



PRIME MINISTER

FOR MEDIA

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SPEECH TO THE NATIONAL PRESS CLUB

I have accepted your invitation today in order to address a topic of profound and indisputable importance - the disturbing economic situation in which the world finds itself and the need for concerted action and leadership to turn around the world's economic fortunes.

Three weeks ago, Cabinet took the decision that Australia should put forward a package of three proposals for consideration in the context of the Versailles Summit, and Cabinet agreed that if the seven summit countries would adopt these three proposals, then Australia would immediately join in. The substance of the proposals - a standstill on existing and new forms of protectionism; a commitment to abolish export incentives and subsidies over a five year period; and a commitment to significant and progressive reductions in overall protection - would by now be known to everybody here.

The Government took this decision because we believed that unless definite proposals were put forward there would be much less chance of achieving the kind of action required to break out of the circle in which negative economic influences constantly reinforce one another and in which individual countries are increasingly driven towards the 'beggar-thy-neighbour' approach of rising protectionism.

At that time the Government was not aware of any alternative sets of proposals coming forward to achieve effective action at the Summit and in fact no other proposals of this kind have yet been placed on the table.

It should therefore surprise nobody that the proposals which I put to President Reagan in Washington and which have subsequently been discussed and considered by a number of world leaders have been received with a degree

of interest which must be heartening to anyone who really hopes for progress. So I want to talk further today about the relevance and appropriateness of our proposals to the current economic situation, about the impact and benefits which would flow from them, and about the quality and significance of the support which has been extended to them.

In formulating its proposals, the Australian Government was acutely aware that in spite of seven previous annual summit meetings world economic conditions today are in some important respects worse than when the first summit meeting was held in France seven years ago; and in spite of the considerable success that Australia has had in swimming against the tide of world economic recession the longer that recession continues, the more Australia is bound to be affected.

The reality is that although oil prices have been falling, although inflationary pressures have been decreasing in most major economies particularly in the United States where, in March, the CPI actually fell for the first time since 1965, there are few signs that a strong and durable recovery is imminent. Indeed, real interest rates, especially in the United States, remain at historically unprecedented levels, suggesting that inflationary expectations remain entrenched; in large measure because of the apparent difficulty of getting acceptable budget deficits.

Moreover, the growth of output among major O.E.C.D. countries continues to decline; the volume of world trade has stagnated, and actually fell in value in 1981 for the first time in over 20 years; unemployment - already high - is rising and set to exceed 30 million people in the industrialised countries of the O.E.C.D. during this year. And, against this background of economic stress, a growing tide of protectionism and dangers of retaliation seriously weaken prospects for building recovery. In seeking a way out of these economic difficulties renewed growth in trade is vital.

The experience of the 1950's and 1960's is a clear illustration of this for through those years the volume of world trade grew at an average annual rate of about 10%, providing rapidly expanding employment opportunities and leading to G.D.P. growth rates that could double people's real incomes every 20 years or less. But it is clear that in a world where governments are beset by the social and political pressures that naturally come with continued recession and increasing unemployment, where the pressures for measures that would restrict rather than expand trade are intense indeed, trade can only be restored to its place as an

engine of growth and prosperity if governments and peoples from many countries are prepared to show a willingness and a will to join together and adopt a common and comprehensive strategy to wind back the barriers which constrain achievement of the economic revival which everybody seeks.

The package of measures which Australia has proposed to the summit participants addresses this fact head on. Indeed, because of its breadth and scope, because it offers opportunities to everyone which far outweigh any difficulties which countries might find in implementing certain parts of it, it has the quality of comprehensiveness which the situation plainly requires. To be effective, our package would need to be adopted by countries acting together.

Indeed action of this sort and scale would not be possible for any country acting alone, nor would it meet the problem for any particular country in isolation to do so. Each component of our package has its own contribution to make, if adopted by nations in common. A standstill on the spread of protectionism would not only reduce the threat of retaliation and the danger of increasing economic isolationism, but it would also reduce an important source of inflationary pressure; a progressive reduction in overall levels of protection should actually help to reduce prices and stimulate overall demand and production, while encouraging restructuring of domestic industries in directions consistent with comparative advantage; and a winding back of export incentives and subsidies would eliminate wasteful and futile competition, and free resources which could be used to cut taxes and stimulate investment.

But it is as a total package that these measures would offer a basis for strong, non-inflationary, and sustainable growth in the industrialised countries. Australia has done what it can by agreeing in advance to adopt the proposals if the summit nations themselves agree to do so. Indeed it is a matter of enlightened self-interest for us, as for all trading nations, to agree to implement them in co-operation with one another.

