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PRIME MINISTER

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SPEECH BY THE PRIME MINISTER OF AUSTRALIA
THE HONOURABLE R.J.L. HAWKE, AC MP
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Seventy six years ago, a young Chicago architect established a permanent link between this city and Australia.

Walter Burley Griffin was selected as the winner of an international competition to design a new national capital for Australia.

His design became the blueprint for the City of Canberra - a design which, as any visitor to Canberra appreciates, is still remarkably modern, efficient and attractive. His insight into what Australians looked for and needed in a national capital symbolises the easy understanding that exists at a broader level between our two countries.

The founders of both Australia and the United States sealed their political federation in physical form, by creating a new city away from existing commercial and political centres.

Yet I well understand that not all the voices of influence within either of our countries originate from inside the Washington beltway or in Canberra; far from it.

In Australia, we know Chicago as a world centre of learning, of literature, of culture, a city associated with such names as John Dewey, Enrico Fermi, Saul Bellow; the city of the Art Institute and the Chicago Symphony, which we had the enormous pleasure of welcoming in Australia earlier this year, as a major part of our Bicentennial.

Chicago lies at the boundary of what one author has described as the North American breadbasket and the North American foundry.

We also know Chicago as a focal-point of the international economy, North America's greatest transportation hub with links out to world trading and financial centres. I had vivid proof of its importance this morning when I visited the Mercantile Exchange.

But, ladies and gentlemen, I have not come half way around the world merely to exchange pleasantries. Nor, I trust, have you done me the honor of your presence just to see whether the Prime Minister of Crocodile Dundee country has a big knife in his belt.

I do however come with a weapon. It is the weapon of logic, honed by the concern of my fellow Australians at the damage being done to them and to the prospects for global economic security by the irrationality of the policies of the world's major players.

Like Mick Dundee I produce the weapon, not to hurt, but to provide understanding of what is enlightened self-interest.

And I want to say to you at the outset, dogmatically and without any cloying sense of false modesty on Australia's part, that what we are urging upon others we have practised ourselves. I will come to that later.

And so I focus today on the threat to prosperity - in Chicago, in Australia and in the rest of the world - posed by protectionism.

I believe that this audience, in this city, is well attuned to the urgent need for the liberalisation of global trade.

Reviewing the events of the past two years I am compelled to conclude that the progress that has been made in trade liberalisation has been welcome, but does not go nearly far enough. And not all the signs are encouraging ones.

The continuing threat to free and fair world trade comes from three main sources : the irresponsible agricultural policies of the European Community and America's reaction to those policies; Japan's tardiness in opening its markets; and the large trade imbalances between the major economies underpinned to a great extent by continuing United States budget deficits.

Let me deal with each of these in turn.

There should be no need to remind an audience in this city, so closely linked to the great grain belt of the American mid-west, of the enormous damage done to farmers - including Australian and American farmers - by the Common Agricultural Policy of the European Community.

It has distorted economic choices, depressed prices and forced unnecessary and painful adjustment from otherwise efficient farmers.

The CAP has allowed the EC, once the world's largest importer of temperate agricultural products, to become the world's largest exporter.

That flies in the face of any principle of comparative advantage or efficiency.

The distortions caused by the CAP and national agricultural supports do not end with the agricultural sector itself. Manufacturing output, exports and employment have suffered.

Recent research for the Canberra-based Centre for International Economics indicates that three million jobs in Europe could be created if the EC were to liberalise agriculture. European manufacturing output would increase by an estimated one per cent and manufacturing exports to the rest of the world would increase by around five per cent.

Sadly, the Europeans are only now beginning to appreciate fully the economic futility of their agricultural policies. They can no longer ignore it. The staggering cost of propping up inefficient agriculture is at the heart of the European Community's budgetary crisis.

It has been argued within the United States that this dawning realisation on the part of the Europeans about the self-defeating nature of the CAP has been prompted in part by the tough American decision to fight their subsidies with your own subsidies.

There may be an element of truth in that proposition. I suppose the Europeans must seriously wonder whether they will ultimately come out on top in this game of international economic chicken.

But the reality is that in the end they will not win and America won't either. The only winner will be economic irrationality, the staggering dimensions of which are illustrated by the OECD estimate that the farm policies of the European Community, Japan and the United States have cost them \$200 billion per annum over the last few years.

And it is a gross simplification to suggest that America's farm policies have been purely retaliatory, impacting only on the Europeans.

Wheat is a prime example. In the past three years during which the United States Export Enhancement Program, or EEP, has been operating, America's share of world wheat trade has risen from 29 per cent to 43 per cent. The EC's share has fallen only a little, from 17 per cent to 14 per cent, but Australia's share has slumped from 20 per cent to 12 per cent.

In other words, fair trading nations are getting caught in the subsidies cross-fire. The effect, if not the intent, of the trans-Atlantic subsidies war is that the EC and the United States are carving up world markets between them, squeezing out efficient producers like Australia through the application of massive subsidies.

Just a few weeks ago we were very disappointed to note that the US Administration has turned up the heat a little more. Under your wheat support programs, the proportion of arable wheat land to be kept idle will be reduced from 27.5 per cent to 10 per cent.

