, that despite the difficulties, there are some indicators that offer hope. For example, inflation rates in Europe and North America have been declining over the last two years. Indeed, they have virtually been halved in the USA and the UK since early 1980, For the OECD as a whole they have fallen by about a third, and along with these trends have gone greatly reduced wages pressures, including acceptance of real wage cuts in some countries.

Of course, to some extent this reflects declining production and increasing unemployment, but it is nonetheless helpful in providing a basis for restored business confidence overseas, and the effects of falling oil prices. To the extent that they are sustained for a time must also contribute to the prospects for some recovery. But for all of the hopeful signs, it would be a brave - if not a foolhardy - man who predicted when a sustained and sustainable upturn in the major economies was likely to occur.

The impact of the current world downturn is serious indeed. It not only threatens the rising living standards which people in the West have come to expect, it is particularly damaging to the prospects of the countries which are economically weak. In so many of these Third World countries which suffer from extreme poverty, the need for economic growth is desperate but harder to achieve than ever in circumstances of world recession. And in such circumstances, the more prosperous Western countries themselves are likely to find it more difficult to pursue the kind of policies which will help them.

World economic downturn inevitably has an impact on Australia, on our prospects for continuing growth, and on the sort of expectations which we can realistically hope to achieve. No matter how effective the Government's actions to insulate Australia from adverse effects, we are a trading nation, and falling commodity prices and depressed markets for our exports inevitably affect our economy. But while we are inevitably affected, the Government is determined to maintain the kind of positive policies which will protect the well-being of Australia's families, and which will enable us to take advantage of world economic recovery when it eventually comes.

In terms of the Government's overall strategy to cope with the present world economic situation, the maintenance of economic strength in this country is basic and fundamental. Unless Australia maintains a strong economy, the potential to support and improve living standards will be reduced, our capacity to provide and create the opportunities people want, especially in terms of jobs, will be threatened.

Indeed, without economic strength, the continuing efforts to build up our defence capability which I have referred to could become impossible to sustain and Australia's capacity to make the effective contributions which are within our power towards dealing with problems of world poverty would be substantially reduced.

Economic strength and growth may not be an end in itself, but it is plainly a vital precondition of almost every other major objective which the Australian community seeks. When we look on Australia's economy, it is vastly important to recognise that it not only faces a number of problems but that it also has very great strengths. Any tendencies to over look or underrate these strengths, and there have been such tendencies in some quarters, does Australia considerable disservice, for it damages confidence, and can distort people's attitudes in ways which can themselves have an adverse effect on the economy and its development.

We must never forget that in recent years Australia has gone against the tide. Growth has been achieved, at rates substantially above the average of Western countries. Indeed in the calendar year 1981, Australia's overall growth rate was some 5.0%, about four times the current estimates of growth in the OECD area as a whole in the same period.

And while the outlook for the current year may be flatter than we would have wished, on current projections a higher than average growth rate should be maintained.

Underpinning Australia's future economic prospects, there is the continuing growth in business investment in this country. In 1980/81, there was a 30 year record increase in the rate of business investment in real terms, and a continuing high rate of real growth is being maintained this year. Increases in investment at these rates mean that people do have confidence in our economy, and the fact that these increases are occurring itself provides solid grounds for that confidence.

If investment and growth are the great underlying foundations of Australia's economic strength, there are also some recent indicators which demonstrate the absurdity of so much of the talk of gloom and doom which has taken place in recent weeks and months. For example, in the March quarter this year the CPI increase was the lowest quarterly increase since 1979; new motor vehicle registrations on a seasonally adjusted basis were the highest ever recorded; and retail sales continued to show real growth.

Government cannot of itself produce economic growth. But governments can have a major impact in establishing the conditions under which economic growth can occur and will occur. Through the various arms of economic policy, especially fiscal and monetary policy, together with continuing restraint on government spending, we will continue to promote the circumstances in which people can have the confidence and the incentive to keep building Australia up.

The Government has been energetic in carrying forward initiatives such as the housing package which are needed to take account of particular economic circumstances and we shall continue to adapt flexibly to circumstances in the light of Australia's needs and objectives. Quite obviously, however, the maintenance and development of economic strength in Australia with all the benefits which flow from it, does not depend just on government, but on the energy, the initiative and the work of individual Australians.

It depends also on what we do as a nation - on our willingness to co-operate and work together as one people in pursuit of our common interests - and I would like to take this opportunity to say that the characteristics of Sir Condor Laucke himself typify the attitude of hard work, and willingness to work with others in the community, which Australia desperately needs at the present time. Australia's economic strength also depends on effective management of our affairs, on the willingness of groups within the community to share the benefits of growth, and leave something over for future investment and development, on the practical recognition that unless we maintain our competitiveness in a world in which rival producers are cutting their costs, then we will be unable to sell our products around the markets of the world.

We really do need to recognise as a nation the damage which Australians can do to Australia. It is not just a matter of strikes and unrealistic wage demands but also too often of bad planning and mismanagement, of failure to assess Australia's situation realistically, of attempts to anticipate the benefits of growth before they have been fully achieved, and of attitudes which can work to undermine the advantages we have.

It is vital that we recognise the importance of staying on the growth path we have worked so hard to achieve, because without growth, there can be no advancing prosperity for our families. We also need to realise that, for most people, real increases in living standards depend far more upon growth in the economy than on benefits or concessions that can be provided through budgets.

Last year, for example, as a result of growth in the economy, real household disposable incomes increased by about 3½%. But to have achieved that same real increase through tax cuts rather than through growth would have required income tax cuts of almost 18%, and this would have meant a reduction in revenue larger than the Commonwealth's outlays on education, almost as large as our expenditure on defence, or approaching one third of our outlays on social security and welfare.

And while the Government's commitment to sustainable and responsible tax cuts stands, while we recognise that the well-being of some people does depend in a very direct way on budgets, the main contribution of budgets is, and must be, to growth itself.

I want to emphasise that giving priority to economic growth does not mean that Australia is committed only to advancement of our own material living standards. Australia is known for broader concerns as a responsible member of the international community, and although we are only a nation of 15 million people, we have demonstrated those concerns in many areas.

Our concerns can be seen in our continuing commitment to promoting peace world wide, particularly in our willingness to participate in peacekeeping operations, the latest of which commenced in the Sinai just last week.

They can be seen in our contribution, through the Commonwealth, in the settlement of Zimbabwe. They can be seen in our sustained efforts to revitalise dialogue on problems of world poverty including through the Melbourne Declaration, and through the study groups on obstacles to progress in North/South negotiations, and on the impact of protectionism on developing countries, which we promoted at the Melbourne CHOGM, and which should complete their work later this year. And they can be seen in our creation of the Australian Centre for International Agricultural Research which will contribute to the solution of agricultural problems in developing countries.

In the current conjunction of world events which I discussed earlier, and especially in the lead-up to the June summits in Europe, I believe Australia has a role in bringing forward a perspective from outside Europe and the United States. Such a perspective can be of particular value in a situation where the issues involved are not fully identified, and where their implications for all peoples are not fully grasped.

In these matters, Australia not only has its own distinctive contribution to offer, we also have a positive responsibility to bring our concerns and interests into the discussion which will be taking place. While we are living in an environment which is in many ways difficult and volatile, there are opportunities for Australia.

As a nation, we must make certain that our policies, our expectations and our attitudes enable us to grasp these opportunities, so that we can capitalise fully on our advantages, and so make sure that the great future which lies ahead for Australia is fully achieved.