In Australia's own case, it is evident that opportunities for trade are vastly important to our prosperity, for the annual value of our international trade is equivalent to over one third our gross domestic product and we need trade with large and growing overseas markets to develop our full potential to create growing employment opportunities and rising living standards.

When overseas economic conditions are poor, the Australian economy is bound to be affected. And while we are far from the worst affected country, while we have shown that we have the capacity to help ourselves, the longer world recession continues, the longer protectionism persists and the further it spreads, the more it will affect Australia.

But it is not only the wealthy industrialised countries, including Australia, which would benefit from implementation of our proposal. The developing countries, also stand to benefit enormously if they can obtain greater access for their products to markets which are at present closed to them. Indeed, we believe that a high priority should be given to significant reductions in protection in areas of interest to developing countries, not least because their interests were treated inequitably in the Tokyo round of multi-lateral trade negotiations. Opening their own markets to developing countries is also in the enlightened self-interest of the developed nations for it would inevitably help to boost trade in both directions.

I believe that our proposals can in effect be seen as a significant step towards breaking the current global negotiations impasse, because of the benefits which they could bring to developing nations. By the same token, support for the proposals from the developing countries in the form of undertakings to reduce their own protection measures could add real strength to their momentum.

Before turning to the quality and significance of the support which has been extended to our proposals, it is important to realise that the Government would not claim that these are the only proposals worth considering or that protectionism is the only issue to be tackled. But we do believe that these proposals, or others like them, are vital to the achievement of economic revival and nobody has come forward to deny that. The proposals themselves have helped to crystallize a good deal of thinking about the need to address the protectionism issue and I believe that the fact that they have been brought forward as a possible circuit breaker, has focussed many people's attention on the need for the Versailles Summit to result in positive action.

Obviously the governments with whom we have discussed the proposals, especially those taking part in the summit, have not been in a position to commit themselves directly or immediately to adopt the proposals: indeed we did not seek any commitments. It is not surprising

that various governments, depending on their particular practices and situation, should have greater initial difficulty in supporting some parts of the package than others. But in the course of our discussions, there has been virtually universal acceptance of the underlying principles of our proposals and the proposals themselves have been seen as sensible and effective in advancing the interests of all, if they are adopted multilaterally.

We have been advised that they are receiving detailed and serious consideration with a view to discussing them at Versailles and subsequently in other forums. Their logic has been described as impeccable. It has been said that they should not come to be regarded as another superficial exercise, and the view has been expressed that they should be pursued further regardless of the outcome of Versailles. In fact, I believe that both this Government and many of the international supporters of these proposals will want to ensure that they are carried forward beyond Versailles, although as one of the summit leaders has said, if Versailles has no concrete results, the loss will never be recovered.

It is also worth noting that our proposals have received support from influential sources beyond governments. The OECD Director-General Van Lennep has strongly endorsed them as an interesting and bold initiative; the Secretary-General of the United Nations De Cueller has expressed interest in them and would be taking them with him during his forthcoming visit to Europe. The President of the World Bank, Clausen, has recently argued the need for the adoption of policies along the lines of our proposals. There has been support for them from within the Commonwealth, in particular from the Secretary-General Ramphal. And in a new national security strategy recently announced by U.S. National Security Adviser, William Clark, the importance of a more open trading system has been emphasised as a basis for strengthening political and strategic security as well as economic security.

It is obvious that proposals of this kind are certain to face practical difficulties in implementation. There will be difficulties in deciding whether some practices fall inside or outside their scope; there are likely to be political considerations which need to be taken into account; and there are strong pressure groups whose demands will need to be faced. In this regard, I have been greatly encouraged by the attitude taken towards these proposals by the Australian community and by the leaders of industrial and commercial groups within Australia.

The Government took steps to consult and advise industry and other leaders about our proposals on the eve of making them public and I regard the response as tremendously positive and as indicative of a determination within the Australian community to make sure that we do everything we can as a nation to maintain economic growth and progress. It is that kind of positive response, from business and governments, that is needed in all countries for, unless action of some kind is taken to break out of the circle, human and political costs arising from prolonged world recession could in many places be far greater than the immediate difficulties which so easily divert attention from the really important objectives.

It is because these costs could be so great that the present situation calls out for effective action and leadership from the summit. The world desperately needs the kind of vision and commitment which was forthcoming only a few decades ago in initiatives like the Marshall Plan, the Bretton Woods Agreement, the establishment of the World Bank, and the institution of the liberal system of trade and payments which took place after the world war.

Those initiatives were designed to meet a situation in many ways analagous to that which we now face. They were decisive in securing the kind of growth and prosperity which people came to take for granted in the 1950's and 1960's and which it must be the objective of all parties, all governments and all countries to re-establish in the 1980's.