We know American grain farmers are facing a very severe drought. But this decision will add substantially to world wheat production - excess wheat which America can only add to world over-supply and further depress world prices.

Australian wheat farmers, who themselves know all too well the hardship of drought, are nevertheless angry at what they see as a new, and heavily subsidised, grab for world wheat markets. This action sets back the gradual but real progress Australia and other fair trading nations have made over the past couple of years in encouraging America to wind back its farm subsidy programs.

The anger of Australian farmers would be exacerbated - and the Australian Government would endorse their attitude - if any decision were taken by the United States to dump BEP-subsidised wheat onto the Indonesian market. Indonesia and the Asia-Pacific region in general are relatively free of subsidised wheat and Australia opposes any development which would threaten the freedom of those markets.

The same attitude is engendered by America's increasingly restrictive sugar quota arrangements which have cut Australia's exports to the U.S. by around 90 per cent since 1981. At a time when Australia has lifted its embargo on sugar imports, America is putting the shutters up on its market. We find ourselves in the sad position where Australia is considering GATT action against the United States.

Those recent American decisions have cast a shadow over the Administration's generally strong anti-protectionist stance.

Now I emphasise that it gives me no pleasure to come here to criticise American actions. Our total relationship is in excellent shape. It is precisely because I want to keep it that way that I am unwilling to sweep areas of real difficulty under the carpet.

There is a third major participant in the corruption of world agricultural markets. Japan's market practices have been very destructive for agriculture. Whether it be rice, where Japan's domestic price is eight times world prices; beef, where protection is as high as 210 per cent; sugar, where import demand is artificially suppressed by over 50 per cent; or almost any other agricultural commodity, Japan's policies are simply inconsistent with the sort of open markets it so eagerly and so justifiably seeks for its own exports.

Thankfully we have seen signs of change in the last year or so - Japan's imports are up over 20 per cent in two years. I wholeheartedly welcome that.

And I can only express my hope and expectation that Japan, the United States and Australia will soon conclude satisfactory arrangements for the non-discriminatory liberalisation of the Japanese beef market.

Let me also be clear that I do not see all these issues of protectionism solely in terms of agricultural trade - nor, indeed, solely in terms of the policies and practices of the major economic powers.

Some of the smaller and newer industrialised players also have a role to play. And liberalisation of world trade in services and more traditional manufactures needs to be addressed seriously by everybody.

Australia has made, and will continue to make, these points forcefully in the GATT and in other forums.

Having made those fairly blunt comments about protectionism, I cannot ignore the contribution to economic uncertainty and trade restrictions made by the budget imbalances of the United States - and, more broadly, the lack of harmony in the fiscal policies of the three largest economies - the US, Japan and West Germany.

It has to be acknowledged that in the U.S. and elsewhere there have been significant steps in the right direction recently, especially in reducing the United States fiscal deficit.

Indeed, there are also signs of some progress in paring back, gradually, the U.S. current account deficit - with spectacular growth in exports of manufactures.

This demonstrates the inherent flexibility of the United States economy. But I acknowledge that it also demonstrates the power of President Reagan's policies to enhance this flexibility, policies which have become a major though intangible export of this country.

Nevertheless the fact is that problems remain.

Persistent and large international debtors, such as the United States now is, must continually meet market tests of performance. Living standards cannot be supported indefinitely on excessive overseas borrowings.

The longer the underlying fiscal imbalance persists, the longer will the trade deficit remain unsustainably high, the faster will debt pile up and the more vulnerable will the economy become to sudden shifts in interest rates or the exchange rate.

That is why further fiscal reform, especially in the United States, goes hand in hand with restoring stability to the global trading system.

The post-war prosperity of the US, as of the rest of us, has grown in large part because of the existence of a vigorous, competitive and free trading system.

The American people were very much the authors and sponsors of that system.

It would be curious logic indeed to seek to close down through greater protectionism, the trading system which has worked so powerfully to build post-war prosperity. Nor would it be sensible to thwart that progress through inappropriate fiscal policies.

I readily admit that I would be open to the charge of hypocrisy and double standards if we in Australia were not moving decisively to put our own house in order. But we are.

For five years we have relentlessly pursued an economic agenda designed to make our economy more stable, more resilient and more outward looking - more prepared to take on the best in the world, and win.

Our major macro-economic objective during our time in office has been stabilising our foreign debt and balancing our budget.

We in Australia faced the prospect in 1983 of a Federal deficit of about 5 per cent of Gross Domestic Product - just a little below the comparable ratio for the United States. For the fiscal year just ending, we initially announced a balanced budget, but it is now clear that we will achieve a significant surplus - the first in 35 years.

Last month we announced further expenditure reduction measures, which will bring Federal expenditure down by 1.5 per cent in 1988-89 in real terms. This will represent the third consecutive year of real decline and will underpin a fiscal surplus in the order of 1 per cent of GDP.

That achievement was not easy. It involved tough decisions. It meant taking away Government benefits and subsidies from those who did not really need them - something traditionally regarded as political suicide. It has involved sacrifice for all Australians and, for many, real hardship.

It also required the courage to crack down on tax avoidance over the protests of those who had to start paying their full fare for the first time.

But we recognised there was no acceptable alternative to exercising unprecedented fiscal restraint. The only alternative would have been for our creditors to impose their own brand of adjustment on us, in a way which did not protect the disadvantaged, which sacrificed jobs, which wreaked recession on our country.

Our approach, and its emphasis on the partnership between the Government and the trade union movement, was praised recently by the managing director of the International Monetary Fund, Michel Camdessus, as a model for other nations. In particular it has allowed us to generate employment growth over the past five years at more than twice the OECD average rate.

Of course fiscal adjustment is not sufficient in itself. For the longer term we have needed to transform a highly protected, and consequently weak manufacturing sector into a world competitive one; and to ensure that our agricultural and mining industries, already among the most efficient in the world, withstand the current problems in the world trading system.

Important steps have been floating the Australian dollar, deregulating the Australian financial and aviation systems, steps to reform work practices and our education and training systems, liberalising foreign investment requirements and relaxing export controls on a range of minerals.

Last month the Government set down a blueprint of further steps for the next four years in Australia which will continue and broaden the thrust of these reforms. In particular there will be substantial cuts in tariffs over the next four years, targeted at those areas which are the most highly protected.

These measures will see Australia's average effective tariff rate fall by over 30 per cent to 14 per cent in just four years.

Virtually all of Australia's assistance to industry is provided through tariffs. Our protection is transparent and declining in marked contrast to that of our trading partners: these cuts are real cuts in protection.

These reforms may appear surprising at a time when world markets are getting tougher and the game seems rougher than ever. But they are, in fact, the only rational and sensible response to a tougher world trading environment. It is only by recognising and responding to market conditions, however tough or apparently unfair, that business or nations can stay competitive and stay prosperous.

I don't make these points to create the impression that Australians are complacent about the future. We know that the job is not yet completed - and we are determined to see it through.

My point today is that others in the world economy need also to recognise that there is much to be done - urgently.

And so it is to the future that I now turn.

Two sets of decisions over the next 12 months or so will largely determine whether the relative economic prosperity of the last forty years can be sustained. These are the decisions to be taken on the US budget deficit by the incoming Administration and the new Congress and the decisions taken at the forthcoming mid-term review of the Uruguay Round of Multilateral Trade Negotiations.

Political honeymoons are a wonderful thing. They usually only come around once. They are to be used, not squandered.

Whoever wins in November will face the need to resolve the problem of American budgetary deficits decisively and comprehensively.

At the very time when the Big Seven leaders are meeting in Toronto, I should stress that the task of adjustment does not fall on American shoulders alone.

All these leaders, including in particular the Japanese and West German, have a role to play in securing greater policy harmony.

All, too, have a role to play in maximising the chance of success of the Uruguay Round.

Arguably the most important event in the last two years affecting world trading prospects was the successful launching of that Round of Multilateral Trade Negotiations in September 1986. I say 'arguably', because there are legitimate grounds for debate as to whether the New Round will achieve anything substantial.

The success of the Round will depend greatly on the outcome of the mid-term review of negotiations to be held in Montreal in December.

Success in Montreal would set the scene for the remainder of the Round and give renewed impetus to and confidence in the negotiations.

But failure to register meaningful progress by the end of this year would seriously diminish the prospects for genuine trade liberalisation in the Uruguay Round.

Nowhere is this truer than in agriculture, where the Cairns Group - which has proven itself a major new force in the multilateral negotiations - is pressing for agreement to the implementation of reform measures in 1989 and 1990 as a genuine downpayment on the final outcome.

The Group is currently finalising its proposals for action to be presented to the Montreal review.

It will be a proposal which will show our determination to keep up the pressure on the major trading blocs so as to create a truly free and fair trading system.

Australia also attaches priority to several other issues, including the improved functioning of the GATT system, trade in tropical products and trade in services.

Your country comes to the GATT negotiating table with an unparalleled record of leadership and as the unchallenged leader of Western nations. Others at the table may appear intransigent, but where you are prepared to lead, I believe others will follow.

Ladies and gentlemen,

The United States has a well deserved reputation for world leadership in economic and political arenas. It was American generosity and leadership which helped war-ravaged countries after World War II to begin their economic recovery and it was access to the relatively free and open market of the United States which allowed those and other countries to develop.

The message that I want to put firmly to you and to my other audiences in the United States this week is that the economic crisis which we face today is different but no less important than it was in that post World War II era and requires the same dedication and leadership.

The United States has a pivotal role to play at this time and as a close friend and ally of the United States we urge you to exert that leadership.

That great poet of this city, Carl Sandburg, referred to Chicago as the "stormy, husky, brawling, City of the Big Shoulders".

I put my case for economic adjustment confident that America has shoulders broad enough to take up the burden of economic adjustment and to meet again the responsibility of global economic leadership.

Beyond any other major participant you have the record, the vision, the philosophy, the abundance of talent. All that is required is the political courage and there, as Australia and the world looks to you, I am sure that America will not be found wanting.

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